Enduring Value

# Report of the Directors

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## Management Discussion and Analysis

For the Financial Year Ended 31st March, 2014

Your Directors submit their Report for the financial year ended 31st March, 2014.

### SOCIO-ECONOMIC ENVIRONMENT

The global economic scenario in 2013 remained challenging with output growth estimated at 3.0% - lower than the 3.2% growth recorded in 2012. Global economic activity picked up in the second half of the year, with much of the impetus coming from the Advanced Economies, raising hopes for an improved performance in 2014. The US economy grew by 1.9% in 2013, with the continued recovery of private domestic demand partly offset by the impact of heavy fiscal consolidation, which is estimated to have subtracted around 150 basis points from GDP growth. While the Euro Area contracted by 0.5% during 2013 as compared to 0.7% in the previous year, the region finally emerged from recession with output growth being positive from the middle of 2013 on the back of less fiscal drag and some buoyancy in private domestic demand. The Emerging Market & Developing Economies, as a group, saw a further slowdown in growth rates - from 5.0% in 2012 to 4.7% in 2013. While Brazil grew by 2.3% in 2013 against 1.0% in 2012 driven by strong consumer spending and investments, growth in China remained flat at 7.7% and other major constituent economies like India, Russia and South Africa recorded deceleration.

Global growth is expected to improve in 2014-15 following the late recovery observed in 2013. As per IMF estimates, world GDP growth is projected to strengthen from 3.0% in 2013 to 3.6% in 2014 and 3.9% in 2015, largely driven by the Advanced Economies, where growth is expected to increase from 1.3% in 2013 to 2.2% in 2014 and 2.3% in 2015. Within Advanced Economies, growth is likely to be strongest in the US at about 2.8% in 2014 driven by supportive monetary conditions and lower impact on account of fiscal consolidation. Euro Area growth is likely to be varied with the core Euro countries expected to register stronger growth. Emerging Markets & Developing Economies are likely to grow modestly - from 4.7% in 2013 to 4.9% in 2014 and 5.3% in 2015. GDP growth in China is projected to remain at around 7.5% in 2014 as the government seeks to rein in credit growth and push through reforms towards achieving a more balanced and sustainable growth trajectory.

Despite the improved prospects as stated above, global economic recovery remains fragile with significant downside risks. New geopolitical risks emanating from the Ukrainian crisis, impact of a faster-than-anticipated withdrawal from monetary easing by the US and other developed countries on Emerging Markets & Developing Economies, continuing concerns of deflationary conditions and weak sovereign balance sheets in the Euro Area, and weakening growth in China are some of the key challenges facing global economic recovery.

Closer home, the Indian economy witnessed a rather challenging year with GDP growth slowing down to sub-5% for the second year in succession. The slowdown in the pace of growth is largely attributable to weakness in Industry which grew by only 0.7% during the year as per Advance Estimates released by the Ministry of Statistics and Programme Implementation. The Manufacturing sector, which accounts for 55% of Industry, de-grew by 0.2%. Growth in the Services sector stood at 6.9%, well below the trend growth levels. The only bright spot in an otherwise lacklustre economy was the Agriculture sector which grew by 4.6%, with record agricultural output.

Inflation remained high and sticky for most part of the year leading to the RBI hiking the Repo rate by 75 basis points since May ’13. While headline inflation has

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moderated in recent months, Core CPI inflation remains elevated at around 8% leaving little room for the RBI to ease policy rates to spur growth. Food inflation remains a key monitorable in the ensuing months given the likelihood of El Nino weather conditions and sub-par rainfall.

From a demand side perspective, growth in Private Final Consumption Expenditure (PFCE), the largest component of aggregate demand, slowed down further to only 2.5% during the first 9 months of 2013-14 as compared to 5.0% in 2012-13 and well below the 8.4% average growth recorded during the period 2007-08 to 2011-12. Deceleration in the growth of Investments continued unabated, plummeting to 0.2% in 2013-14. The key causes for this sharp downturn include the cumulative impact of persistently high and sticky inflation levels in the economy leading to a high interest rate regime, lack of political consensus on policy reforms and weak investor sentiment in the backdrop of a sluggish global economy.

There was good news on the 'twin deficit' front. As per Revised Budget Estimates, Fiscal Deficit for the year was contained within target at 4.6% of GDP. Such fiscal consolidation was, in large measure, driven by a significant compression in Government expenditure rather than buoyancy in revenue collection given the slowdown in economic activity. The quality of fiscal consolidation leaves room for improvement with further curtailment of non-essential subsidies and better targeting of major subsidies being the key imperatives. The Current Account Deficit recorded significant improvement during the year, narrowing to an estimated 2.0% of GDP as compared to 4.7% in the previous year. Regulatory curbs on gold imports, higher exports on the back of a weak Rupee and import compression aided such improvement. Measures announced by the Ministry of Finance and the RBI during the year to attract capital flows, particularly from non-resident Indians, helped shoring up foreign exchange reserves and arresting the sharp depreciation of the Rupee Vs. the US Dollar witnessed during the period May '13 to August '13, and restoring stability in the currency markets.

As per median estimates, based on the Survey of Professional Forecasters conducted by RBI, the Indian economy is likely to post a moderate recovery in 2014-15. GDP growth is estimated to improve to around 5.5% supported by an anticipated pick up in investment activity in view of the part resolution of stalled projects, improved business and consumer confidence and expectation of lower inflation. External demand is expected to improve further during 2014-15 stemming from encouraging growth prospects in Advanced Economies. Tighter global financial and monetary conditions, risks to agricultural growth due to the likelihood of sub-normal monsoons given the impending El Nino weather conditions, possibility of a reversal in capital flows with the interest rate cycle picking up in Advanced Economies represent some of the key downside risks going forward. A stable government at the Centre, greater clarity and certainty in policies and fast track clearances of large projects would go a long way in engendering a much needed boost to investor sentiment and reviving the private investment cycle in particular.

Private Consumption remains one of the major growth engines of the Indian economy. With a large and growing population, significant additions to the working age population over the medium to long-term, rising affluence and literacy, increasing urbanisation and higher outlays on social schemes to foster inclusive growth - the structural drivers for rapid growth in consumption are in place. Even so, the continued deceleration in Private Consumption in 2013-14 is a cause of concern. One of the key reasons for such deceleration is the elevated level of inflation in the economy especially for food items due to the inadequate supply side response by the agricultural sector in the face of growing demand for value-added items. The need of the hour is to boost agricultural productivity and value addition by encouraging investments and adoption of best practices in agricultural value chains while simultaneously improving market linkages. Equally, there is an urgent need to focus on new job creation, which has averaged a dismal 2.3 million per annum during the 7 year period ended

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2011-12 as compared to 12 million per annum during the 5 year period ended 2004-05, to address the unsustainable levels of unemployment especially amongst the youth. Stagnation in the manufacturing sector needs to be reversed at the earliest since robust industrial growth is essential for the creation of sustainable livelihoods and absorption of the increasing working age population of the country. Revival of industrial growth would be a critical boosting factor for domestic consumption as well.

While India remains one of the fastest growing major economies in the world, the slowdown in economic growth in the last 2 years is a cause of concern, being far below the desired levels and the country's potential. Given the low levels of per capita income and the fact that a significant proportion of our population lives in poverty, it is imperative that the economy reverts to its 8% to 9% growth trajectory sooner than later.

For a country like India which has a disproportionately low share of global natural resources relative to its large population, where millions continue to live in abject poverty, and a young demographic profile which entails 12 million people entering the job market every year, the focus both at the national and corporate level should be on fashioning strategies that foster sustainable, equitable and inclusive growth. Policies and regulations must be aligned towards encouraging businesses to adopt a low-carbon growth path and support the creation of sustainable livelihoods and societal capital. Differentiated and preferential incentives, in the form of fiscal or financial benefits to companies that adopt sustainable business practices would act as a force multiplier towards achieving this critical national goal. It is your Company's belief that businesses can bring about transformational change by pursuing innovative business models that synergise the creation of sustainable livelihoods and the preservation of natural capital with enhancing shareholder value. This 'Triple Bottom Line' approach to creating larger 'stakeholder value', as opposed to merely ensuring uni-dimensional 'shareholder value', is the driving force that defines your Company's sustainability vision and its growth path into the future.

Your Company is a global exemplar in 'Triple Bottom Line' performance and is the only enterprise in the world of comparable dimensions to have achieved and sustained the three key global indices of environmental sustainability of being 'water positive' (for 12 years), 'carbon positive' (for 9 years), and 'solid waste recycling positive' (for 7 years).

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

## FINANCIAL PERFORMANCE

Your Company continued to deliver strong financial performance with healthy growth in revenues and high quality earnings. This performance is particularly commendable when viewed against the backdrop of the extremely challenging business context in which it was achieved, namely, a sluggish macro-economic environment which saw GDP growth remaining below 5% for the second year in succession, high inflation and a marked deceleration in the rate of growth of Private Final Consumption Expenditure; steep increase in taxes/duties on Cigarettes for two years in a row; weak demand conditions in the FMCG industry; gestation costs relating to the new FMCG businesses; sharp escalation in input costs in the Paperboards, Paper & Packaging Businesses and a weak demand & pricing environment in the Hotels business.

Gross Revenue for the year grew by 11.7% to ₹ 46712.62 crores. Net Revenue at ₹ 32882.56 crores grew by 11.1% primarily driven by a 16.0% growth in the non-cigarette FMCG segment, 14.7% growth in Paperboards, Paper and Packaging segment and 10.6% growth in the Cigarettes segment. Profit Before Tax registered a growth of 18.5% to ₹ 12659.11 crores while Net Profit at ₹ 8785.21 crores increased by 18.4%. Earnings Per Share for the year stood at ₹ 11.09 (previous year ₹ 9.45). Cash flows from Operations aggregated ₹ 10759.50 crores compared to ₹ 9596.24 crores in the previous year.

Your Company is one of India's most admired and valuable corporations with a current market capitalisation

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of over ₹ 270000 crores and has consistently featured amongst the top 10 private sector companies in terms of market capitalisation and profits. Over the last 18 years, your Company's Net Revenue and Profit After Tax recorded an impressive compound annual growth rate of 15.3% and 21.6% respectively. During this period, Return on Capital Employed improved substantially from 28.4% to 45.8% while Total Shareholder Returns, measured in terms of increase in market capitalisation and dividends, grew at a compound annual rate of 25.9%, placing your Company amongst the foremost in the country in terms of efficiency of servicing financial capital.

Your Directors are pleased to recommend a Dividend of ₹ 6.00 per share (previous year ₹ 5.25 per share) for the year ended 31st March, 2014. Total cash outflow in this regard will be ₹ 5582.90 crores (previous year ₹ 4853.49 crores) including Dividend Distribution Tax of ₹ 810.99 crores (previous year ₹ 705.03 crores).

Your Board further recommends a transfer to General Reserve of ₹ 880.00 crores (previous year ₹ 750.00 crores). Consequently, the Surplus in Statement of Profit and Loss as at 31st March, 2014 would stand at ₹ 6139.09 crores (previous year ₹ 3788.10 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 US$ 6.0 billion, of which agri exports constituted 57%. Earnings from agri exports, which effectively link small farmers with international markets, are an indicator of your Company's contribution to the rural economy.

During the financial year 2013-14, your Company and its subsidiaries earned ₹ 5068 crores in foreign exchange. The direct foreign exchange earned by your Company amounted to ₹ 4290 crores, mainly on account of exports of agri-commodities. Your Company's expenditure in foreign currency amounted to ₹ 2073 crores, comprising purchase of raw materials, spares and other expenses of ₹ 1343 crores and import of capital goods at ₹ 730 crores. Details of foreign exchange earnings and outgo are provided in Note 31 to the Financial Statements.

## PROFITS, DIVIDENDS AND SURPLUS

(₹ in Crores)

| PROFITS | 2014 | 2013 |
|---|---|---|
| a) Profit Before Tax | 12659.11 | 10684.18 |
| b) Tax Expense | | |
| – Current Tax | 3791.13 | 2934.79 |
| – Deferred Tax | 82.77 | 331.00 |
| c) Profit for the year | 8785.21 | 7418.39 |
| **SURPLUS IN STATEMENT OF PROFIT AND LOSS** | | |
| a) At the beginning of the year | 3788.10 | 1972.59 |
| b) Add : Profit for the year | 8785.21 | 7418.39 |
| c) Less: | | |
| – Transfer to General Reserve | 880.00 | 750.00 |
| – Proposed Dividend [₹ 6.00 (2013 - ₹ 5.25) per share] | 4771.91 | 4148.46 |
| – Income Tax on Proposed Dividend | | |
| • Current Year | 810.99 | 705.03 |
| • Earlier year's provision no longer required | (28.68) | (0.61) |
| d) At the end of the year | 6139.09 | 3788.10 |

## BUSINESS SEGMENTS

## A. FAST MOVING CONSUMER GOODS

### FMCG – Cigarettes

The Cigarette industry had to contend with a steep increase in Excise Duty for the second year in succession along with discriminatory and punitive increases in Value Added Tax (VAT) rates by some States. Such tax increases not only undermine the legal domestic cigarette industry and sub-optimise revenue potential from this sector but also fail to achieve the objective of tobacco control in the country.

According to various independent reports, there is a high degree of dual consumption with a significant number of cigarette consumers in India also consuming other forms of tobacco. High incidence of taxation and

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a discriminatory regulatory regime on cigarettes have, over the years, led to a significant shift in tobacco consumption to cheaper and revenue inefficient forms like bidis, chewing tobacco etc. Consequently, while India accounts for over 17% of world population, it has a miniscule share of only 1.8% of global cigarette consumption but constitutes nearly 84% of the global consumption of smokeless tobacco.

That demand for cigarettes is highly price elastic is borne out by the fact that tobacco consumption in the form of legal cigarettes declined from 86 million kg. in 1981-82 to 68 million kg. in 2013-14 even as total tobacco consumption in the country increased from 406 million kg. in 1981-82 to 577 million kg. in 2013-14 during the same period. Thus, while overall tobacco consumption is increasing in India, the share of legal cigarettes in overall tobacco consumption has declined from 21% to below 12%. In fact, India's annual per capita consumption at 96 cigarettes is amongst the lowest in the world compared to 2786 in Russia, 1841 in Japan, 1711 in China and 1028 in USA. The annual per capita cigarette consumption in neighbouring countries like Pakistan and Nepal at 468 and 420 respectively is also far higher than in India. *[Source: The Tobacco Atlas – 4th Edition (American Cancer Society), 2012]*

(Million kg.)

| Year | Tobacco consumed in the form of cigarettes [(a)] | Tobacco consumed in other forms [(b)] | Total |
|---|---|---|---|
| **1981-82** | 86 | 320 | 406 |
| **2013-14** | 68 | 509 | 577 |
| **Increase (+)/ Decrease (–)** | –21% | +59% | +42% |

*Source: USDA/Internal estimates*
*(a) – represents Legal cigarette segment only*
*(b) – includes Illegal cigarette segment*

The requirement therefore is an India-centric tax and policy framework for tobacco that cognises for the unique consumption pattern in the country.

The policy of high taxation narrowly focused on cigarettes has also led to the rapid growth of illegal cigarettes in India. According to independent studies, illegal cigarette sales volumes increased by 7% during 2012 with India continuing to be the 5th largest market for illegal cigarettes. The size of the illegal industry in India, comprising smuggled foreign and domestic tax-evaded cigarettes, is currently estimated at 24.3 billion sticks per annum representing 19% of the overall cigarette market.

Cigarettes are a regulated industry with manufacturing permissible only with a government licence. However, under the Industries (Development & Regulation) Act, 1951 there is no requirement for obtaining an industrial licence for units which employ fewer than 50 workers with the aid of power or fewer than 100 workers without the aid of power. Taking advantage of this lacuna, many small units are manufacturing and offering to consumers regular size filter cigarettes at a convenient and low price of ₹ 1 per stick. Such low consumer prices are feasible only if taxes are evaded, as the Excise Duty component alone on a regular size filter cigarette is significantly higher than the price point. Your Company continues to represent to policy makers that all cigarette manufacturing units within the country, irrespective of size, be brought under compulsory licensing.

High taxes on domestic cigarettes have also led to an increasing demand for cheaper tax-evaded cigarettes. The revenue loss to the Government on account of this trade is estimated at over ₹ 6000 crores. In addition, as per various international studies, illegal tobacco trade ranks among the top three organised criminal activities in the world. Various research reports indicate that cigarettes are the largest contraband product in the world with the tax arbitrage being used for funding anti-social and terrorist activities. Studies such as the ones undertaken by the U.S. Committee on Homeland Security and the Centre for Public Integrity link cigarette smuggling internationally to organised criminal syndicates and terrorist organisations which utilise the funds for anti-social and unlawful activities.

The menace of illegal trade is compounded by the imposition of high VAT rates by States. Despite a consensus amongst the Empowered Committee of State Finance Ministers that all tobacco products would be taxed at Revenue Neutral Rates applicable to general

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category of goods, there are 29 different tax rates currently applicable on cigarettes.

Uttar Pradesh and Punjab, which had increased VAT rates to punitive levels of 50% and 55% respectively, witnessed a huge decline in legal cigarette volumes even as illegal and duty-evaded cigarettes gained significant traction leading to loss of potential tax revenues. The recent pragmatic decisions of the State Government of Uttar Pradesh and Punjab to rationalise VAT on cigarettes is a step in the right direction and is already showing positive results in terms of revenue buoyancy and arresting the growth of illegal trade. Your Company continues to engage with other State Governments for reduction of VAT rates to moderate levels.

Till the introduction of VAT in 2007, cigarettes were subject to single point taxation by the Central Government. As per the provisions of Additional Excise Duty (Goods of Special Importance) Act, 1957, apart from Basic Excise Duty, tobacco products were subject to Additional Excise Duty (AED) in lieu of State level taxation. The proceeds from this component were exclusively distributed among States.

For a revenue sensitive product like cigarettes and given that about 90% of the value addition takes place at the manufacturers' end, several committees such as the Taxation Reforms Committee headed by Dr. Raja Chelliah and the Task Force on Indirect Taxes headed by Dr. Vijay Kelkar have recommended a single point Central taxation model for cigarettes in India. In addition, such a revenue efficient single point taxation system would help removing inter-state trade distortions and barriers in alignment with the principles of the proposed National Competition Policy which seeks to create a single unified national market.

If State level taxation of cigarettes needs to continue, it would be appropriate to implement and adhere to the original principle enunciated by the Empowered Committee of State Finance Ministers on VAT where all goods (other than goods that were exempt or subjected to concessional rate) were to be taxed at a common Revenue Neutral Rate. Going forward, the implementation of the proposed Goods and Service Tax (GST) should ensure that revenue sensitive goods like cigarettes are subjected to uniform standard rates of tax applicable to general category of goods. The combined incidence of Excise Duty and GST should be revenue neutral i.e. maintained at current levels and all existing State level taxes should be subsumed into GST.

Your Company continues to engage with the authorities highlighting the need for moderation in tax rates across States to counter illegal products and to also ensure that State Governments are not deprived of their legitimate revenue dues.

A new segment of filter cigarettes of 'length not exceeding 65 mm' which was announced in the Union Budget 2012 has enabled the industry to continue making offers at the ₹ 2 per stick price point and partially contain the growth in the illegal segment.

While the response from the market has been encouraging, the high central Excise Duty rate of ₹ 689 per thousand applicable to this segment coupled with a steep increase in the rate and incidence of VAT, have made it difficult for the legitimate industry to fully counter the menace of illegal cigarettes. The industry continues to engage with policy makers for seeking a reduction in Excise Duty in this segment to enable making viable offers at competitive price points.

The Tobacco industry provides direct and indirect employment to 38 million people in India, primarily in the agriculture sector and contributes around ₹ 28000 crores to the Government exchequer apart from generating valuable foreign exchange earnings of more than ₹ 6000 crores.

Domestic illegal cigarettes use tobaccos of dubious and inferior quality while smuggled foreign cigarettes do not use any Indian tobaccos. This not only has an adverse impact on demand for high quality Indian tobaccos, but also a cascading impact on incomes of Indian farmers, long-term viability of the legal cigarette industry and Government revenues.

Representations continue to be made to policy makers to introduce a base level Customs Duty on imported

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cigarettes to prevent undervaluation, placement of tobacco and tobacco products including cigarettes in the restricted list of imports, exclusion of tobacco and tobacco products from preferential treatment under Free Trade Agreements that India is party to and a ban on manufacture of tobacco products in EOU and SEZ units.

Your Company believes that there is no inherent conflict between maximising the economic potential from tobacco and addressing tobacco control objectives. This can be achieved through moderation of taxes on cigarettes, minimisation of discriminatory taxes between different classes of tobacco products and a regulatory framework which addresses the genuine concern of all the stakeholders of the tobacco industry.

Despite a challenging business scenario, your Company, through a well-balanced portfolio of products, deep consumer insight and strong trade marketing capabilities successfully enhanced its market standing. During the year, your Company continued to make rapid strides towards building a future-ready business through a holistic approach towards portfolio planning and development of best-in-class products which offer superior and differentiated value propositions to consumers.

The year also saw your Company's entry into the Nicotine Replacement Therapy (NRT) space with the launch of KwikNic - a Nicotine chewing gum - in August 2013. In a category which has been traditionally dominated by the pharmaceutical industry and distributed primarily through chemist outlets, KwikNic has received encouraging market response based on its superior product and packaging quality.

Your Company's manufacturing facilities continue to meet the needs of an agile and flexible supply chain with globally benchmarked operating metrics and world-class quality.

In line with your Company's endeavour to adopt a low carbon growth path, the Munger and Ranjangaon factories achieved Platinum Rating by the Indian Green Building Council (IGBC). During the year, the Business also commissioned an additional 6 MW of wind turbines in Maharashtra and set up a solar power plant (80 KWp) on a pilot scale at its Kolkata factory. Work on commissioning large scale solar power plants at the Munger and Kolkata factories is in progress while a bio-waste based boiler is being commissioned at the Bengaluru factory.

During the year, the Bengaluru factory received the 'Solid Waste Management Award' for effective management of solid waste from Bangalore Chamber of Industry and Commerce and the 'Water Award' for sustainable water management practices from Federation of Indian Chambers of Commerce and Industry. Munger factory received the first prize for Industrial Pollution Control from Bihar State Pollution Control Board and Saharanpur factory received Prashansa Patra Award for industrial safety from National Safety Council.

Harmonious employee relationships across units amidst a dynamic and challenging business environment enabled smooth operations during the year. The first Long Term Agreement (LTA) was successfully concluded at the Ranjangaon factory enabling greater flexibility and responsiveness in operations.

The regulatory environment is expected to be uncertain and the year ahead will indeed be challenging. To serve the interests of all stakeholders, your Company will continue to engage with policy makers for a balanced regulatory and fiscal framework for tobacco, equitable VAT rates across States and implementation of a uniform GST rate. Your Company remains confident that despite the severe pressures, its robust product portfolio, focus on world-class quality, innovation in processes, investments in cutting-edge technology and superior execution of competitive strategies will enable it to sustain its market standing in the years to come.

## FMCG - Others

The FMCG industry witnessed a marked slowdown during the year in the backdrop of a challenging macro-economic environment which, inter alia, saw deceleration in the rate of growth in Private Final Consumption Expenditure (PFCE) for the second consecutive year. Categories involving higher discretionary spends or with relatively high penetration levels were impacted the most. The trend of premiumisation witnessed in recent

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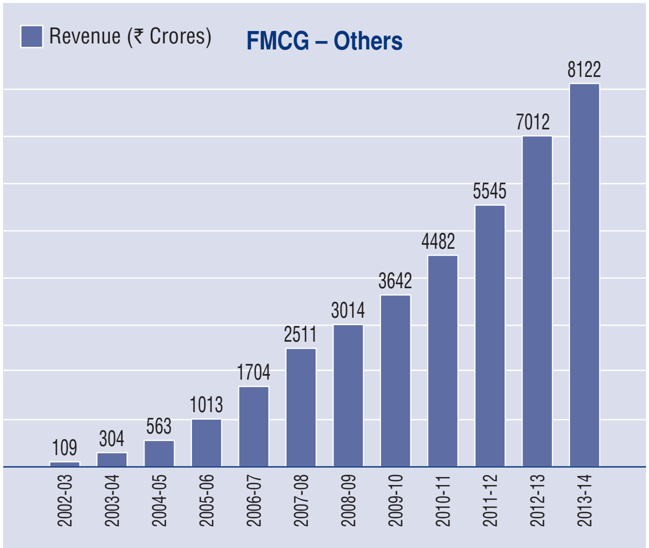
years in most major categories also did not carry through as strongly. While, in the near term, the industry is not expected to revert to its high growth trajectory witnessed over the last 10 years, the structural drivers of long-term growth remain firmly in place. Driven by increasing affluence, urbanisation and a young workforce on the one hand and relatively low levels of penetration and per capita usage on the other, the FMCG industry is poised to bounce back over the medium-term.

Your Company continues to rapidly scale up its new FMCG businesses leveraging its institutional strengths viz. deep consumer insight, proven brand building capability, a deep & wide distribution network, strong rural & agri-sourcing linkages, paper and packaging expertise and cuisine knowledge. In addition, your Company continues to make significant investments in Research & Development to develop and launch disruptive and breakthrough products in the market place.

The new FMCG businesses comprising Branded Packaged Foods, Personal Care Products, Education and Stationery Products, Lifestyle Retailing, Incense Sticks (Agarbattis) and Safety Matches have grown at an impressive pace over the past several years, with Segment Revenue crossing the ₹ 8000 crores mark during the year.




Despite a challenging operating environment, Segment Revenue grew by a healthy 16% during the year while profitability continued to show an improving trend. The FMCG-Others Segment recorded its maiden profit during the year with a PBIT of ₹ 22 crores representing a positive swing of ₹ 103 crores over FY13 driven by enhanced scale, operating leverage, supply chain efficiencies and strategic cost management initiatives.

Your Company has established a vibrant portfolio of brands such as 'Aashirvaad', 'Sunfeast Dark Fantasy', 'Sunfeast Dream Cream', 'Sunfeast Delishus', 'Bingo!', 'YiPPee!', 'Candyman', 'mint-o', 'Kitchens of India' in the Branded Packaged Foods space; 'Classmate' and 'Paperkraft' in Education & Stationery products market; 'Essenza Di Wills', 'Fiama Di Wills', 'Vivel', 'Superia' and 'Engage' in the Personal Care Products segment; 'Wills Lifestyle' and 'John Players' in the Lifestyle Retailing business; 'Mangaldeep' in Agarbattis, 'Aim' in Matches and so on. These brands, which have been built organically by your Company, have attained considerable size in a relatively short period of 10 years and in aggregate currently represent over ₹ 10000 crores in terms of annualised consumer spend - a feat perhaps unrivalled in the Indian FMCG industry. These world-class Indian brands, which continue to garner increasing consumer franchise support the competitiveness of domestic value chains of which they are a part and create and retain value within the country.

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

Highlights of progress in each category are set out below.

### Branded Packaged Foods

The Branded Packaged Foods industry recorded a deceleration in growth rates during the year with consumers curbing discretionary spending and seeking value-for-money offers. Notwithstanding such sluggish demand conditions, your Company's Branded Packaged Foods Businesses recorded improvement in market standing, growing well ahead of the overall industry.

ITC has established a vibrant portfolio of brands which have attained considerable size in a relatively short period of 10 years and in aggregate currently represent over ₹ 10000 crores in terms of annualised consumer spend – a feat perhaps unrivalled in the Indian FMCG industry.

The Branded Packaged Foods Businesses had to contend with unprecedented inflation in input costs, particularly during the second half of the year. Such cost pressure was, however, mitigated through a combination of product mix enrichment, value engineering, proactive sourcing and supply chain optimisation.

The Branded Packaged Foods Businesses continue to invest in consumer insight discovery, focused R&D and product development initiatives, and differentiated technology platforms to launch winning products catering to the ever evolving consumer tastes and preferences. Investments towards enhancing the manufacturing and sourcing footprint continue to be made across categories with a view to improving market responsiveness and reducing the cost of servicing proximal markets. The Businesses remain focused on delivering world-class quality across product categories and price points.

In the **Bakery and Confectionery Foods Business**, your Company increased the scale of its operations and improved market standing in a year that saw significant deceleration in industry growth and volume declines in certain segments. Your Company continued to enrich its portfolio of products under the 'Sunfeast' range despite the challenging environment with the launch of 'Sunfeast Delishus' gourmet cookies in two delectable variants viz., 'Nut Biscotti' and 'Nuts & Raisins', and 'Dark Fantasy Choco Fills Luxuria' in the super premium segment. The Business enhanced its offerings in the Health segment with the launch of the 'Sunfeast Farmlite' range in 2 variants - 'Oats & Raisins' and 'Oats & Almonds'. The Business sustained its market leadership position in the highly competitive cream biscuit segment leveraging its strong portfolio of brands and products.

In the Confectionery category, growth was driven by 'Candyman Jellicious' - a new jelly variant - and the fruit flavour portfolio. The Business has developed a number of new products/platforms and continues to focus on growing the 'Re. 1 & above' portfolio with a view to enhancing profitability.

In the **Snack Foods Business**, your Company recorded impressive gains in market standing in the fast-growing Savoury Snacks, Noodles & Pasta categories. In the Noodles category, 'Sunfeast YiPPee!' registered a robust growth of nearly three times the industry average cementing its position as the fastest growing brand in the market. The Business also launched an innovative premium variant of Sunfeast YiPPee! Noodles with a Chinese Masala flavour and 'Tricolor pasta' format in 2 exciting variants. These products have received encouraging consumer response in launch markets.

In the Savoury Snacks segment, while industry growth was impacted by the overall slowdown, 'Bingo!' registered a robust growth primarily driven by the finger snacks portfolio comprising unique product formats and flavours under the 'Mad Angles', 'Tangles' and 'Tedhe Medhe' sub-brands. In line with its strategy of introducing innovative products catering to region-specific consumer tastes and preferences, the Business launched 'Bingo! Galata Masti' in the finger snacks sub-category for the southern markets, and 'Apnu Mithu' & 'Masala Jalsa' in the potato chips sub-category for the western markets. The Business also re-launched the potato chips range under the 'Bingo! Yumitos' sub-brand with a view to sharpening its positioning in the market. The potato chips range was augmented with the launch of Bingo! Yumitos flat cut chips in select markets with the product receiving good response from consumers. Use of digital media to spur word-of-mouth and clutter-breaking communication continued to improve brand salience.

Your Company's **Staples, Spices and Ready-to-Eat Foods Business** continued to grow at a rapid pace during the year. In the Staples category, 'Aashirvaad' atta consolidated its leadership position aided by strong performance of the value-added variants comprising Aashirvaad 'Multigrain', 'Select' and 'Superior MP' atta. Aashirvaad atta continues to gain consumer franchise aided by increasing preference for branded packaged atta, higher level of household consumption and focused campaigns that reinforce the brand's superior quality and blend attributes.

Given the relatively low levels of per capita consumption of processed food products in India, the Branded Packaged Foods industry is poised for rapid growth in the years ahead driven by favourable demographics, rising disposable incomes, increasing demand for healthy and hygienic products, increasing urbanisation and

[ Notwithstanding sluggish demand conditions, your Company's Branded Packaged Foods Businesses recorded improvement in market standing, growing well ahead of the overall industry. ]

awareness. Your Company is well positioned to establish itself as the 'most trusted provider of food products in the Indian market' leveraging a strong portfolio of world-class brands, deep understanding of the diverse tastes and preferences of Indian consumers, focus on best-in-class quality and operational excellence across the value chain.

## Personal Care Products

Your Company's Personal Care Products Business made good progress during the year towards strengthening its product portfolio through a series of new launches and range extensions. During the year, the Business rolled out a number of differentiated product offerings in the Soaps, Shower Gel, Skin Care, Face Wash and Deodorant categories under the 'Fiama Di Wills', 'Vivel', 'Engage' and 'Superia' brands, and improved in-store brand salience of offerings under the 'Essenza Di Wills' brand. In keeping with its focus on addressing various consumer benefit segments through the introduction of innovative and differentiated products, the Business positioned Fiama Di Wills Gel Bathing Bar with skin conditioners as India's first skin conditioning shower gel in a bar format and modernised the Vivel portfolio with the launch of a unique skin nourishing range of soaps. New, visibly differentiated dual colour soaps were also introduced to strengthen the brand value proposition of nourishment through skin foods. The year also witnessed the launch of the second edition of the Fiama Di Wills Couture Spa Range of Gel Bathing Bars enriched with gold, skin conditioners and skin care enhancing ingredients. These interventions have been well received by consumers strengthening your Company's presence in the Personal Care industry.

The year also marked your Company's foray into the fast-growing Deodorants market with the successful launch of 'Engage' - a first-to-market range of deodorants for couples. This new range of deo sprays for men and women provides 24-hour freshness and has been crafted to enhance personal grooming and confidence. The brand has been well received in the market garnering impressive consumer franchise in a relatively short span of time.

As in previous years, the Business continued to receive accolades for its product innovation initiatives. The 'Vivel Cell Renew' line of premium skin care products received international accreditation from the renowned Skin Health Alliance, UK for product efficacy and safety.

Maintaining close connect with consumers has been a key strength of your Company's Personal Care Products Business. In this context, your Company has won the Silver award for its 'Face of the Year' campaign under the 'Rich Media Banner' category at the Indian Digital Media Awards.

Input prices came under intense pressure particularly in the second half of the year primarily due to an upturn in global palm oil and coconut oil prices coupled with a sharp depreciation of the Indian Rupee. The Business, however, managed its raw material costs effectively by closely monitoring market trends, developing alternative sources of supply and through prudent inventory management.

Sustained focus on development of innovative and consumer-centric products through in-depth consumer understanding coupled with dedicated R&D capabilities have enabled your Company's products gain consumer franchise despite competition from established global players. Your Company's strong focus on product development and robust product evaluation processes are key to achievement of consistently superior quality ratings, and development of a healthy pipeline of innovative products which are ready to go to market at an opportune time.

With per capita consumption at relatively low levels when compared to other emerging economies, the Indian Personal Care industry is poised for rapid growth driven by increasing urbanisation, rising disposable incomes and the increasing consumer preference for enhanced personal grooming. Your Company is well positioned to seize the emerging opportunities in this rapidly evolving industry and continues to invest in creation of vibrant brands, innovative consumer-centric products and a robust supply chain to emerge as a significant player in this space.

[ The year also marked your Company's foray into the fast-growing Deodorants market with the successful launch of 'Engage' - a first-to-market range of deodorants for couples. ]

## Education & Stationery Products

The Education & Stationery Products Business recorded yet another year of robust growth in revenues, further consolidating its market standing. Your Company's flagship brand 'Classmate', continues to gain consumer franchise and is India's largest and fastest growing student stationery brand today.

Your Company continues to augment its product portfolio, deepen consumer engagement and invest in building an efficient and collaborative supply chain with a view to sustaining its leadership position in the industry. Your Company's brands - 'Paperkraft', 'Classmate Pulse', 'Classmate' & 'Saathi'- offer consumers a wide range of differentiated products addressing the specific needs of each segment. The Classmate portfolio today comprises offerings spanning notebooks, writing instruments including pens and pencils, scholastic products such as geometry boxes, scales, erasers and sharpeners as well as art stationery such as wax crayons, colour pencils and sketch pens.

During the year, the Business launched Classmate Pulse notebooks for college students as well as limited edition Paperkraft notebooks with dynamic finishes. With a view to expanding the market and enlarging the consumer base, your Company also launched a value brand - christened 'Saathi'- in select States. The initial response for these interventions has been encouraging and the products are being rolled out in target markets.

During the year, a dedicated product development cell was set up by the Business to work in tandem with your Company's Life Sciences & Technology Centre, Bengaluru to drive innovation, develop differentiated offerings, expand range and enhance value capture.

The Classmate notebook is a manifestation of the environmental capital built by your Company in its paper business. While the notebook cover is made from recycled board sourced from your Company's Forest Stewardship Council (FSC) certified Kovai mill, the paper used in the notebooks leverages your Company's world-class fibre line at Bhadrachalam which is India's first ozone treated elemental chlorine free facility.

Additionally, the collaborative supply chain established by the Business comprising 900 customers and 30 outsourced manufacturers, provides indirect employment to over 5,000 people. The small-scale manufacturers, with support from your Company, have built impressive quality and delivery capability resulting in a majority of them being certified to ISO 9001:2008 standards.

Enabling factors such as increasing literacy, enhanced scale of government & public-private initiatives in education and higher corporate spends in the education sector are expected to drive rapid growth of the Indian Education & Stationery Products industry. Your Company, with its collaborative linkages with small & medium enterprises and a strong product portfolio, is well poised to strengthen its leadership position in the Indian stationery market.

## Lifestyle Retailing

During the year, the performance of your Company's Lifestyle Retailing Business was impacted by the slowdown in discretionary consumption expenditure. The Business remained focused on strengthening its market standing by continuing to invest in brand building, enhancing range architecture and product vitality to serve as the foundation for future growth and expansion.

In the Premium segment, 'Wills Lifestyle' with its high fashion imagery, growing desirability and rich product mix, continues to enjoy strong market standing and consumer bonding. The Business embarked on the strategy of establishing its sub-brands 'Wills Classic' in the formal wear segment, 'Wills Sport' in casual wear and 'Wills Clublife' in the party wear segment.

Product equity was enhanced with heightened focus on premium product platforms. Wills Classic 'Luxuria' - a finely crafted range of super-premium formals - and the Wills Classic 'Ecostyle' collection in natural-fibre products such as linens sharpened the premium imagery of the brand and aided higher value capture. Wills Classic 'Modernist' range, Wills Sport and Wills Clublife attracted newer and younger franchise leveraging high-fashion imagery and design language. The Women's collection was strengthened by offering an enhanced range of

Your Company's flagship brand 'Classmate', continues to gain consumer franchise and is India's largest and fastest growing student stationery brand today.

exclusive premium designer wear, stylised formals in an extensive variety of trendy silhouettes.

The retail presence of Wills Lifestyle has expanded to 91 exclusive stores in 40 cities and more than 700 'shop-in-shops' in leading departmental stores and multi-brand outlets. The brand is available in five Wills Lifestyle boutique stores in select ITC Hotels - ITC Grand Central in Mumbai, ITC Maurya in New Delhi, ITC Gardenia in Bengaluru, ITC Mughal in Agra and ITC Grand Chola in Chennai, enhancing brand availability to high-end business & leisure travellers.

Your Company's unique consumer loyalty programme 'Club ITC', with over 1.8 lakh members, serves as a platform for creating superior bonding with premium consumers and leverages synergies between Wills Lifestyle and ITC Hotels. During the year, sales of Wills Lifestyle products to Club ITC members increased significantly and the Business plans to increasingly leverage the programme in the ensuing years to enhance consumer connect.

In the 'Youth' segment, 'John Players' continues to expand its strong pan-India presence with over 400 flagship stores and 1600 multi-brand outlets and departmental stores. During the year, expanded retail presence was leveraged to increase brand reach, penetrate more markets and acquire new consumers. John Players continues to have a strong presence in the mind of the consumer and has become a leading brand in the segment with youthful products such as denims, knits and jackets. The denims sub-brand, 'John Players Jeans', continued to grow at a rapid pace, drawing in younger consumers with 'innovative' & 'adventurous' endorsements.

Your Company's brands continue to be driven on digital platforms including specific e-commerce portals. Digital presence on leading online partner portals complemented marketing efforts in the emerging social media platforms to enhance reach and accessibility to its target audience.

The Business will continue to focus on increasing the premium and fashion quotient of its offerings on the basis of a deep understanding of consumer preferences, and delivering products of world-class quality. Further investments are being made in building brand salience, enhancing product vitality, improving supply chain responsiveness and delivering superior customer service to delight the customer with an international shopping experience.

## Safety Matches and Incense sticks (Agarbattis)

The Agarbatti category recorded an impressive growth in revenues during the year, well ahead of the industry, driven by a growing franchise for the 'Mangaldeep' brand, superior consumer experience and enhanced distribution reach. Product portfolio was augmented during the year with the launch of variants such as 'Sadhvi', 'Mogra' and 'Sambrani' under the umbrella brand Mangaldeep. During the year, your Company attained market leadership in the 'Dhoop' segment.

Your Company sustained its market leadership in the Safety Matches category leveraging a strong brand portfolio across all market segments. However, continued escalation in prices of raw materials coupled with the proliferation of cheaper low quality products in the market, resulted in severe pressure on sales volumes and margins.

The Matches and Agarbatti Business continues to contribute to your Company's commitment to the 'Triple Bottom Line' supporting over 18,000 livelihoods mainly amongst rural women through small-scale and cottage sector units and women's self-help groups. The Business continues to partner small and medium enterprises in improving their processes and raising quality standards. Your Company continues to partner the small-scale sector by sourcing a significant portion of its Safety Matches requirement from multiple units in this sector. The technical inputs provided by your Company has helped improve the process capabilities of these units and enhance their competitiveness.

While the manufacture of Agarbattis is reserved for the small-scale & cottage sector in India considering its importance in employment generation, imports of raw battis (the principal raw material) are allowed at low Customs Duty rates. This is resulting in bulk of the raw

> The Matches and Agarbatti Business continues to contribute to ITC's commitment to the 'Triple Bottom Line' supporting over 18,000 livelihoods mainly amongst rural women.

batti consumption in India being of imported origin leading to a loss of livelihood creation opportunities. Suitable policy changes in arresting this trend would go a long way in creating sustainable livelihoods especially among rural Indian women and tribals.

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

## B. HOTELS

The hospitality sector continued to be adversely impacted by the weak economic environment prevailing in major international source markets and India on the one hand, and significant additions to room supplies in key Indian cities on the other. During the year, the domestic tourism industry remained sluggish with foreign tourist arrivals and domestic air travel growing at a modest 4.7% and 5.2% respectively. Industry performance was particularly impacted by the addition of over 8000 rooms in Delhi/NCR, Bengaluru, Chennai and Mumbai over the last 2 years.

Against the backdrop of such a challenging business environment, Segment Revenues saw a modest increase of 5.5% during the year. While your Company's Hotels Business maintained its leadership position in the industry in terms of operating margins, Segment Results were impacted mainly on account of the relatively weak pricing scenario and increase in operating costs in an inflationary environment.

Your Company's Hotels Business continues to be rated amongst the fastest growing hospitality chains with 100 properties across the country under 4 distinct brands - 'ITC Hotels' in the Luxury segment, 'WelcomHotel' in the Upper-upscale segment, 'Fortune Hotels' in the Upscale & Mid-market space and 'WelcomHeritage' in the Leisure & Heritage segment. In addition to these brands, the Business has licensing and franchising agreements for two brands - 'The Luxury Collection' and 'Sheraton' - with Starwood Hotels & Resorts.

ITC Grand Chola, which was opened to guests in September 2012, delivered an impressive performance achieving cash profits in its first full year of operations. During the year, your Company actively pursued an 'asset right' strategy, bringing into its fold 4 new hotels in New Delhi, Chandigarh, Kollam and Kozhikode under the 'WelcomHotel' brand through management contracts. Apart from reducing the capital intensity of operations, the properties in Kollam and Kozhikode enabled the Business in expanding its footprint to Kerala - a key leisure market in the country.

The Food & Beverage segment continues to be a major strength of your Company with its iconic brands 'Bukhara' (recognised as 'Best in Country') & 'Dum Pukht' both featuring on the coveted 'S. Pellegrino Asia's 50 Best' list. The international food & beverage brands, including 'West View', 'Pan Asian', 'Edo', 'Shanghai Club' and the recently introduced Italian cuisine brand 'Ottimo' continue to gain traction and appreciation. Following the success of Ottimo at the ITC Grand Chola in Chennai, the brand was recently launched at the ITC Gardenia, Bengaluru.

In line with your Company's commitment to the 'Triple Bottom Line' the Hotels Business is in the process of enhancing renewable energy usage from the current level of 55% of total electrical energy requirements to around 80% by 2015. The Business is also making investments to reduce specific energy and water consumption to further enhance the green footprint of its operations while generating substantial cost savings. During the year, the Business rolled out branded luxury programmes embedded with sustainable practices like 'Green Banqueting' and 'WelcomAqua' at ITC Maurya reinforcing the 'Responsible Luxury' ethos of ITC Hotels.

During the year, the Business leveraged the 'Club ITC' loyalty programme to enhance revenues. The pan-ITC loyalty programme, targeted at the premium clientele of ITC's hotels and Wills Lifestyle, is fast gaining recognition in the industry and is well on its way of establishing itself

Your Company's Hotels Business continues to be rated amongst the fastest growing hospitality chains with 100 properties across the country under 4 distinct brands.

as the greenest and most admired customer loyalty programme in the near to medium term.

The long-term outlook for the Indian Hotels industry remains positive with prospects of revival in the global and domestic economy, and considering the fact that India is grossly under-roomed even when compared to some of the much smaller South-East Asian countries like Singapore, Malaysia and Thailand. Consequently, your Company remains committed to its investment-led growth strategy and is progressing several projects to enhance its scale of operations. Construction of the new super luxury golf and spa resort – ITC Grand Bharat, at the Classic Golf Resort, Manesar is nearing completion with the hotel expected to commence operations in mid-2014. Construction activity at the luxury hotel projects in Kolkata and Hyderabad is progressing satisfactorily. Good progress was also made during the year with regard to the Business's first overseas project in Colombo, Sri Lanka with concept design in completion stage and receipt of requisite approvals from the Sri Lankan Tourism Development Authority. Further, several new projects, including management contracts, are on the anvil to rapidly scale up the Business across all brands.

The 'Fortune' brand which caters to the 'Mid-market to Upscale' segment continued to expand its presence in the country with the addition of 4 new hotels during the year with another 9 in the pipeline. 'My Fortune Bengaluru', a flagship property under the Fortune banner, was launched in May '14. Additionally, 6 hotels are under various stages of development under the 'My Fortune' brand - the top-end range of the Fortune Hotels portfolio. The WelcomHeritage brand flagged off 3 hotels during the year and remains the country's most successful and largest chain of heritage hotels with 37 operating properties and 891 rooms spread across 13 States in India.

Your Company's Hotels Business, with its world-class properties, globally benchmarked levels of service excellence and customer centricity, is well positioned to sustain its leadership status in the Industry and to emerge as the largest hotel chain in the country over the next few years.

## C. PAPERBOARDS, PAPER AND PACKAGING

During the year, the Paperboards, Paper and Packaging segment recorded a growth of 14.7% in Revenue aided by higher volumes and product mix enrichment. Segment Results were however impacted due to the steep hike in input prices particularly of wood, coal and chemicals.

### Paperboards & Specialty Papers

Global demand for paper and paperboard in 2013 recorded a marginal increase of 1% over 2012 representing a below-trend growth for the third year in succession primarily on account of a weak global economic environment. In India, despite the slowdown in domestic growth, demand for packaging papers and boards remained relatively more resilient growing by 6% during the year driven by the health care, food and personal care segments. Demand for superior grades of writing and printing paper grew by around 10% during the year, primarily led by the school stationery, branded copier paper and educational books segments.

Overall Paperboard demand in India is projected to grow at a compound annual rate of around 6% over the next 5 years. The market for Value Added Paperboard is expected to grow in excess of 12% per annum during the same period driven by expectations of higher growth in the economy, increased demand for branded packaged products, organised retail and the use of packaging as a key differentiator especially in the FMCG sector. Such market potential is attracting new capacities in spite of the prevailing raw material shortages and pressure on industry profitability.

Further, reduction of import duties under various Regional Free Trade Agreements especially with ASEAN and increase in import of paper/paperboards are impacting the profitability of the domestic paper industry and the economic viability of the small paper mills. With the US and EU imposing anti-dumping duties against import of paper / paperboards from China/Indonesia to protect their domestic industries, the additional capacities created in these countries are increasingly finding their way into India given the low / nil rate of import duty.

[ ITC continues to focus on the Value Added Paperboard segment in which it is a clear market leader. The new paperboard machine, commissioned in March 2013 at the Bhadrachalam plant, has been fully ramped up. ]

In order to provide a level playing field to the domestic industry and encourage farming of wood within India given its large economic multiplier impact, there is clearly a need to review the current duty structure on import of Paper and Paperboard. Further, preferential duty rates should not be applicable to this category under Free Trade Agreements.

Your Company continues to focus on the Value Added Paperboard segment in which it is a clear market leader. The new paperboard machine, commissioned in March 2013 at the Bhadrachalam plant, has been fully ramped up and has helped in further consolidating your Company's pre-eminent market position in the Value Added Paperboard segment. This state-of-the-art paperboard machine is highly energy efficient with an installed capacity of over 1 lakh tonnes per annum. With this, the total capacity of the Bhadrachalam plant stands at over 5.5 lakh tonnes per annum, thereby sustaining its position as the single largest integrated pulp and paperboard / paper unit in India.

Your Company's superior product portfolio consisting of premium grades like 'Carte Lumina' and 'Cyber Premium' continued to drive growth in a challenging business environment. The Business also increased its penetration in the hosiery, apparels and publishing segments. During the year, the Business strengthened its supply network and improved service levels by leveraging strategically located 'quick service centres' and adding new distributors and stockists.

The Business continued to focus on product and process innovation towards developing differentiated and cutting-edge products. In this regard, the Business specially engineered paperboards for cigarette packaging to suit the new contour packs which are becoming the norm in the industry. Further, the Business launched 'NeoWhite Bliss' - a paperboard with a special fibre mix and high performance attributes including blister sealability - and co-created new and innovative packaging solutions with customers in the beverages and dairy products segments.

The Writing and Printing paper segment is projected to grow at a compound annual rate of around 7% in the medium-term. Growth in the value-added writing and printing paper segment will continue to be fuelled by rising literacy levels, Government initiatives in the education sector, higher demand in the publication segment etc. With strong forward linkages with your Company's Education and Stationery Products SBU, the Business has emerged as a leading player in this segment and plans are on the anvil to enhance market presence.

In the Specialty Paper segment, your Company improved its position in the fine printing and pharma leaflet market. Your Company remains the market leader in Decor grades and the largest manufacturer of cigarette tissue in India.

Your Company continues to focus on promoting farm forestry plantations for pulpwood as access to adequate supplies of pulpwood at competitive prices remains a major challenge for the paper industry. The industry is currently facing an acute shortage of pulpwood especially in Andhra Pradesh, which is largely attributable to the sudden spurt in demand from new pulp capacities that have come up in Karnataka, Maharashtra and Odisha without adequate investments in pulpwood plantations. Diversion of supplies from Andhra Pradesh to meet shortages in other States and increase in alternative usage such as commercial poles, bio-fuel etc. have resulted in demand far exceeding supply leading to a steep escalation in pulpwood procurement prices during the year. This, along with inferior quality of wood due to early felling, has adversely impacted industry margins.

The current demand-supply mismatch is expected to be rectified over the next couple of years on the back of additional plantations by farmers due to the prevailing remunerative price levels and renewed efforts by pulp mills in promoting plantations in their core catchment areas. To mitigate the wood shortage in the short to medium term, the Business is deploying several options including procuring wood from other States, buying through tenders from State Forest Departments, imports etc.

With a view to mitigating the current wood fibre shortage and cost pressure, your Company remains focused on promoting pulpwood plantations in its core area of

[ Your Company has the distinction of being the first paper company in India to have obtained the Forest Stewardship Council - Forest Management (FSC-FM) certification. ]

operations. During the year, the Business sold/distributed high quality saplings and seeds to farmers that enabled planting of over 130 million saplings on nearly 21,000 hectares of plantation. With this, your Company's bio-technology based research initiatives have cumulatively resulted in the planting of about 793 million saplings leading to significant wasteland development and greening of over 163,000 hectares. As per estimates, this pioneering initiative has generated over 73 million person days of employment for tribal and marginal farmers. Your Company's recently commissioned state-of-the-art clonal sapling production facility is currently operating at peak capacity and will go a long way in supporting your Company's endeavour to augment pulpwood availability and meeting the ever growing demand for high quality saplings from the farming community.

Your Company's research on clonal development has resulted in the introduction of high yielding and disease resistant clones which are adaptable to a wide variety of agro-climatic conditions. Besides securing the long-term supply of fibre at competitive costs, this initiative also assists in generating farm incomes by utilising marginal wastelands. Your Company's continued focus on clonal plantations in core areas is expected to yield significant competitive advantage in the years to come. In this regard, the Life Sciences & Technology team of your Company is actively collaborating with several expert agencies to leverage bio-technology towards enhancing farm productivity, wood yields and improved fibre and pulp properties.

Your Company has the distinction of being the first paper company in India to have obtained the Forest Stewardship Council - Forest Management (FSC-FM) certification which confirms that the plantation activities of an organisation are economically, socially and environmentally viable. Your Company has received FSC-FM certification for around 22,800 hectares of plantations involving nearly 25,000 farmers. Plans are afoot to steadily increase coverage under FSC-FM certification over the next few years to enhance competitiveness and scale up business with environmentally conscious customers. Further, all four manufacturing units of the Business have obtained the FSC-Chain of Custody certification. These certifications make your Company the leading supplier of FSC-certified paper and paperboards in India.

As stated last year, for the first time in the Indian paper industry, your Company has proactively attempted a biodiversity conservation project on private lands. Till date, 21 hectares of land belonging to farmers in Andhra Pradesh were selected and afforestation, reforestation, reclamation, rehabilitation, protection and conservation of biological resources along with integrated farming have been initiated. Further, your Company promoted natural regeneration, enrichment planting with native species and conserved species which were threatened and endemic.

In order to sustain these efforts, your Company is promoting local stewardship for biodiversity through awareness creation programmes, which will go a long way in reversing the impact created by anthropogenic pressures, integrating it with agriculture, pulpwood plantations, fishery, apiculture, medicinal plants and creating sustainable livelihoods for tribal farmers.

Solid waste recycling remains a key focus area for your Company. 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 about 110,000 tonnes of waste paper during the year has further consolidated the Business's overall positive solid waste recycling footprint.

The Bhadrachalam unit received the 'National award for Excellence in Energy Management 2013' from Confederation of Indian Industry (CII). The project for 'Elimination of Non-condensable Gases & Foul condensate recycling by installation of Stripping Plant' has received the 'Most Innovative Environmental Project Award' and the 'Most Useful Project Award' from CII. The unit also received the 'State Energy Conservation Award 2013' from New & Renewable Energy Development Corporation of AP. The Bollaram unit won the 'FICCI Quality Systems Excellence Award' while the Kovai unit received the 'Environmental Best Practices

[ For the first time in the Indian paper industry, ITC has proactively attempted a biodiversity conservation project on private lands. ]

Award' from CII. The Project 'CO4 fodder grass as Boiler fuel by using effluent water' has won the 'Innovative Environmental Project Award' from CII.

Your Company continues to focus on various safety initiatives including induction of safety stewards, strengthening systems, spreading awareness and integrating Environment, Health and Safety (EHS) as part of the overall Total Productive Maintenance (TPM) initiative. With regard to energy consumption, strategies to contain usage across units continue to be pursued.

In line with your Company's objective of meeting 50% of its energy requirements through renewable sources, the Business has invested in green boiler, soda recovery boiler, solar and wind energy. The 7.5 MW wind energy farm in Coimbatore, continues to operate at optimum levels providing clean energy to the Kovai unit. It is expected that energy efficiency coupled with greater use of renewable sources of energy will enable your Company to derive benefits from sale of Renewable Energy Certificates (RECs). The project for setting up a 46 MW wind energy farm to provide clean power to your Company's plants in Andhra Pradesh is at an advanced stage of completion with commissioning expected in early 2014-15. Your Company has also successfully commissioned a new 12 MW Turbine Generator and a 72 tonnes per hour (TPH) Boiler to meet the energy requirements at its Tribeni plant. This power block has the capability to utilise lower grades of fuel and operate at higher levels of efficiency.

The year under review witnessed severe cost pressures in major inputs such as wood fibre, chemicals and coal. This was accentuated by the weakening and high volatility of the Rupee. However your Company, with its integrated operations and strategic cost management actions, was able to partially mitigate the adverse impact of such cost escalation.

The integrated nature of the business model comprising access to high-quality fibre from the economic vicinity of the Bhadrachalam mill, in-house pulp mill and state-of-the-art manufacturing facilities along with clear market leadership in value-added paperboards and a robust forward linkage with the Education and Stationery Products Business strategically positions your Company to further consolidate and enhance its leadership status in the Indian paperboard and paper industry.

### Packaging and Printing

Despite a challenging operating environment, your Company's Packaging and Printing Business recorded a robust growth in revenues during the year leveraging its state-of-the-art facilities across multiple packaging platforms to provide superior and comprehensive solutions to customers. Consequently, the Business strengthened its market standing as a leading supplier of value-added packaging in cartons and flexibles. Further, the Business continued to provide strategic support to your Company's FMCG businesses by developing innovative packaging solutions, facilitating faster turnarounds of new pack designs, ensuring security of supplies and delivering benchmarked international quality packaging at a competitive cost.

The recently commissioned world-class facility at Haridwar is operating at benchmark standards and has strengthened the Business's capability to effectively service demand in the northern markets. During the year, the Business added additional manufacturing capability to address the fast growing Labels market. The Business also made investments in backward integration to augment in-house print cylinder manufacturing capacity at its Chennai plant for faster turnarounds and enhanced competitiveness. Investments are in progress towards augmenting print cylinder making capacity at the Haridwar plant as well.

As in previous years, the Business won several awards during the year for operational excellence, innovation and creativity. These include one 'World Star Award' from World Packaging Organisation, six 'Asia Star Awards' from Asia Packaging Federation and eleven awards instituted by Indian Flexible Packaging & Folding Carton Manufacturers Association (IFCA) for excellence in packaging solutions.

The 14.1 MW wind energy farm in Tamil Nadu, set up in 2008, continues to provide clean energy to the Chennai unit. This initiative, which is in line with your Company's commitment to the 'Triple Bottom Line', is a certified project under the Clean Development Mechanism of the

[ The Packaging & Printing Business has positioned itself as a one-stop shop offering superior packaging solutions using state-of-the-art technology across multiple packaging formats. ]

Kyoto Protocol and is generating carbon credits and contributing towards the reduction of your Company's carbon footprint. Generation of wind energy during the year was partially affected due to infrastructural deficiencies impacting connectivity to the State power grid. The situation is expected to normalise in the near term with the deficiencies expected to be rectified shortly.

The factories at Chennai, Haridwar and Munger continue to maintain the highest standards in Environment, Health and Safety (EHS). All the three units are certified as per the Integrated Management System, consisting of ISO 9001:2008, ISO 14001:2004 and OHSAS 18001:2007. The other accreditations include SA 8000:2008 (Social Accountability Certification) for the Chennai Unit and British Safety Council International Safety Standard Award & National Safety Council Surakhsa Puraskar for the Munger Unit. The Haridwar plant achieved the highest 'Grade A' BRC/IOP certification (British Retail Consortium/ Institute of Packaging) for global standards in packaging and packaging materials - a key enabler for supplies to the packaged foods industry. The Business continues to be acknowledged as a key associate by several large FMCG companies in the country for providing packaging solutions.

The Packaging & Printing Business has positioned itself as a one-stop shop offering superior packaging solutions using state-of-the-art technology across multiple packaging formats. With world-class technology across a diverse range of packaging platforms, best-in-class quality systems and a distributed manufacturing footprint, the Business is well positioned to rapidly grow its external business even as it continues servicing the requirements of your Company's FMCG businesses.

## D. AGRI BUSINESS

### Leaf Tobacco

The declining trend of global cigarette demand continued unabated during the year due to steep hikes in taxation and the impact of stringent regulatory measures covering cigarette marketing, packaging/labelling and usage of additives. In line with this trend, global production of Flue Cured Tobacco registered a decline of 0.3% in 2013 while the Indian Flue Cured crop size recorded a growth of 6% over 2012. While the volume of Indian exports of Unmanufactured Tobacco remained flat in 2013-14 as compared to the previous year, the value of exports rose by 26% driven by continued buoyancy in demand for the Indian variety and a sharp depreciation of the Rupee in the current fiscal. Domestic farm prices for green leaf also increased significantly by around 20% over 2012 in tandem with the improvement in export realisations.

In spite of the challenging market context of flat global demand and rising domestic leaf prices, your Company strengthened its market standing as the largest Indian exporter of Unmanufactured Tobacco with a revenue growth of 29% during the year. The Business not only strengthened its presence in existing markets through its segmented offerings and collaborative crop development models but also expanded its customer base by acquiring new customers in new markets. The Business continued to provide strategic sourcing support to your Company's Cigarette Business meeting all requirements at competitive prices.

While global demand is projected to remain muted in the medium to long-term, offtake of the Indian crop by global majors would remain a function of its competitiveness relative to competing origins. On the strength of its deep rooted crop development expertise, your Company is well poised to play a pioneering role in positioning India as a preferred source of leaf tobacco and capture emerging opportunities in the global market.

Your Company has been a pioneer in promoting sustainable agriculture practices in the tobacco growing regions in Andhra Pradesh and Karnataka and has emerged as a global exemplar in this arena. Your Company has embedded sustainability as part of its business processes through the implementation of several initiatives towards promoting sustainable agriculture, improving farmer profitability and stimulating community development thereby transforming rural livelihoods. These key initiatives are anchored around the six dimensions of sustainability encompassing soil, water, labour, fuel, biodiversity and community development with a specific focus on soil fertility management, soil moisture conservation, seedling

Your Company, with its strong R&D capability, modern processing facilities, crop development and extension expertise and deep understanding of customer and farmer needs is in a position to leverage opportunities and address challenges that lie ahead for the Indian Leaf Tobacco industry.

production, micro irrigation, farm mechanisation, energy conservation and biodiversity protection.

Your Company's soil and water conservation initiatives in the Mysore region received the prestigious Karnataka State Award for natural resource conservation. Your Company's approach to soil sustainability in tobacco cultivation was published in the International Journal of Agriculture and Animal Sciences in Thailand. The concept of mobile telephony based crop advisory services to farmers for sustainable tobacco cultivation was recently recognised at the International Conference on Intelligent Agriculture in Hong Kong. Your Company has set up more than 10 biodiversity parks in rural areas this year in conjunction with local farmers, where more than 10,000 native species were planted, demonstrating the strong commitment of your Company towards protecting biodiversity.

Research and Development is an essential vector for spurring business growth and farmer prosperity. Your Company is pioneering region-specific production practices for enhancing yield and quality of farm produce. Further, substantial progress has been made to strengthen the pipeline of new hybrid combinations for deployment in specific growth zones.

In line with your Company's commitment to augment environmental capital, 100% of the electricity requirements of your Company's green leaf threshing plant in Mysore is currently met through wind energy. The Business is progressing further investments towards augmenting wind energy generation capacity with a view to meeting 100% of the electrical energy requirements of its green leaf threshing plants in Andhra Pradesh. The plant at Chirala has been awarded the Shreshta Suraksha Puraskar by the National Safety Council for the year 2013.

Your Company's thrust on re-engineering the supply chain led to a series of interventions including setting up of integrated supply chain planning systems, reconfiguring the network, augmenting warehousing capacities and mechanising operations. These initiatives generated substantial cost savings during the year apart from significantly improving operational efficiencies.

Your Company, with its strong R&D capability, modern processing facilities, crop development and extension expertise and deep understanding of customer and farmer needs is in a position to leverage opportunities and address challenges that lie ahead for the Indian Leaf Tobacco industry. The Business will continue to extend strategic sourcing support to your Company's Cigarette Business even as it sustains its leadership position as a major exporter of quality Indian tobacco thereby catalysing the multiplier impact of increased farmer incomes to benefit the rural economy.

## Other Agri Commodities

Food grain production in India in 2013-14 recorded an all-time high of 263 million tonnes representing a growth of 2.4% over 2012-13. As per estimates, output of the 2 major food grains - wheat and rice - was higher than the previous year by about 1% and 2% respectively. Oilseed production recorded a significant increase of 7% to 33 million tonnes primarily driven by higher groundnut production. However, due to inclement weather conditions, soya bean production declined by 15% to 12.5 million tonnes.

During 2013-14, world wheat production increased by 56 million tonnes to about 713 million tonnes mainly due to increase in production in the Black Sea region (Ukraine, Russia), European Union, Canada and Australia. Increased production and surplus availability of wheat in the global markets increased challenges for export of Indian wheat. The Business leveraged its procurement expertise to sustain exports by competitively sourcing premium wheat varieties for key customers and garnering volumes from new customers. On the domestic front, the Business continued to expand its presence with brand owners, private labels, food processors and millers.

Global soya bean production maintained an increasing trend with output estimated at 284 million tonnes in 2013-14 representing an increase of about 16 million tonnes over the previous season. Such increase was mainly driven by higher output in the United States, Brazil and Argentina. Soya bean production in India however, saw one of the steepest drops in production in 2013-14. With global soya bean output at historical

[ Your Company's deep rural linkages and expertise in agri-commodity sourcing is a critical source of competitive advantage for the Branded Packaged Foods Businesses. ]

highs, international prices remained soft. Consequently, the domestic market witnessed an extremely challenging season with fewer trading opportunities. The Business leveraged its unique commodity sourcing model to minimise the impact.

Your Company's deep rural linkages and expertise in agri-commodity sourcing is a critical source of competitive advantage for the Branded Packaged Foods Businesses. Given the volatile market conditions caused by climatic variations, changes in government policies and global demand-supply dynamics, your Company has over the years invested in building competitively superior agri-commodity sourcing expertise through multiple business models, geographical spread and customised infrastructure. These capabilities and infrastructure have created structural advantages that facilitate competitive sourcing of agri raw materials for your Company's Aashirvaad atta and Bingo! Yumitos brands. The Business continues to focus on increasing the overall efficiency of procurement by pursuing cost optimisation initiatives including reducing distance travelled and eliminating non-value adding activities.

With the objective of sourcing the required quality of wheat from areas that are in close proximity of the atta manufacturing plants, the Business initiated a crop development programme in collaboration with research organisations like Indian Agricultural Research Institute, Directorate of Wheat Research, Punjab Agricultural University and Agharkar Research Institute. As a part of this programme, location-specific improved seed varieties along with appropriate package of agricultural practices were introduced in over 20,000 acres across Rajasthan, Uttar Pradesh, Bihar, West Bengal and Karnataka. With a view to supporting the future requirements of your Company, the Business continues to focus on building deeper capabilities in proprietary crop intelligence, sourcing & delivery network and crafting multiple customer-centric blends through cost-quality optimisation.

In the area of potato sourcing, the Business continued to source highest quality chip stock potato for your Company's brand, Bingo! Yumitos. The Business continued to work closely with farmers towards improving quality and yield, and introducing chip stock in newer geographies with a view to sourcing a higher share of requirements closer to manufacturing centres.

India is the world's largest producer, consumer and exporter of spices. Growing concerns around food safety and product integrity have resulted in increased demand for suppliers with 'end-to-end' capabilities having complete custody of the supply chain, supported by appropriate technology, quality assurance and traceability management systems. Your Company is well poised to garner an increasing share of the fast growing domestic and export spices market leveraging its world-class processing unit which is certified to the highest grade of global food safety standards under the BRC (British Retail Consortium) Food certification regime and an IT enabled 'farm to fork' traceability system. The Business continues to provide support to your Company's Aashirvaad range of spices.

An integrated and holistic view of the agricultural value chain is essential towards providing the necessary fillip to stagnating agricultural growth in the country. This requires a joint participatory approach from all stakeholders such as farmers, input vendors, traders, processors and the government agencies. More than a decade ago, your Company conceptualised and rolled out the e-Choupal network as a platform to empower the farming community by dis-intermediating the value chain, making available accurate weather related information, enabling price discovery in a transparent manner, and disseminating best practices relating to farming. Your Company continues to focus on providing various services in rural areas towards enhancing the competitiveness of Indian agriculture and plays a critical enabling role in integrating farmers, input vendors and government agencies besides facilitating the necessary market linkages.

The Business will continue to leverage its deep rural linkages towards providing your Company's Branded Packaged Foods Businesses a distinct competitive advantage in sourcing high quality agri-commodities. The e-Choupal platform will also be increasingly leveraged to provide rural marketing and agri services and serve as a unique delivery mechanism towards enhancing agricultural growth and productivity, and fostering sustainable rural development.

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## 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 under the 'Shareholder Value' section of your Company's website, www.itcportal.com, in a downloadable format.

ITC Global Holdings Pte. Limited, Singapore ('Global'), a subsidiary of your Company, is under winding up in terms of the Order of the High Court of the Republic of Singapore dated 30th November, 2007. Consequently, your Company is not in a position to consolidate the accounts of Global for the financial year ended 31st December, 2013 or to make available copy of the same for inspection by shareholders.

### Surya Nepal Private Limited

Economic growth in Nepal slowed down to 3.6% for the fiscal year ended July 2013, as shortfalls in public expenditure depressed aggregate demand and agricultural output suffered from poor rainfall. Political uncertainty continued to hamper industrial activity, with services providing the only source of support for the economy. While the fiscal deficit situation improved, this was partly due to low public spending, which contracted in real terms. Despite muted growth in economic activity and fiscal contraction, inflation remained high and significantly above target. On the external side, Nepal's growing trade deficit continues to be financed by robust remittance transfers in the backdrop of a sharp depreciation of the local currency against the US Dollar. During the year under review, the political environment in Nepal stabilised with the caretaker Government successfully holding general elections and a coalition Government led by Nepali Congress, the largest party in the Constituent Assembly, taking over office in February 2014. A stable government, increase in salaries of government employees and the anticipated pick-up in government spending augur well for the Nepal economy.

In December 2013, the Supreme Court of Nepal vacated the stay on implementation of the Tobacco Products (Control & Regulation) Act, 2011 and the Directive and Rules framed thereunder. The tobacco industry, while seeking clarifications on certain provisions has sought transitional time from the Government for implementation, continues to engage with policy makers with the objective of having practical, reasonable and non-discriminatory legislation.

During the twelve month period ended 14th March, 2014 (30th Falgun 2070), the company recorded a Gross Revenue of Nepalese Rupees (NRs.) 1957 crores representing a growth of 17% over the previous year. Profit After Tax at NRs. 425 crores increased by 15% over the previous year. The company continues to be one of the largest contributors to the Government exchequer, accounting for about 14% of excise collections and 3% of the total revenues of the Government of Nepal.

During the year, the company consolidated its market standing in the cigarettes market by focusing on product quality, innovation and value-addition. Investments in best-in-class manufacturing technologies along with adoption of benchmarked practices ensured delivery of products of international quality. A new state-of-the-art leaf re-drying facility is being commissioned which is expected to improve quality and increase usage of domestic leaf tobacco. The second cigarette factory near Pokhara is nearing completion. This new facility, apart from ensuring continuity of supplies, is also expected to improve supply chain responsiveness. The company recently implemented SAP ERP, which would enable seamless integration of its business processes and aid faster and effective decision making.

In the branded apparels business, the company's brands 'John Players' and 'Springwood' remain the preferred choice of consumers in the premium and economy segments. In the safety matches business, the company's brand 'Tir' sustained its pre-eminent position in the market.

The company continues to support and invest in initiatives that enhance social and economic capital of the Nation in alignment with the stated priorities of the Government of Nepal. Accordingly, the company:

a) continues to partner tobacco farmers in Nepal to enhance productivity and improve quality at the farm level through the induction of agricultural best practices. The adoption of such practices and other inputs provided by the company has led to a consistent improvement in quality of domestic grades of tobacco thereby improving marketability of the crop and farmer returns.

b) continues to assist farmers in growing high quality Poplar saplings in the vicinity of the Simara plant.

c) continues to support the animal husbandry extension services initiative with a view to improving yield and enhancing incomes of underprivileged farmers.

d) partnered with Nepal Tourism Board in hosting Nepal's premier professional golf tournament – the 'Surya Nepal Private Limited Masters', with the objective of promoting Nepal as an attractive tourist destination.

e) sponsored the 'Surya Nepal Private Limited Asha Social Entrepreneurship Awards', to recognise individuals who have made a difference in their communities and created employment opportunities amongst local communities.

The company declared a dividend of NRs. 173/- per equity share of NRs. 100/- each for the year ended 15th July, 2013 (31st Ashad 2070).

### ITC Infotech India Limited

The global IT industry grew by 1.6% during 2013 compared to 1.3% in 2012. While projections made at the beginning of the year forecast a growth of 4.3%, the anticipated pick-up in demand did not materialise primarily on account of a slower than expected economic recovery in the US and European markets.

In contrast to the global situation, as per figures released by NASSCOM in February 2014, the Indian IT industry is estimated to have grown by approximately 13% in 2013-14 with both global multinationals and Indian IT companies driving offshoring aggressively to achieve cost and price competitiveness. Further, the Indian IT industry benefited from the weakening of the Indian Rupee during the year.

Reflecting the buoyancy enjoyed by Indian IT companies during the year, the company's consolidated Total Revenue grew well above the industry average, clocking a growth of 26% to ₹ 1278.75 crores, while its Net Profit grew by 29% to ₹ 86.26 crores. This robust performance is an outcome of continuing success in the strategies adopted by the company in (i) identifying and investing in new technology based growth drivers, (ii) striving to create cutting-edge capabilities in each of its existing service lines, (iii) building solutions and capabilities around the products of global software vendors and partnering with them to take the products to the market, (iv) offering new and value-added services to existing customers with high potential, (v) focused geographical expansion to develop new markets and acquire customers, and (vi) cost management and resource optimisation while balancing growth led investment imperatives.

For the year under review:

a) ITC Infotech India Limited registered a Total Revenue of ₹ 925.90 crores (previous year ₹ 706.65 crores) and a Net Profit of ₹ 101.21 crores (previous year ₹ 68.72 crores);

b) ITC Infotech Limited, UK, (I2B) a wholly-owned subsidiary of the company, registered a Turnover of GBP 25.29 million (previous year GBP 25.03 million) and a Net Profit of GBP 1.18 million (previous year GBP 1.86 million). For the year under review, I2B declared a Dividend of GBP 3 (previous year GBP 3) per Ordinary Share of GBP 1 each on 685,815 shares, amounting to GBP 2,057,445 (previous year GBP 2,057,445) to the company;

c) ITC Infotech (USA), Inc., (I2A) a wholly-owned subsidiary of the company, together with its wholly-owned subsidiary Pyxis Solutions LLC, registered a Total Revenues of US$ 70.61 million (previous year US$ 63.20 million) and a Net Profit of US$ 0.17 million (previous year US$ 0.91 million). For the year under review, Pyxis Solutions LLC declared a dividend of US$ 0.5 million (previous year: NIL) to ITC Infotech (USA), Inc.

During the year, the company created an independent business unit focused on Treasury and Capital Markets related IT technologies, aligned with a global Independent Software Vendor. In a relatively short span of time, the unit has gained encouraging traction amongst banking customers and is poised to drive business growth.

The company offers services to a wide customer base including several marquee customers, many of whom command leadership positions in their respective business segments.

During the year, the company consolidated its focus on Middle-East, Africa, India and the larger Asia-Pacific region and expanded its sales force in each of these regions. Consequently, the company achieved significant progress in new customer acquisition, particularly in Australia, India and Middle-East. The company has also extended its service lines to specific markets in Western Europe and in North America.

The company's superior service delivery capability continued to earn global recognition. The company has featured for the 8th consecutive year amongst the 'Leaders Category' in the '2013 Global Outsourcing Top 100' by the International Association of Outsourcing Professionals (IAOP). The company also featured for the 9th consecutive year in the Global Services 100 survey, conducted by Global Services and Neo Advisory. The company achieved ISO 9001:2008 re-certification for all its locations as well as ISO/IEC 20000-1:2011 certification for its IT Infrastructure Managed Services for External Clients.

The economic recovery visible in the US and European markets, emergent demand from new markets and evolving new generation technological skills, have reinforced the need to ensure a seamless supply chain of skilled resources. While good talent remained scarce, the company's talent search and retention strategies ensured that a robust and high quality resource supply chain was available in line with growth requirements. The company has broadened its channels for sourcing quality talent and has strengthened its capability building processes through college affiliations, technology incubation cells and employee ideation panels. The company remains focused on its endeavours to enhance employee engagement, invest in employee friendly policies and enable facilitation for smooth transition of talent across various geographies. Going forward, the company will continue to review and reinforce its strategies and action plans to rapidly scale up its global footprint. Building additional technology specialisation continues to be a priority area, and SMAC (Social media, Mobility, Analytics and Cloud computing) remains at the forefront of this technology ecosystem. The company has set up a focus group to tap the emerging opportunities in this space and continues to invest in identified capability building niches within this technology segment.

The outlook for the Indian IT industry remains buoyant with NASSCOM predicting a growth of 13% in the forthcoming year as well. The company is poised to scale up its operations significantly leveraging its ability to offer distinctly superior solutions to its customers based on deep domain knowledge, strong delivery capability and above all, a superior customer experience.

### Russell Credit Limited

During the year, the company registered a Total Revenue of ₹ 65.52 crores (previous year ₹ 69.66 crores) and a Net Profit of ₹ 34.57 crores (previous year ₹ 58.96 crores). The company paid a dividend of 10.05% aggregating ₹ 65 crores for the year ended 31st March, 2014.

The company continues to explore opportunities to make strategic investments for the ITC Group and deploy temporary surplus liquidity primarily in debt mutual funds.

### Wimco Limited

The company achieved a Net Revenue of ₹ 162.14 crores during the year (previous year ₹ 165.62 crores) and posted a Net Loss for the year of ₹ 11.54 crores (previous year Net Profit ₹ 1.90 crores) after considering a provision of ₹ 5.99 crores on account of permanent diminution in value of investment in a subsidiary company and ₹ 8.40 crores towards provision for loans given to a subsidiary company, the recovery of which is now considered doubtful. Writ petitions filed by Pavan Poplar Limited and Prag Agro Farm Limited, subsidiaries of the company, against the order of the District Magistrate authorising State authorities to take possession of the land leased to the said subsidiaries, was disposed of by the Honourable High Court in favour of the State Government. Though the subsidiary companies have filed an appeal against the said orders, as a measure of prudence, the company has created the aforesaid provisions during the year.

Margins in the Safety Matches business continued to remain under pressure mainly due to escalation in prices of raw materials like wood, splints, paperboard, key chemicals and the continuing high tax differential between the mechanised and non-mechanised sector. The company continues to focus on cost rationalisation and margin improvement.

During the year, the Agri (Forestry) business revenues grew by around 4%. The Agri (Forestry) business supplied high quality poplar ETPs (Entire Transplants) and eucalyptus saplings to farmers in northern India to enhance availability of wood to Safety Matches business at competitive prices. Apart from creating a long-term sustainable supply of a critical raw material, the company's initiative is helping create employment and livelihood opportunities while improving the green cover in the region.

The Engineering business revenues grew by 3% during the year. The company continues its efforts to leverage new and improved product design to offer superior packaging solutions to its customers.

During the year, the scheme involving demerger of the non-engineering business of the company into ITC Limited (parent entity) with effect from 1st April, 2013, has been sanctioned by the Honourable Bombay High Court on 10th April, 2014 and by the Honourable Calcutta High Court on 14th May, 2014. The certified copies of the Orders are awaited.

### Srinivasa Resorts Limited

During the financial year ended 31st March, 2014, the company recorded a Total Revenue of ₹ 53.28 crores (previous year ₹ 50.61 crores) and a Net Profit of ₹ 3.33 crores (previous year ₹ 4.44 crores).

The challenging environment in the State of Andhra Pradesh continued to have an adverse impact on the performance of the company's hotel ITC Kakatiya, Hyderabad. The hotel continued to focus on superior guest experience and strategic cost management to sustain market standing and protect margins.

During the year, ITC Kakatiya received the 'Times Food Guide' awards for 'Dakshin' (Best South Indian restaurant) and for 'Marco Polo' (Best Bar). The hotel also received a special prize for 'Best Landscaping within the 5 Acre Category' from the Department of Horticulture, Andhra Pradesh. The Hotel also achieved the '3 Star Rating for Appreciation in EHS Practices' awarded for the year by CII.

During the year, a land parcel measuring about 4.27 acres in Amritsar was assigned to the company by ITC Ltd. for the development and operation of a full services hotel. In this regard, project design has been finalised and statutory approvals are in the process of being obtained.

The Board of Directors of the company has recommended a dividend of ₹ 0.50 per equity share of ₹ 10/- each for the year ended 31st March, 2014.

### Fortune Park Hotels Limited

During the financial year ended 31st March, 2014, the company recorded a Total Revenue of ₹ 24.85 crores (previous year ₹ 23.22 crores) and earned a Net Profit of ₹ 6.25 crores (previous year ₹ 5.97 crores).

The company's Fortune hotel chain that caters to the 'mid-market to upscale' segment continued its expansion by forging new alliances, taking the total number of hotels in its fold to 71 with an aggregate inventory of over 5,600 rooms. The 'Fortune' brand now has 42 operating hotels and another 6 hotels are slated to be commissioned in the ensuing year. The remaining 23 hotel projects are under various stages of development. The brand remains a frontrunner in its operating segment and is well positioned to sustain its leadership position in the industry.

The company is well known for providing quality products and services which have helped position 'Fortune' as the premier 'value' brand in the Indian hospitality sector. In addition to 'My Fortune Bengaluru', which was launched in May'14, plans are on the anvil to launch another 6 properties under the 'My Fortune' brand in the forthcoming years.

During the year, the company bagged the 'Best Mid-Market Hotel Chain' award by Hotelier India, 'Best First Class Business Hotel Chain' by Hospitality India and Explore The World Award 2013 & 'Best First Class Full Service Business Hotel Chain in India 2013' by PATWA, ITB Berlin.

The Board of Directors of the company has recommended a dividend of ₹ 12.50 per equity share of ₹ 10/- each for the year ended 31st March, 2014.

### Bay Islands Hotels Limited

During the financial year ended 31st March, 2014, the company recorded a Total Revenue of ₹ 1.62 crores (previous year ₹ 1.52 crores) and Net Profit of ₹ 1.03 crores (previous year ₹ 0.97 crores).

The company's hotel, Fortune Resort Bay Island in Port Blair, continues to command patronage in the city primarily due to its location, excellent architectural design and superior service quality. The company is planning to undertake a comprehensive renovation and expansion programme with a view to enhancing the market standing of the hotel.

The Board of Directors of the company has recommended a dividend of ₹ 70.00 per equity share of ₹ 100/- each for the year ended 31st March, 2014.

### Landbase India Limited

The company 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 nearing completion and operations are likely to start by mid-2014.

During the financial year ended 31st March, 2014, the company recorded a Total Revenue of ₹ 12.85 crores (previous year ₹ 11.82 crores) and Net Loss of ₹ 2.76 crores (previous year ₹ 3.81 crores). During the year, the company issued and allotted to ITC Ltd., 4,20,00,000 Equity Shares of ₹ 10/- each for cash at par, aggregating ₹ 42 crores and 8,00,000 Redeemable Preference Shares of ₹ 100/- each for cash at par, aggregating ₹ 8 crores. The proceeds from the Share issue are being utilised by the company for the construction of the destination luxury resort hotel.

### WelcomHotels Lanka (Private) Limited

WelcomHotels Lanka (Private) Limited ('WLPL'), a wholly-owned subsidiary of ITC Ltd., India, was incorporated in Sri Lanka with the objective of constructing, building and operating a mixed use development project ('Project') including a luxury hotel at Colombo. The Board of Investment of Sri Lanka provided about 5.86 acres of prime sea-facing land in Colombo to the company on a 99-year lease for this purpose.

Your Company's investment in WLPL stood at US$ 78.90 million as at 31st March, 2014.

All major consultants and architects have been appointed and WLPL is in the process of finalising the design and product configuration of the proposed development. The company is in the process of obtaining the requisite statutory permissions to commence construction activity at the site.

### Technico Pty Limited

The company continued to focus on upgradation and commercialisation of TECHNITUBER® Technology and customising its application across various geographies. Besides, the company is engaged in the marketing of TECHNITUBER® seeds to global customers from the production facilities of its subsidiaries in India and China. The Indian and Canadian subsidiaries are also engaged in field multiplication of seeds.

Technico's leadership in the production of early generation seed potatoes and strength in agronomy continue to be leveraged by your Company not only for sourcing chip stock for the 'Bingo! Yumitos' range of potato chips but also for servicing the seed potato requirements of the farmer base associated with your Company's Agri business.

For the year under review:

a) Technico Pty Limited, Australia registered a Turnover of Australian Dollar (A$) 2.23 million (previous year A$ 1.39 million) and a Net Profit of A$ 0.44 million (previous year A$ 0.14 million). Turnover and Profit continued to improve due to the strong demand for TECHNITUBER® seed from global customers.

b) Technico Agri Sciences Limited, India registered a Net Revenue of ₹ 73.24 crores (previous year ₹ 64.04 crores) and a Net Profit of ₹ 14.09 crores (previous year ₹ 17.48 crores including the favourable impact of recognition of deferred tax credit of ₹ 3.80 crores). The demand for the company's seeds remained robust driven by the strength of its brand, product quality, on-field performance and enduring trade and customer relationships. This enabled your Company to mitigate the increase in production costs during the year consequent to weather related crop loss and higher rottage.

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

### North East Nutrients Private Limited

During the year, your Company entered into a joint venture for setting up a food processing facility in Mangaldoi, Assam for manufacture of biscuits to cater to the fast-growing market in the north-eastern States. Under the terms of the Joint Venture Agreement, your Company acquired 76% stake in North East Nutrients Private Limited (NENPL), the joint venture company. Project work for setting up the manufacturing facility is currently in progress.

Your Company's investment in NENPL stood at ₹ 11.40 crores as at 31st March, 2014.

### 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 cigarette products in the US market.

The US Cigarette market continued on a declining trend with consumption degrowing by nearly 4% in 2013 as compared to the previous year. This degrowth is largely attributable to steep hikes in State Excise Taxes and the continued growth in the Other Tobacco Products (OTP) category, which remains largely unregulated by the US Food and Drug Administration (US FDA).

The continued push by major cigarette manufacturers into the value segment and growth in illicit sales driven by tax differentials between the various States in USA have limited the company's ability to adjust pricing and grow volumes.

The company recorded Net Sales of US$ 26.85 million (previous year US$ 26.37 million) and earned a Net Income of US$ 0.07 million (previous year US$ 1.20 million) during the financial year ended 31st March, 2014. Financials for the previous year ended 31st March, 2013 included US$ 1.76 million received as a result of a favourable arbitral award, memorialising a partial settlement between certain States and the Participating Manufacturers to the Master Settlement Agreement, on payments disputed in previous years. During the year, KMM paid a dividend of US$ 2.00 million to your Company.

Government regulations pertaining to the US tobacco sector continue to be in a state of evolution. The industry, including Other Tobacco Product categories like Electronic Vaping Devices, Pipe Tobaccos and Cigars, is expected to consolidate further as US FDA regulations evolve. The company will continuously adapt its strategies based on emerging regulations in the US tobacco market.

### ITC Global Holdings Pte. Limited

The Judicial Managers had been conducting the affairs of ITC Global Holdings Pte. Limited ('Global') since 8th November, 1996 under the authority of the High Court of Singapore. Pursuant to the application of the Judicial Managers, the Singapore Court on 30th November, 2007 ordered the winding up of Global, appointed a Liquidator and discharged the Judicial Managers.

As stated in the previous years' Reports, the Judicial Managers of Global had filed a Writ of Summons against your Company in November 2002 before the Singapore High Court claiming approximately US$ 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 service of the Writ 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. Your Company filed a fresh Motion in the Singapore High Court praying for setting aside the said Writ, 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 old 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. 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. Your Company filed an appeal against the Assistant Registrar's decision which appeal was dismissed by the Singapore High Court. Pursuant to legal advice, your Company has since filed its defence in the trial proceedings. During the year, the Liquidator filed a petition to amend the Writ against your Company to include an additional claim of US$ 1.03 million, which was dismissed by the Assistant Registrar. The Liquidator's appeal against the said dismissal is pending.

### Gold Flake Corporation Limited, Wills Corporation Limited, Greenacre Holdings Limited, ITC Investments & Holdings Limited, BFIL Finance Limited and MRR Trading & Investment Company Limited

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

## NOTES ON JOINT VENTURES

### ITC Essentra Limited (Formerly ITC Filtrona Limited)

ITC Filtrona Limited, a joint venture between Essentra Filter Products International Limited (formerly Filtrona Filter Products International Limited) and your Company's subsidiary Gold Flake Corporation Limited, has been renamed as 'ITC Essentra Limited' with effect from 20th November, 2013, as a consequence of Essentra Plc. having rebranded its global business with the name 'Essentra' replacing 'Filtrona'.

The company recorded Gross Revenue of ₹ 292.74 crores (₹ 229.40 crores in 2012) and Net Profit of ₹ 13.77 crores (₹ 13.05 crores in 2012) for the year ended 31st December, 2013. During the year under review, the filter rod industry continued to face raw material supply constraints and consequent increase in prices which was accentuated by the sharp weakening of the Indian Rupee. Continued focus on innovation has enabled the company sustain its technological edge over competition and further consolidate its leadership position in the industry.

The Board of Directors of the company has recommended a dividend of ₹ 9/- per ordinary share of ₹ 10/- each for the year ended 31st December, 2013.

The company continues to strive to be the quality benchmark in cigarette filters, offer superior filter solutions and consolidate its position as the most preferred supplier to its customers. The company is also leveraging integrated online quality control systems and together with its focus on product and market development is well positioned for enhancing the scale of operations in the forthcoming years.

### Maharaja Heritage Resorts Limited

Maharaja Heritage Resorts Limited, a joint venture of your Company with Jodhana Heritage Resorts Private Limited, currently operates 37 heritage properties across 13 States in India. The company's brand portfolio comprising 'Legend', 'WelcomHeritage Hotels' and 'Nature Resorts', provides uniquely differentiated propositions to guests in the cultural, heritage and adventure tourism segments respectively.

During the financial year ended 31st March, 2014, the company recorded a Total Revenue of ₹ 3.46 crores (previous year ₹ 3.86 crores) and Net Profit of ₹ 0.10 crores (previous year ₹ 0.44 crores).

The company's 'WelcomHeritage Hotels' brand has been awarded the 'Best Heritage Hotel Chain' by Today's Traveller Awards 2013.

### Espirit Hotels Private Limited

Espirit Hotels Private Limited (EHPL) is a joint venture between your Company and the Ambience Group, Hyderabad for developing a luxury hotel complex at Begumpet, Hyderabad. Under the terms of the Joint Venture Agreement, your Company acquired 26% equity stake in EHPL and will, inter alia, provide hotel operating services under an Operating Services Agreement, upon commissioning of the hotel.

The Ambience Group has expressed its unwillingness to make any further investments citing concerns about the viability of the project. In view of the difference of opinion with the Ambience Group in this regard, your Company is examining the way forward under the Joint Venture Agreement.

Your Company's investment in EHPL stood at ₹ 46.51 crores as at 31st March, 2014.

### Logix Developers Private Limited

Logix Developers Private Limited (LDPL) is a joint venture between your Company and Logix Estates Private Ltd., NOIDA for developing a luxury hotel-cum-service apartment complex at Sector 105 in NOIDA. Under the terms of the Joint Venture Agreement, your Company acquired 26% equity stake in LDPL and will, inter alia, provide hotel operating services under an Operating Services Agreement, upon commissioning of the hotel.

Logix Estates Private Ltd. has communicated to your Company that it would like to explore alternative project development plans, failing which, it proposes to exit the joint venture by selling its shareholding in LDPL to your Company. Your Company is exploring its options in this regard.

Your Company's investment in LDPL stood at ₹ 38.08 crores as at 31st March, 2014.

## 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 risk profiles including both strategic and operational risks. The process includes focused interactions with businesses on key elements of risk, prioritisation of the 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 that 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 including implementation of the action plans emerging out of internal audit findings.

– 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 operation.

– 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 are required to confirm periodically that all relevant risks have been identified, assessed, evaluated and that appropriate mitigation systems have been 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, systems and policies relating to Information Management are contemporary and continue to receive focused attention of the Internal Audit team which includes IT specialists.

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

Your Company's Internal Audit function is certified as complying with ISO 9001:2008 quality standards in its processes.

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

## HUMAN RESOURCE DEVELOPMENT

Your Company, in order to sustain its position amongst India's most valuable corporations, finds it compelling to be relentlessly customer-focused, competition-differentiated, performance-driven and future-capable. Your Company's Human Resource Development strategy seeks to fulfil this mandate through careful selection and rigorous implementation of a wide range of programmes and interventions.

The talent management programme in your Company strives to deliver its unique talent promise: 'Building

Winning Businesses. Building Business Leaders. Creating Value for India.' Your Company is guided by a holistic principle of enquiry, concerned with how the pattern of multiple elements of talent sourcing, work design, performance management and remuneration, individual growth and development is related to talent management, rather than how individual elements impact talent. Leadership development is considered integral to talent management. Your Company's 'strategy of organisation' serves as an excellent platform to build distributed business leadership. Another important dimension of building leadership is your Company's strategic learning and development agenda. This agenda is tiered to cater to building front-line managerial capability, middle-management functional leadership and organisational stewardship capability of senior management. This two-pronged strategy of leadership development has ensured that each of your Company's businesses is managed by a team of competent, passionate and inspiring leaders, capable of building an organisation anchored in a culture of learning, innovation, high performance and value creation.

Human Resource Development practices in your Company are guided by the principles of relevance, consistency and fairness based on the premise that what is done in Human Resource Development is as critical as how it is done. Taken together, these initiatives and processes are making a positive impact on talent attraction, retention and commitment.

The approach to progressive employee relations characterised by the core principles of trusteeship, fairness and equity, industrial democracy and partnership with enlightened trade unions, has stood the test of time in your Company. Your Company continues to set a fine record of industrial harmony, highlighted not merely by the absence of strife, but by the more positive outcome of effective performance in terms of high productivity and superior quality. A productive and innovative workplace has been and remains a key requirement for successful business performance in your Company's context. Hence, the push for embracing commitment-seeking Human Resource Development practices that seek and nurture employee participation and involvement in managing the shop floor. Further, the scope of employee welfare has been expanded to focus on the employee as well as on his family's well-being.

Your Company's belief in the mutuality of interests of key stakeholders, aligns all employees to a shared purpose and vision, thus providing it with the vital force to win in the market and enhance value creation.

Your Company firmly believes that Human Resource Development strategies and practices will continue to provide sustained competitive advantage and will continuously work towards nurturing and enhancing a competitively superior position in terms of human capital, people processes and employee behaviours. Your Company believes that it is the quality and dynamism of its human resource that will enable it make a significant contribution to creating enlarged societal value. The Directors of your Company deeply appreciate the spirit and commitment of its dedicated team of nearly 26,000 employees.

## SUSTAINABILITY – CONTRIBUTION TO THE 'TRIPLE BOTTOM LINE'

Your Company's Vision to subserve larger national priorities and create enduring societal value is the inspiration for its multi-dimensional sustainability initiatives that are today acknowledged as global exemplars. Your Company's sustainability strategy aims to significantly enhance national wealth through superior 'Triple Bottom Line' performance that builds and enriches the country's economic, environmental and societal capital. It is premised on the belief that the transformational capacity of business can be very effectively leveraged to create significant societal value through a spirit of innovation and enterprise. Your Company's 'Triple Bottom Line' contribution is manifest in the creation of innovative business models that not only generate new sources of competitive advantage for its businesses, but also in the process enables the replenishment of natural capital and augmentation of sustainable livelihoods.

It is a matter of immense satisfaction that your Company's sustainable business models and value chains have supported the creation of around 6 million sustainable livelihoods, largely amongst the disadvantaged sections of society. Your Company has sustained its position as the only company in the world of comparable dimensions to have achieved the global environmental distinctions of being carbon positive (for 9 consecutive years), water positive (for 12 years in a row) and solid waste recycling positive (for 7 years in succession).

Your Company's renewable energy portfolio enables 38% of its total energy requirements to be met from such clean resources - a remarkable achievement given the large manufacturing base of your Company. Further, all the premium luxury hotels and several factories of your Company are LEED® (Leadership in Energy & Environmental Design) certified at the highest Platinum/Gold level by the US Green Building Council/Indian Green Building Council.

Your Company's 10th Sustainability Report was published during the year detailing the progress made across all dimensions of the 'Triple Bottom Line' for the year 2012-13. The report, independently assured by Ernst & Young, conforms to the G3 Guidelines of the Global Reporting Initiative (GRI) and is validated at the highest 'A+' level reporting by GRI. The 11th Sustainability Report, covering the sustainability performance of your Company for the year 2013-14, is being prepared in accordance with the latest G4 guidelines of the GRI and will be available to you shortly.

In addition, the Business Responsibility Report (BRR), as mandated by the Securities & Exchange Board of India (SEBI), was brought out as an annexure to the Report and Accounts 2013, mapping the sustainability performance of your Company against the reporting framework suggested by SEBI. The BRR for the year under review is annexed to this Report and Accounts.

### Corporate Social Responsibility (CSR)

Your Company's overarching aspiration to create significant and sustainable societal value, inspired by a vision to subserve a larger national purpose and abide by the strong value of trusteeship, is manifest in ITC's CSR initiatives that embrace the most disadvantaged sections of society, especially in rural India, through economic empowerment based on grassroots capacity building. In the social sector, the two most important stakeholders for your Company are: (a) rural communities with whom ITC's agri-businesses have forged a long and enduring partnership through their crop development activities and a unique rural digital infrastructure network that enables dissemination of valuable information relating to weather conditions, agricultural best practices, ruling market prices etc.; these households operate in rain-fed conditions in some of the most moisture-stressed regions of the country; and (b) communities residing in close proximity of your Company's production units, whose full potential cannot be realised due to poor social infrastructure in the areas of education and health.

It is your Company's policy:

a. To direct ITC's CSR Programmes, inter alia, towards achieving one or more of the following - enhancing environmental and natural capital; supporting rural development; promoting education; promoting healthcare, providing sanitation and drinking water; creating livelihoods for people, especially those from disadvantaged sections of society, in rural and urban India; preserving and promoting traditional art and culture, and promoting sports;

b. To develop the required capability and self-reliance of beneficiaries at the grassroots, especially of women, in the belief that these are prerequisites for social and economic development;

c. To engage in affirmative action interventions such as skill building and vocational training, to enhance employability and generate livelihoods for persons from disadvantaged sections of society;

d. To pursue CSR Programmes primarily in areas that fall within the economic vicinity of the Company's operations to enable close supervision and ensure maximum development impact;

e. To carry out CSR Programmes in relevant local areas to fulfil commitments arising from requests by government / regulatory authorities and to earmark amounts of monies towards 'Enterprise Social Responsibility (ESR)' activities and to spend such monies through ESR / CSR Cells of such administrative bodies of the government and/or directly by way of developmental works in the local areas around which the Company operates;

f. To provide equal opportunities to beneficiaries of the Company's CSR Programmes as vendors or employees on merit;

g. To promote sustainability in partnership with industry associations, like the Confederation of Indian Industry (CII) through the CII-ITC Centre of Excellence for Sustainable Development, in order to have a multiplier impact.

In line with stakeholder needs, the thrust of your Company's CSR strategy and programmes has been focused on (a) Diversification of farming systems of rural communities, by broad-basing the farm and off-farm based livelihoods portfolio of the poor, through an integrated approach that includes the development of wastelands, watersheds, agriculture and animal husbandry, and (b) Economic empowerment of women and creation of social capital in the catchment habitations of manufacturing units, to enable beneficiaries acquire relevant and contemporary skills.

The footprints of your Company's CSR Programmes now extend to over 61 districts in the States of Andhra Pradesh, Assam, Bihar, Himachal Pradesh, Karnataka, Madhya Pradesh, Maharashtra, Odisha, Rajasthan, Tamil Nadu, Uttarakhand, Uttar Pradesh and West Bengal.

Your Company's pioneering initiative of wasteland development through the Social Forestry Programme currently covers 47,181 hectares in 2,436 villages, impacting over 52,600 poor households. This is part of the Social & Farm Forestry initiative that has cumulatively greened over 163,000 hectares and generated over 73 million person days of employment for rural households including poor tribal and marginal farmers. In line with its thrust to expand the coverage of agro-forestry, aimed at food, fodder and wood security, your Company has covered around 4,700 hectares cumulatively till date under various agro-forestry models, with the most common intercrops being cotton, pulses, vegetables and chilli. Plans are on the anvil to scale up the initiative substantially in the forthcoming years. In addition, your Company scaled up its biodiversity conservation initiatives with the total area under coverage increasing to 21 hectares in the districts of Khammam, East & West Godavari, Warangal and Visakhapatnam in Andhra Pradesh. These initiatives aim for in situ conservation of the local flora by protecting and improving production conditions in the selected plots.

The coverage of your Company's Soil and Moisture Conservation programme, designed to assist farmers in identified moisture-stressed districts, increased by an additional 32,662 hectares taking the total area covered under the watershed programme to 148,789 hectares. 833 water-bodies were built during the year taking the total number of such structures to 4,974. Your Company signed three new MOUs with the Government of Maharashtra (for Satara district) and the Government of Madhya Pradesh (for Sehore district) to promote sustainable livelihoods under the Integrated Watershed Management Programmes of the respective State Governments. With this, the total area to be brought under soil and moisture conservation through public-private-partnership projects has increased to over 158,000 hectares. In addition, evolving principles such as Water Stewardship are being actively explored towards measuring water use and its impact on identified watershed areas, and mitigation strategies for reducing such impact.

The year under review also saw a significant increase in the number of compost pits constructed (5,440), demonstration plots (14,695) and farmer field schools (284) in line with the planned expansion of sustainable agriculture practices on a large scale.

Livestock development remains a key focus area of your Company's CSR initiatives. The programme for genetic improvement of cattle through artificial insemination to produce high-yielding crossbred progenies is implemented through 261 Cattle Development Centres (CDCs) covering over 10,000 villages. These CDCs facilitated 2.55 lakhs artificial inseminations during the year, taking the total to 13.37 lakhs artificial inseminations performed till date.

Your Company's Corporate Social Responsibility (CSR) initiatives aimed at enhancing milk production, increasing dairy farm productivity and ensuring remunerative prices to farmers in multiple locations continued to make good progress. A unique cashless milk payment system that enables direct electronic payment into farmers' bank accounts was initiated in Munger (Bihar) during the year. Extension services were scaled up during the year leveraging a comprehensive herd management system enabling real-time tracking of animal health, productivity and genetic improvement and institutional arrangements for sale of milk were established on a sustainable basis.

The Women's Empowerment Programme covered over 20,000 women through 1,682 self-help groups (SHG) with total savings of ₹ 3.52 crores. Cumulatively, over 42,000 women were gainfully employed either through micro-enterprises or assisted with loans to pursue income generating activities. Agarbatti production received a fillip during the year with the introduction of additional pedal machines leading to enhanced productivity and higher income for rural women. Production of raw agarbattis increased significantly to 1,445 tonnes during the year and currently 1,368 pedal machines are operational in the states of Bihar, Uttar Pradesh, Tamil Nadu, Andhra Pradesh, Madhya Pradesh and Maharashtra. The agarbatti scenting unit located at Munger, owned and managed by women, dispatched a total of 319 million sticks with a turnover of ₹ 4.17 crores during the year, thus enabling women to capture greater value from this micro-enterprise.

The ITC Sangeet Research Academy (ITC SRA), which was established in 1977, is a true embodiment of your

Company's sustained commitment to a priceless national heritage. Over the last 36 years, ITC SRA has remained focused on its mission of preserving and promoting Indian Classical music. This prestigious institution is the world's first and only professionally managed modern Gurukul, blending modern day research methods with the purity of the age-old 'Guru-Shishya' tradition.

Your Company supports a number of initiatives for vocational training to equip youth with relevant skills to increase their employability in the market. To cater to the ever growing need for professionally trained human resources in the hospitality industry, your Company continues to work with the Welcomgroup Graduate School of Hotel Administration together with Dr. TMA Pai Foundation. This college continues to be ranked amongst the top educational institutions in the sector. Graduates of the college are today part of several leading hotel chains of the world.

Leveraging its core competencies in the FMCG sector, your Company supported an employability programme where students across various locations were trained in FMCG sales and distribution skills. Successful students were certified by the National Skill Development Corporation, securing jobs in the FMCG sector. It is proposed to scale up this programme not only towards creating employment opportunities for the youth but also towards supporting affirmative action. In addition, 2,443 youth were covered this year by the skills development initiative, of which 38% belonged to the SC/ST communities, thus contributing to your Company's affirmative action commitment.

Over 30,000 additional students were covered through Supplementary Learning Centres, Anganwadis and the 'Read India Plus' programme. Of these, 2,550 first generation learners were enrolled into formal schools for the first time in their lives. 1,011 government primary schools have so far been provided infrastructure support, which includes benches, classrooms, toilets, electrical fixtures, compound walls and gates.

In the area of sanitation, a total of 4,676 low-cost sanitary units have been constructed so far.

Out of 35,000 MT of garbage generated in Indian metropolitan cities every day, it is estimated that about 30% is recyclable, comprising paper, plastics, metal and glass. Recycling has emerged as the only viable solution to meet the challenge of disposing waste in an eco-friendly manner. Source segregation of recyclable materials has the potential to reduce the overall load on landfills by 10,500 MT per day in Indian metro cities. To inculcate the habit of source segregation and recycling among school children, housewives and general public as well as industries and business enterprises, your Company has initiated a programme christened 'WOW – Wealth Out of Waste'. While shouldering the responsibility of collecting dry waste, your Company takes up recycling of paper with plastics being given to the respective industries, taking us closer to the dream of a cleaner and greener tomorrow. The WOW movement today extends to Hyderabad, Chennai, Bengaluru, Cochin, Madurai, Coimbatore and Bhadrachalam, enjoying the support of over 3 million citizens, 500,000 school children, 350 corporates, more than 1,000 commercial establishments and around 200 industrial plants. Plans are underway to extend the programme to other cities and major towns as well. On the occasion of the 3rd anniversary of National Recycling Day, your Company with the support of Bruhat Bengaluru Mahanagara Palike (BBMP) launched a novel pilot programme in ten selected wards of Bengaluru, to create sustainable livelihoods for rag pickers and waste collectors by propagating source segregation and facilitating effective collection mechanisms to maximise recycling of dry waste.

Your Company continues to work with various government and private bodies under its 'Choupal Pradarshan Khet' initiative to promote new seed varieties, farm technologies and best practices among farmers with the objective of improving crop productivity (food grains, oilseeds, cereals etc.) while deepening relationship with the farming community. During the year, field demonstrations of new technology (seed varieties and production practices) for improved yield and quality in wheat, soya bean, barley and horticultural crops were conducted in more than 1,000 villages covering around 23,000 acres and more than 20,000 farmers with focus on sustainable farm practices like moisture conservation, promotion of bio-fertilisers, zero-tillage, prophylactic pest management etc.

The advances made towards contributing to India's sustainable development goals have been possible, in large measure, to your Company's partnerships with globally renowned NGOs like BAIF, Dhan, DB Tech, DSC, FES, MYRADA, Pratham, SEWA, SRIJAN and WOTR amongst others. 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 grassroots solutions to some of India's most challenging problems of development in the years to come.

### Environment, Health & Safety

Your Company's Environment, Health & Safety (EHS) strategies are directed towards achieving greenest and safest operations across all ITC Units by optimising natural resource usage and providing a safe and healthy workplace. Systemic and structured efforts continue to be made towards natural resource conservation by continuously improving resource-use efficiencies and increasing the replenishment of natural resources. Your Company's focus on inculcating a green and safe culture is supported through the adoption of EHS standards that incorporate best international codes and practices and verifying compliance through regular audits of all units.

Your Company has addressed the critical area of climate change adaptation and mitigation through several innovative and pioneering initiatives. These include continuous improvement in energy efficiency, enhanced usage of renewable energy, integration of green attributes into the built environment, better efficiency of material utilisation, maximising reuse and recycling of waste and increasing use of post-consumer waste as raw material.

Your Company has been participating in market-based mechanisms for mitigating the impact of climate change such as the Clean Development Mechanism (CDM) developed by United Nations Framework Convention on Climate Change (UNFCCC). Your Company is also well positioned to benefit from India specific schemes such as Perform, Achieve and Trade (PAT) and Renewable Energy Certificates (RECs) promoted by the Government of India.

In line with your Company's commitment to reduce dependence on energy from fossil fuels, substantial progress has been made in enhancing its renewable energy portfolio. Around 38% of your Company's total energy requirements is met from carbon neutral fuels such as biomass and wind. Your Company has developed a strategic approach and drawn out action plans for progressively moving towards meeting at least 50% of its total energy requirements from renewable sources in the near future.

With water scarcity increasingly becoming an area of serious concern, your Company continues to focus on water conservation and harvesting initiatives at its units to enhance its positive water footprint. These include adopting latest technologies to reduce water usage and increase reuse and recycle practices, best practices to achieve zero effluent discharges, rainwater harvesting etc. These initiatives, along with your Company's CSR interventions in the area of integrated watershed management, have resulted in the creation of rainwater harvesting potential that is over two times the net water consumption of your Company's operations.

It is a matter of great pride that your Company continues to feature in S&P BSE 'CARBONEX' and S&P BSE 'GREENEX' - the 2 indices instituted by the Bombay Stock Exchange for evaluating a company based on its carbon performance and several green operational parameters. Further, during the year your Company improved its 'disclosure score' while sustaining its position as a leading Indian corporate in the Climate Disclosure Leadership Index 2013 published under the aegis of the Carbon Disclosure Project. The greenhouse gas (GHG) inventory of your Company for the year 2013-14 complied with ISO 14064 standards, and was assured at the highest 'Reasonable Level' by KPMG – a significant achievement considering the scale and spread of your Company's operations.

Reaffirming your Company's commitment to the ethos of 'Responsible Luxury', all luxury Hotels of your Company are LEED® Platinum certified making it the 'greenest luxury hotel chain' in the world. All new constructions by your Company incorporate green/sustainability standards and existing buildings/factories are also progressively implementing validated green attributes.

The Social & Farm Forestry programme enables sequestration of nearly twice the amount of Carbon Dioxide emitted in the course of your Company's operations. Besides mitigating the impact of increasing levels of greenhouse gases in the atmosphere, these initiatives help greening degraded wasteland, prevent soil erosion, enhance organic matter content in soil and enable ground water recharge. The Social & Farm Forestry initiative of your Company has cumulatively greened over 163,000 hectares and generated over 73 million person days of employment for rural households including poor tribal and marginal farmers.

All units of your Company have made significant progress in achieving total recycling of waste generated in operations, thereby preventing waste reaching landfills with associated problems such as contamination of soil & ground water, increasing air pollution, health hazard etc. In the current year, your Company has achieved 99.9% waste recycling, with the Paperboards and Specialty Papers Business, which accounts for nearly 91% of the total waste generated in your Company, recycling 99.9% of the total waste generated by its operations. During the year, this Business also recycled around 110,000 tonnes of externally sourced post-consumer waste paper, thereby creating yet another positive environmental footprint.

Your Company's commitment to provide a safe and healthy workplace to all has been reaffirmed by several national and international awards and certifications received by various units. All units of your Company are supported with best-in-class infrastructure, state-of-the-art fire & life safety systems, competent human resources and management systems in line with international standards to ensure a safe place for employees, guests and visitors. Your Company's approach is to institutionalise safety as a value-led concept with focus on inculcating a sense of ownership at all levels and driving behavioural change leading to the creation of a safety culture. In line with this, several behavioural based safety culture initiatives have been rolled out at your Company's operating units resulting in noticeable improvement in perceptions about safety.

### Creating Thought Leadership in Sustainability

The 'CII-ITC Centre of Excellence for Sustainable Development', established by your Company in 2006 in collaboration with the Confederation of Indian Industry (CII), continues in its endeavours to promote sustainable business practices amongst Indian enterprises. The Centre expanded its gamut of activities to meet the core objectives of creating awareness, promoting thought leadership and building capacity amongst Indian enterprises in their quest for growth through sustainable business solutions. The Centre scaled up its capacity building coverage through a diverse range of training and counselling services, which covered over 2,700 participants during the year. The Centre has begun to work with 'Selco', a solar energy social enterprise, on the feasibility of developing a new evaluation methodology for social enterprises.

The Centre has also been the nodal point in India for facilitating comprehensive feedback on the Consultation Draft of the International Integrated Reporting Framework, from the perspective of developing countries. The release of the Draft Framework in India took place on 16th April, 2013 in New Delhi, followed by a roundtable in Mumbai on 18th April, 2013. The 'Business for Environment Global Summit' was co-hosted jointly by the Centre, Global Initiatives and Club of Rome in New Delhi on 15th & 16th April, 2013. The Summit, which was attended by 500 delegates, explored the role of emerging markets in leading the world's transition to a green economy.

The 8th Sustainability Summit continued its legacy of bringing together thought leaders to share the challenges, long-term strategies and best practices for sustainable and inclusive development. It featured senior politicians, bureaucrats, doyens of Indian industry and MNCs around the globe and was attended by over 300 participants. 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.

The 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 had also actively engaged with various stakeholders on the newly drafted rules and regulations under the Companies Act, 2013 relating to the CSR activities of a company. The CSR Study for the Ministry of Corporate Affairs and National Foundation for Corporate Governance (NFCG) was completed by the Centre and a report submitted to NFCG in June 2013. The Centre was awarded the European Union Switch Asia project to promote sustainable development of India's food and beverage retail sector. The four-year project began in January 2013.

## R&D, QUALITY AND PRODUCT DEVELOPMENT

Your Company continues to invest in a comprehensive Research & Development programme leveraging its world-class infrastructure, benchmarked processes, state-of-the-art technology and a business-focused R&D strategy.

ITC Life Sciences & Technology Centre (LSTC) has a mandate to develop unique sources of competitive advantage and build future readiness by harnessing contemporary advances in several relevant areas of science and technology, and blending the same with classical concepts of product development and leveraging cross-business synergies. This challenging task of driving science-led product innovation has been 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 and material science. Presently, the LSTC team has evolved with over 300 world-class scientists augmented by world-class experimental and measurement system capabilities. Several Centres of Excellence have evolved over the past few years in these areas in LSTC. In addition, a number of areas centred around these capabilities have secured global quality certifications of the highest order.

The Agrisciences R&D team has continued its efforts in evaluating and introducing several germplasm lines of identified crops including Casuarina and Eucalyptus to increase the genetic and trait diversities in these species, towards developing new varieties with higher yields, better quality and other relevant traits for your Company's businesses. LSTC continues to evaluate and build research collaborations with globally recognised centres of excellence to remain contemporary and fast-track its journey towards demonstrating multiple 'proofs of concept'. These collaborations, covering identified species, are designed in a manner that enables your Company in gaining fundamental insights into several technical aspects of plant breeding and genetics and the influence of agro-climatic conditions on the growth of these species. Such interventions will accelerate LSTC's efforts in creating future generations of these crops with greater genetic and trait diversities leading to significant benefits for your Company's businesses. Further, these outcomes have a strong potential to contribute towards augmenting the nation's ecological capital and biodiversity as well.

Recognising the unique construct of your Company in terms of its strong presence in agriculture, food and personal care businesses, a convergence of R&D capabilities is being leveraged to deliver future products aimed at nutrition, health and well-being. Advances in biosciences are creating a 'convergence' of these areas and it is likely that several future developments in these businesses and their products are heavily influenced by this trend. In this context, LSTC has created a Biosciences R&D team to design and develop several long-term research platforms evolving multi-generation product concepts and associated claims that are fully backed by scientific evidence for the Foods and Personal Care Businesses. In addition, LSTC has evolved a strategy in building a new value chain called, 'Nutrition' with a special focus on 'Indianness' and 'health and well-being' founded on the basis of Value Added Agriculture (VAA). The initial activities related to VAA have already commenced with a focus on soya.

LSTC has a clear vision and a road map for long-term R&D, to ensure an outstanding journey backed by a well-crafted Intellectual Property strategy. With scale, speed, science and sustainability considerations, LSTC is poised to deliver long-term competitive advantage and play a lead role in creating significant business impact for your Company.

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 leveraged its 'Lean' and 'Six Sigma' programmes to improve business process efficiencies. This will further enhance capability to create superior customer value through a service excellence framework. The Paperboards, Paper & Packaging Businesses continued to pursue 'Total Productive Maintenance' (TPM) programmes in all units, resulting in substantial cost savings and productivity improvements.

All manufacturing units of your Company have ISO quality certification. All manufacturing units of the Branded Packaged Foods Businesses (including contract manufacturing units) and hotels have stringent food safety and quality systems. All Company owned units/hotels and almost all contract manufacturing units of the Branded Packaged Foods Businesses are certified by an accredited 'third party' in accordance with 'Hazard Analysis Critical Control Points' (HACCP) methodology. 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, a demand for ₹ 27.58 crores made by Central Excise Department, Bengaluru, in respect of a period prior to March 1983, was set aside by the Commissioner (Appeals), Bengaluru, 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 had 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 Bengaluru, during the year 1995, filed criminal complaints in the Special Court for Economic Offences at Kanpur, Patna and Bengaluru, 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 Bengaluru 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.

## LUXURY TAX

As mentioned in the earlier years, the Honourable Supreme Court declared the various State luxury tax levies on cigarettes and other goods as unconstitutional. The Court further directed that if any party, after obtaining a stay order from the Court, had collected any amount towards luxury tax from its customers / consumers, such amounts should be paid to the respective State governments. Since your Company had not charged or collected any amounts towards luxury tax during the relevant period, there is no liability on your Company in this regard. However, the State of Andhra Pradesh filed a contempt petition in the Supreme Court claiming a sum of ₹ 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 was baseless, contrary to the facts and was 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. This factual position was also confirmed by independent Auditors / Chartered Accountants appointed by the Honourable Supreme Court who filed a report before the Court after verification of all relevant documents of your Company. By an order dated 6th February, 2014, the Honourable Supreme Court dismissed the contempt petition filed by the State against your Company. The Court permitted the State to issue a show cause notice to your Company furnishing all particulars available with it, and permitted your Company to contest such notice on all available grounds including that of maintainability of the notice and also permitted your Company to rely on the report issued by the independent Auditors / Chartered Accountants certifying that your Company had not charged or collected any amount towards luxury tax. The State has not issued any such show cause notice.

## 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. However, the US Trustee of EST Fibers Inc., USA, a Chitalia group entity, has made a small interim distribution of estate funds to your Company.

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, 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 Honourable Calcutta High Court while others are pending.

## TREASURY OPERATIONS

During the year, your Company's treasury operations continued to focus on deployment of temporary surplus liquidity and management of foreign exchange exposures within a well-defined risk management framework.

The year under review witnessed high volatility in interest rates with the Reserve Bank of India reducing Policy rates in the first quarter but increasing the same thereafter to arrest the steep depreciation of the Indian Rupee against the US Dollar in a short span of time. Policy rate increases continued through the year as inflationary pressures in the economy gained momentum.
As a result, interest rates during the year hardened across maturities. Your Company, by proactively managing portfolio duration, continued to improve its treasury performance.

All investment decisions in deployment of temporary surplus liquidity continued to be guided by the tenets of Safety, Liquidity and Return. The portfolio mix during the year was continuously rebalanced in line with a dynamic interest rate scenario leading to enhanced yields. Further, by the year end, in line with expectations of lower interest rates, the portfolio was rebalanced to increase the quantum of long-dated Fixed Maturity Plans and Bank Fixed Deposits. 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 depreciated sharply during the year touching all-time lows and was witness to bouts of high volatility. Measures taken by the RBI and the Ministry of Finance resulted in a marked improvement in the Current Account Deficit position and helped attracting foreign capital flows.

These measures helped pulling back and stabilising the Rupee in the latter half of the year. In view of high levels of volatility in the currency markets your Company maintained a relatively high hedge ratio during the year to protect business margins and reduce risks/costs.

As in earlier years, commensurate with the large size of the temporary surplus liquidity under management, treasury operations continue to be supported by appropriate control mechanisms, including an independent check of 100% of transactions, by your Company's Internal Audit department.

## TAXATION

As mentioned in the Report of the Directors of earlier years, your Company had obtained Stay Orders from the Honourable Calcutta High Court against re-opening of past assessments for the period 1st July, 1983 to 30th June, 1986. The Honourable Calcutta High Court has now held in your Company's favour by allowing the concerned Writ Petitions and the impugned notices & the proceedings thereunder have been quashed.

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

## PUBLIC DEPOSITS

Your Company's Public Deposit Scheme closed in the year 2000. As at 31st March, 2014, there were no deposits due for repayment except in respect of 2 deposit holders totalling ₹ 20,000 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

The Investor Service Centre (ISC) of your Company maintains its position as an exemplar in investor servicing.

During the year, SEBI granted your Company a Certificate of Permanent Registration to act as Category II Share Transfer Agent for providing in-house share registration and related services.

The ISO 9001:2008 Quality Management System Certification for investor servicing by ISC was renewed during the year by Messrs. Det Norske Veritas (DNV) for a further period of three years. ISC achieved the highest 'Level 5' rating for the fifth consecutive year – a testimony to the excellence achieved by ISC in providing quality investor services.

During the year, a Shareholder Satisfaction Survey was conducted by your Company. An overwhelming number of Members who participated in the Survey responded that they were extremely satisfied with the services provided by ISC.

## DIRECTORS

Mr. Hugo Geoffrey Powell [representing Tobacco Manufacturers (India) Limited, a subsidiary of British American Tobacco p.l.c., the ultimate holding company], Dr. Basudeb Sen, Mr. Balakrishnan Vijayaraghavan and Mr. Dinesh Kumar Mehrotra (representing the Life Insurance Corporation of India) ceased to be Non-Executive Directors of your Company with effect from 30th July, 2013, 27th August, 2013, 27th August, 2013 and 27th October, 2013, respectively, on completion of their terms. Mr. Shilabhadra Banerjee (representing the Specified Undertaking of the Unit Trust of India) resigned as Non-Executive Director of your Company with effect from 26th March, 2014. Your Directors would like to record their appreciation of the services rendered by Mr. Powell, Dr. Sen, Mr. Vijayaraghavan, Mr. Mehrotra and Mr. Banerjee.

Mr. Nakul Anand and Mr. Pradeep Vasant Dhobale, Wholetime Directors of your Company since 3rd January, 2011, completed their terms on 2nd January, 2014. Mr. Anand and Mr. Dhobale, on the recommendations of the erstwhile Nominations Committee and the Compensation Committee, were appointed by the Board of Directors of your Company (the 'Board') as Additional Directors with effect from 3rd January, 2014, and subject to the approval of the Members, also as Wholetime Directors, liable to retire by rotation, for a period of five years from 3rd January, 2014.

Mr. Robert Earl Lerwill [representing Tobacco Manufacturers (India) Limited, a subsidiary of British American Tobacco p.l.c., the ultimate holding company], on the recommendation of the erstwhile Nominations Committee, was appointed by the Board as Additional Non-Executive Director of your Company with effect from 18th November, 2013. Mr. Suryakant Balkrishna Mainak (representing the Life Insurance Corporation of India), on the recommendation of the Nomination & Compensation Committee, was appointed by the Board as Additional Non-Executive Director of your Company with effect from 25th April, 2014. Mr. Shilabhadra Banerjee, on the recommendation of the Nomination & Compensation Committee, was also appointed by the Board as Additional Non-Executive Director of your Company with effect from 24th July, 2014. By virtue of the provisions of Article 96 of the Articles of Association of your Company and Section 161 of the Companies Act, 2013, Messrs. Lerwill, Mainak and Banerjee will vacate office at the ensuing Annual General Meeting ('AGM') of your Company.

Your Board at its meeting held on 23rd May, 2014, on the recommendation of the Nomination & Compensation Committee, has recommended for the approval of the Members the appointment of Mr. Banerjee as an Independent Director in terms of Section 149 of the Companies Act, 2013, with effect from the date of the ensuing AGM of your Company. Your Board at the said meeting, on the recommendation of the Nomination & Compensation Committee also recommended for the approval of the Members the appointment of Mr. Lerwill and Mr. Mainak as Non-Executive Directors of the Company, liable to retire by rotation, with effect from the date of the ensuing AGM of your Company.

Notices under Section 160 of the Companies Act, 2013, have been received for the appointment of Messrs. Anand, Dhobale, Banerjee, Lerwill and Mainak who have filed their consents to act as Directors of the Company, if appointed.

Appropriate resolutions seeking your approval to the aforesaid appointments are appearing in the Notice convening the 103rd AGM of the Company.

In accordance with the provisions of Article 91 of the Articles of Association of the Company, Mr. Krishnamoorthy Vaidyanath will retire by rotation at the ensuing AGM of your Company and being eligible, offers himself for re-election. The Board has recommended his re-election.

Messrs. Anil Baijal, Serajul Haq Khan, Sunil Behari Mathur, Pillappakkam Bahukutumbi Ramanujam, Sahibzada Syed Habib-ur-Rehman and Ms. Meera Shankar, by virtue of being Independent Directors of your Company in terms of the provisions of the Companies Act, 2013, will not be liable to retire by rotation for the residual period of their respective terms of appointment approved by the Members of the Company.

## AUDITORS

### Statutory Auditors

Your Company's Auditors, Messrs. Deloitte Haskins & Sells, retire at the ensuing AGM and, being eligible, have offered themselves for re-appointment. The Board, on the recommendation of the Audit Committee, has recommended the re-appointment of Messrs. Deloitte Haskins & Sells for a period of five years in accordance with Section 139 of the Companies Act, 2013. Appropriate resolution seeking your approval to the said re-appointment is appearing in the Notice convening the 103rd AGM of the Company.

### Cost Auditors

Your Company had appointed (i) Messrs. Shome & Banerjee, Cost Accountants, Kolkata, for audit of cost records in respect of 'Paper' products other than the cost records maintained by the Paperboards and Specialty Papers Business. They were also appointed as the Cost Auditors in respect of Plastics & Polymers, Apparel, Edible Oil Seeds & Oil and Plantation products; (ii) Messrs. S. Mahadevan & Co., Cost Accountants, Chennai, as Cost Auditor for audit of cost records maintained in respect of Packaged Food Products; and (iii) Mr. P. Raju Iyer, Cost Accountant, Chennai, as Cost Auditor for audit of cost records maintained by the Paperboards and Specialty Papers business for the financial year ended 31st March, 2013. The Cost Audit Report was filed by the Cost Auditor on 20th September, 2013 within the due date of 27th September, 2013.

In respect of the financial year ended 31st March, 2014, your Company has appointed (i) Messrs. Shome & Banerjee, Cost Accountants, Kolkata, for audit of cost records in respect of 'Paper' products other than the cost records maintained by the Paperboards and Specialty Papers business. They are also appointed as the Cost Auditors in respect of Plastics & Polymers, Apparel, Edible Oil Seeds & Oil, Plantation products and Personal Care products including Soap; (ii) Messrs. S. Mahadevan & Co., Cost Accountants, Chennai, as Cost Auditor for audit of cost records maintained in respect of Packaged Food Products; and (iii) Mr. P. Raju Iyer, Cost Accountant, Chennai, as Cost Auditor for audit of cost records maintained by the Paperboards and Specialty Papers business and for all other additional applicable product groups. The due date for filing the Cost Audit Reports is 27th September, 2014.

## EMPLOYEE STOCK OPTION SCHEME

Under your Company's Employee Stock Option Schemes, 5,13,49,840 Ordinary Shares of ₹ 1/- each, were issued and allotted during the year upon exercise of 51,34,984 Options; such shares rank pari passu with the existing Ordinary Shares of your Company. Consequently, the Issued and Subscribed Share Capital of your Company as at 31st March, 2014 stands increased to ₹ 795,31,82,950/- divided into 795,31,82,950 Ordinary Shares of ₹ 1/- each.

Details of the Options granted up to 31st March, 2014 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 the Company's Employee Stock Option Schemes have been implemented in accordance with the SEBI Guidelines and the resolutions passed by the Members in this regard.

## DIRECTORS' RESPONSIBILITY STATEMENT

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

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

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

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

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

## CONSOLIDATED FINANCIAL STATEMENTS

In accordance with Accounting Standard 21 - Consolidated Financial Statements, ITC Group

Accounts form part of this Report & Accounts. These Group Accounts also incorporate the Accounting Standard 23 - Accounting for Investments in Associates in Consolidated Financial Statements and Accounting Standard 27 - Financial Reporting of Interests in Joint Ventures 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, 2014 stood at 25917.

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.

Your Company's Auditors, Messrs. Deloitte Haskins & Sells, have certified that the Company and its subsidiaries are in compliance with the requirements relating to downstream investment as laid down in the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) (Ninth Amendment) Regulations, 2013 and other applicable FEMA Regulations.

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 135 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, 2014. 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 is today, the leading FMCG marketer in India, a trailblazer in 'green hoteliering' and the second largest Hotel chain in India, the clear market leader in the Indian Paperboard and Packaging industry, the country's foremost Agri business player and a global exemplar in sustainable business practices. 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.

Your Company's Board and employees are inspired by the Vision of sustaining ITC's position as one of India's most admired and valuable companies, creating enduring value for all stakeholders, including the shareholders and the Indian society. 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 not only of its businesses but also the entire value chain of which they are 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.

On behalf of the Board

| | | |
|---|---|---|
| 23rd May, 2014 | Y. C. DEVESHWAR | *Chairman* |
| New Delhi | | |
| India | P. V. DHOBALE | *Director* |

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# Annexure to the Report of the Directors

Statement as at 31st March, 2014, 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, in respect of Options granted under the Company's Employee Stock Option Schemes

| Sl. No. | | ITC Employee Stock Option Scheme (Introduced in 2001) | ITC Employee Stock Option Scheme – 2006 | | ITC Employee Stock Option Scheme – 2010 | | Total | |
|---|---|---|---|---|---|---|---|---|
| | | Cumulative # (i) | During 2013-14 (ii) | Cumulative (iii) | During 2013-14 (iv) | Cumulative (v) | During 2013-14 (ii)+(iv) | Cumulative (i)+(iii)+(v) |
| (A) | (i) Number of Options granted : | 1,09,91,558 | 85,600 | 2,10,88,553 | 67,05,325 | 1,71,75,820 | 67,90,925 | 4,92,55,931 |
| | (ii) Number of Bonus Options allocated* : | 27,75,263 | – | 1,74,50,295 | – | – | – | 2,02,25,558 |
| | (iii) Total number of Options granted / allocated : | 1,37,66,821 | 85,600 | 3,85,38,848 | 67,05,325 | 1,71,75,820 | 67,90,925 | 6,94,81,489 |

* *Bonus Options were allocated in 2005-06 and 2010-11 in the same ratio as Bonus Shares issued in these years (i.e. 1 Bonus Share for every 2 Ordinary Shares & 1 Bonus Share for every 1 Ordinary Share, respectively).*
\# *Under the ITC Employee Stock Option Scheme (introduced in 2001), no Options were granted during 2013-14.*

| Sl. No. | | ITC Employee Stock Option Scheme (Introduced in 2001) | ITC Employee Stock Option Scheme – 2006 | ITC Employee Stock Option Scheme – 2010 | Total |
|---|---|---|---|---|---|
| (B) | Pricing Formula : | The Pricing Formula, as approved by the Shareholders of the Company, is 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 erstwhile Compensation Committee.<br>The Options were granted at the 'Market Price' as defined under the aforesaid Guidelines.<br>In the financial year 2013-14, Options were granted at ₹ 2,979.00 per Option. | | | |
| (C) | Total number of Options vested : | 1,23,54,404 | 3,59,29,463 | 43,44,383 | 5,26,28,250 |
| (D) | Total number of Options exercised : | 1,13,69,715 | 2,66,79,008 | 7,03,557 | 3,87,52,280 |
| (E) | Total number of Ordinary Shares of ₹ 1/- each arising as a result of exercise of Options : (Each Option represents 10 Ordinary Shares of ₹ 1/- each) | 11,36,97,150 | 26,67,90,080 | 70,35,570 | 38,75,22,800 |
| (F) | Total number of Options lapsed : | 14,96,076 | 23,13,911 | 3,37,875 | 41,47,862 |
| (G) | Variation of terms of Options : | None | | | |
| (H) | Money realised by exercise of Options : | ₹ 1,287.94 crores | ₹ 2,808.13 crores | ₹ 153.09 crores | ₹ 4,249.16 crores |
| (I) | Total number of Options in force : | 9,01,030 | 95,45,929 | 1,61,34,388 | 2,65,81,347 |

Enduring Value

| | | |
|---|---|---|
| (J) | Details of Options granted to<br>(i) Senior managerial personnel : | As provided below - |

| Sl. No. | Name | No. of Options granted during the financial year 2013-14 | Sl. No. | Name | No. of Options granted during the financial year 2013-14 |
|---|---|---|---|---|---|
| 1. | Y. C. Deveshwar | 2,70,000 | 28. | S. Ganesh Kumar | 25,300 |
| 2. | N. Anand | 1,35,000 | 29. | H. Malik | 30,600 |
| 3. | P. V. Dhobale | 1,35,000 | 30. | A. K. Mukerji | 40,000 |
| 4. | K. N. Grant | 1,35,000 | 31. | A. Nayak | 56,250 |
| 5. | A. Baijal^ | 10,000 | 32. | A. R. Noronha | 25,300 |
| 6. | S. H. Khan^ | 10,000 | 33. | R. Parasuram | 30,600 |
| 7. | S. B. Mathur^ | 10,000 | 34. | A. Pathak | 25,300 |
| 8. | P. B. Ramanujam^ | 10,000 | 35. | K. T. Prasad | 25,300 |
| 9. | S. S. H. Rehman^ | 10,000 | 36. | S. Puri | 40,000 |
| 10. | A. Ruys^ | 10,000 | 37. | R. Rai | 30,600 |
| 11. | M. Shankar^ | 10,000 | 38. | V. M. Rajasekharan | 30,600 |
| 12. | K. Vaidyanath^ | 10,000 | 39. | V. L. Rajesh | 25,300 |
| 13. | S. M. Ahmad | 23,000 | 40. | A. Rajput | 40,000 |
| 14. | N. Arif | 32,000 | 41. | T. V. Ramaswamy | 56,250 |
| 15. | A. Chand | 23,000 | 42. | S. Rangrass | 30,600 |
| 16. | S. Chandrasekhar | 23,000 | 43. | S. Janardhana Reddy | 23,000 |
| 17. | L. C. Chandrasekharan | 32,000 | 44. | C. V. Sarma | 17,600 |
| 18. | B. B. Chatterjee | 40,000 | 45. | R. Senguttuvan | 30,600 |
| 19. | C. Dar | 40,000 | 46. | A. Seth | 30,600 |
| 20. | C. S. Das | 30,600 | 47. | S. K. Singh | 40,000 |
| 21. | S. Dutta | 21,280 | 48. | S. Sivakumar | 56,250 |
| 22. | M. Ganesan | 30,600 | 49. | R. Sridhar | 23,000 |
| 23. | S. Guha | 25,300 | 50. | S. A. Sule | 21,280 |
| 24. | P. Gupta | 23,000 | 51. | B. Sumant | 30,600 |
| 25. | D. Haksar | 30,600 | 52. | K. S. Suresh | 40,000 |
| 26. | S. Kaul | 23,000 | 53. | R. Tandon | 56,250 |
| 27. | S. Kumar | 25,300 | 54. | S. Tyagi | 21,280 |

*^ Non-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'. : | ₹ 10.96 |

| | | | |
|---|---|---|---|
| (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 2013-14 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. | : | ₹ 406.24 crores |
| | (iii) The impact of this difference on profits and on Earnings Per Share of the Company. | : | The effect on the profits and earnings per share, had the fair value method been adopted, is presented below: |
| (M) | Weighted average exercise prices and weighted average fair values of Options granted whose exercise price either equals or exceeds or is less than the market price of the stock. | : | Weighted average exercise price per Option : ₹ 2,979.00<br>Weighted average fair value per Option : ₹ 770.36 |
| (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: |

| **Profit After Tax** | | **₹ in Crores** |
|---|---|---|
| As reported | | 8,785.21 |
| *Add:* Intrinsic Value Compensation Cost | | Nil |
| *Less:* Fair Value Compensation Cost (Black Scholes model) | | 406.24 |
| **Adjusted Profit** | | 8,378.97 |
| **Earnings Per Share** | **Basic (₹)** | **Diluted (₹)** |
| As reported | 11.09 | 10.96 |
| As adjusted | 10.58 | 10.45 |

| | | |
|---|---|---|
| (i) | Risk-free interest rate | 9.45% |
| (ii) | Expected life | 3.18 years |
| (iii) | Expected volatility | 23.55% |
| (iv) | Expected dividends | 1.94% |
| (v) | The price of the underlying shares in market at the time of Option grant *(One Option = 10 Ordinary Shares)* | ₹ 2,982.00 |

On behalf of the Board

Y. C. DEVESHWAR *Chairman*

New Delhi, 23rd May, 2014

P. V. DHOBALE *Director*

Enduring Value

# Annexure to the Report of the Directors
## For the Financial Year Ended 31st March, 2014

**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 | Experience (Years) | Date of Commencement of Employment | Previous Employment/ Position Held |
|---|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| **Employed throughout the year and in receipt of remuneration aggregating ₹ 60,00,000/- or more per annum.** | | | | | | | | |
| Ahmed Riaz | 58 | V.P. - Finance & MIS (LRBD) | 65,80,612 | 35,17,504 | B.Com., A.C.S., I.C.W.A. | 28 | 23.01.1986 | @ |
| Ambasta Ashesh (Dr.) | 55 | V.P. - Social Investments | 62,96,009 | 32,75,174 | M.A., M. Phil., Ph.D. (I.S.S., The Hague) | 27 | 01.04.2002 | Action Aid (India), Sr. Programme Analyst |
| Anand Nakul | 57 | Executive Director | 2,38,50,165 | 1,00,25,354 | B.A. (Hons.) | 34 | 01.12.1979 | @ |
| Arif Nazeeb | 52 | V.P. - Corporate Communications | 80,33,331 | 39,85,099 | B.A.(Hons.), M.A. | 28 | 01.09.2006 | Indian Chamber of Commerce, Secretary General |
| Bagri Giriraj | 44 | General Manager (FD) | 65,85,714 | 31,70,538 | B.Com.(Hons.), P.G.D.B.M. | 17 | 01.08.2012 | Castrol India Ltd., Cluster Marketing Director |
| Balakrishnan Subramanian | 47 | Head - Manufacturing Operations (PCPB) | 60,67,842 | 28,64,119 | B.E. | 27 | 01.09.1987 | Nil |
| Batra Rakesh | 50 | Services on Loan to Subsidiary Co. | 67,59,993 | 32,56,245 | B.Com.(Hons.), F.C.A. | 32 | 01.09.1986 | Nil |
| Bezbaroa Sanjib K | 51 | V.P. - Corporate EHS | 60,48,559 | 28,38,602 | B.E.(Elec.), P.G.D. (Environmental Mgmt., Univ. of London) | 31 | 02.06.1997 | Tata Consulting Engineers Ltd., Engineer |
| Bonnety Guillaume Francois Pierre | 45 | Executive Pastry Chef, ITC Grand Chola (HD) | 79,45,981 | 56,16,385 | Brevet Des College Cert. D.F.E.O. Dip. C.A.P. Pastry & C.A.P. Baker, Brevet de maitrise Baker | 17 | 24.01.2013 | Bellagio Complex, Dhaka, Corporate Pastry Chef |
| Bose Kamal Ranjan | 54 | General Manager - Institutional Sales (ITD) | 65,22,299 | 29,15,713 | B.A.(Hons.), P.G.D.M. | 34 | 16.01.1995 | # |
| Chand A | 49 | Divisional Chief Executive (LRBD) | 80,20,102 | 39,09,379 | B.A., M.B.A. | 27 | 01.06.1988 | Godfrey Philips (I) Ltd., Mktg. Exec. |
| Chandrasekhar S | 61 | Services on Loan to Subsidiary Co. | 67,90,347 | 33,51,877 | B.Sc., F.C.A. | 36 | 01.01.1978 | @ |
| Chamchoy Sasakamol | 51 | Spa Manager, ITC Grand Chola (HD) | 72,92,692 | 51,69,739 | Bachelor of Humanities, Ramkhamheang Univ. | 26 | 17.01.2011 | The Leela Kempinski, Udaipur, Spa Manager |
| Charraudeau Phillippe Herve | 57 | V.P. & General Manager - ITC Maratha (HD) | 1,78,39,615 | 1,18,51,850 | B.E.P.C., (Rehaul Rebout), C.A.P. | 32 | 09.05.2011 | Movenpick Hotels & Resorts, Saudi Arabia, G.M. |
| Chandrasekharan L C (Dr.) | 59 | Chief Scientist - Research & Technology Innovation (LS & T) | 1,01,92,732 | 65,28,065 | Ph.D. | 32 | 01.10.2005 | G.E. India, Director, Mfg. Engg. |
| Chatterjee B B | 61 | Executive V.P. & Company Secretary | 1,02,94,602 | 59,33,149 | B.Com. (Hons.), F.C.A., F.C.S., LL.B. | 36 | 16.05.1983 | Wacsgen, Deputy Mgr. |
| Dar C | 58 | Divisional Chief Executive (FD) | 1,15,99,688 | 51,84,609 | B.Tech. (Hons.), P.G.D.M. | 35 | 01.05.1981 | Tata Eng. & Loco. Co., Shift Supvr. |
| Das C S | 58 | SBU Chief Executive (ESPB) | 85,77,710 | 42,43,507 | B. Tech. (Hons.), M.B.A. | 34 | 15.04.1980 | Larsen & Toubro Ltd., Trainee |
| Deveshwar Y C | 67 | Executive Chairman | 12,87,69,377 | 5,87,97,509 | B.Tech. (Mech.) | 45 | 11.02.1994 | Air India Ltd., Chairman & M.D. |
| Dhobale P V | 58 | Executive Director | 2,32,80,150 | 99,53,199 | B.Tech. (Chem.) | 37 | 01.07.1977 | # |
| Dutta Saradindu | 54 | Head - Corporate Accounts | 70,38,265 | 34,27,537 | B.Com.(Hons.), M.Com., A.C.A. | 32 | 01.12.1982 | Organon (I) Ltd., Trainee, Accounts |
| Dutta Supratim | 47 | Executive V.P. - Corporate Finance | 66,95,615 | 35,95,173 | B.Com.(Hons.), C.W.A., A.C.A. | 23 | 01.11.1990 | Nil |
| Ganesan M | 51 | Executive V.P. - Finance, Procurement & IT (FD) | 76,74,898 | 38,26,629 | B.Com., A.C.A., A.C.S. | 28 | 01.03.1986 | Nil |
| Ganesh Kumar S | 46 | Executive V.P. - Staples & Snacks (FD) | 73,34,464 | 36,79,793 | B.E. | 22 | 14.12.1991 | Nil |
| Garg A K | 53 | Head - Finance & IT (PCPB) | 62,90,400 | 31,55,732 | B.A.(Hons.), M.B.A. (U.S.A.) | 31 | 01.08.1985 | International Travel House Ltd., Regional Financial Controller |
| Grant K N | 56 | Executive Director | 2,32,54,231 | 1,00,20,970 | B.A.(Hons.), M.B.A. | 35 | 02.06.1980 | DCM Ltd., Mgmt. Trainee |
| Guha Sumitro | 52 | Executive V.P. - Technical (ITD) | 73,40,049 | 37,05,962 | B.Tech. | 31 | 03.08.1992 | Tata Consulting Engineers, Sr. Asst. Engineer |
| Gullota Massimo | 50 | Italian Chef - ITC Grand Chola (HD) | 77,60,869 | 54,85,698 | M.N.E.F.S.M.P. (New York Academy), H.S. (Milan), C.S. (Lausanne) | 21 | 26.09.2011 | G Mgmt. , Bangkok, Thailand, Exec. Chef |
| Gupta P | 57 | Head - Corporate Taxation | 73,78,191 | 44,50,004 | B.Com. (Hons.), A.C.A., D.M.A.(I.C.A.) | 34 | 15.02.1989 | Hindustan Lever Ltd., Group Audit Manager |
| Haksar Dipak | 56 | Chief Operating Officer (HD) | 68,74,852 | 33,32,316 | B.Com. (Hons.) | 36 | 01.09.1977 | @ |
| Janardhana Reddy S | 65 | Executive V.P. - Corporate Affairs | 86,33,897 | 42,02,466 | B.Sc. (Ag.) | 41 | 27.12.1972 | Nil |
| Kaul Sandeep | 47 | SBU Chief Executive (PCPB) | 78,46,258 | 39,08,984 | B.E., P.G.D.M. | 24 | 01.06.1990 | Nil |
| Kavarana D | 58 | Chief Executive Officer - WelcomHeritage (HD) | 60,24,728 | 23,14,317 | B.Com., Dip. in Hotel Mgmt. & Nutrition | 36 | 01.08.1978 | Nil |
| Madan Sachidanand | 55 | Services on Loan to Subsidiary Co. | 93,30,659 | 43,27,461 | B.Com.(Hons.), A.C.A., A.C.S. | 32 | 01.04.2012 | Russell Credit Ltd. - On Deputation to Technico Agri Sciences Ltd. as Director |
| Malik Hemant | 47 | Chief Operating Officer (ITD) | 90,16,636 | 44,38,547 | B.A., M.B.A. | 25 | 01.06.1989 | Nil |
| Mehta Sartaj Singh | 44 | Creative Head (LRBD) | 70,02,636 | 43,87,115 | B.A., P.G.D. Knitwear Design Tech. | 16 | 01.09.2012 | Robemall Apparel Pvt. Ltd., V.P., Design & Sourcing |
| Mukerji Arup K | 55 | Corporate Financial Controller | 1,03,48,647 | 49,51,801 | B.Com. (Hons.), A.C.A. | 32 | 01.11.1982 | Gupta Chowdhury & Ghose, Jr. Officer |

**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 |
| Mukherjee Nilanjan | 46 | Head - Marketing (PCPB) | 62,37,859 | 30,54,811 | B.E., M.B.A. | 18 | 30.09.2010 | I. Morph Consulting, Partner |
| Mukherjee P | 52 | Head - Finance & MIS (ABD-ILTD) | 69,14,201 | 31,44,938 | B.Com.(Hons.), A.C.S. , A.C.A. | 27 | 01.09.1987 | M/s Khanna & Annadhana, Ch. Accountants, Asst. Audit |
| Mukherjee Soumitra (Dr.) | 48 | Chief Scientist (ITD) | 64,43,424 | 40,71,224 | B.Sc., M.Sc., Ph.D., Post Doctorate | 19 | 16.03.1998 | ICI India Ltd., Manager Q.A. |
| Nariyoshi Nakamura | 62 | Master Chef, WelcomHotel, New Delhi (HD) | 73,04,607 | 51,80,102 | Graduate from Nihon University | 22 | 24.05.2010 | The Metropolitan Hotel Nikko, Exec. Chef |
| Nayak Anand | 62 | Executive V.P. & Head - Corporate Human Resources | 1,65,05,713 | 84,16,549 | B.Sc., P.G.D.I.R. | 41 | 14.05.1973 | Nil |
| Noronha A R | 60 | Executive V.P. - Projects (HD) | 69,76,523 | 32,66,803 | B.E. (Elec.) | 36 | 01.05.1978 | @ |
| Parasuram R | 55 | Executive V.P. - Internal Audit | 77,43,926 | 41,86,733 | B.Com. (Hons.)., A.C.A. | 32 | 15.09.1982 | Nil |
| Pathak Arun | 54 | Executive V.P. - Finance (HD) | 80,83,212 | 35,18,230 | B.Com. (Hons.), F.C.A. | 31 | 20.06.1983 | Nil |
| Prasad K T | 58 | Executive V. P. -Corporate Human Resources | 70,06,191 | 34,22,935 | B.A., M.A. (P.M., I.R & L.W.) | 33 | 01.06.1999 | ITC Agro Tech., G.M. - H.R. |
| Puri Sanjiv | 51 | Divisional Chief Executive (ITD) | 1,19,72,896 | 52,64,931 | B.Tech. | 29 | 20.01.1986 | TELCO Ltd., Trainee |
| Qing Liang Xiao | 52 | Executive Chinese Chef, ITC Maratha (HD) | 71,17,628 | 50,49,099 | Cooking School of Beijing Tourism Administration | 33 | 01.04.2009 | The Great Wall Sheraton Hotel, Exec. Chinese Chef |
| Rai R K | 51 | Chief Operating Officer (ABD) | 69,06,692 | 37,22,659 | B.A. (Mktg.), P.G.D. in Export & Imports | 31 | 16.08.1990 | Britannia Industries Ltd., Commercial Officer |
| Rajasekharan V M | 55 | SBU Chief Executive - Agarbatti & Matches | 73,04,086 | 35,18,163 | B.E. | 34 | 01.06.1986 | M.M. Rubber Co. Ltd., Sales Mgr. |
| Rajesh V L | 46 | Executive V.P. - Marketing (FD) | 76,74,747 | 38,52,836 | B.Sc., M.B.A. | 24 | 01.06.1990 | Nil |
| Rajput A K | 58 | Senior V.P. - Corporate Affairs | 1,18,92,910 | 52,80,293 | B.Com., M.B.A. | 38 | 10.04.1976 | Nil |
| Ramamurthi Suresh (Dr.) | 49 | Chief Technologist (PCPB) | 65,23,417 | 32,47,955 | B.Sc., M.Sc.(Tech.), Ph.D. | 18 | 27.08.2007 | Hindustan Unilever Ltd., Sr. Scientist |
| Ramaswamy T V | 62 | Group Head - LS & T, Projects & EHS | 1,56,17,076 | 68,71,468 | B.E., M.M.S. | 40 | 01.07.1974 | Nil |
| Rangrass S | 53 | Divisional Chief Executive (ABD-ILTD) | 87,08,422 | 47,12,807 | B.Tech. | 32 | 01.07.1982 | Nil |
| Rastogi Mukul | 46 | V.P. - Human Resources (LRBD) | 62,27,099 | 30,20,945 | B.A., M.A. | 25 | 01.06.1989 | Nil |
| Roy A | 48 | V.P. - Commercial Operations (ITD) | 67,05,464 | 32,15,729 | B.Com.(Hons.), A.C.A. | 25 | 04.06.1990 | E.L.M.(I) Ltd., Accounts Officer |
| Roy S | 56 | V.P. - Marketing & Retail (LRBD) | 60,60,663 | 29,53,464 | B.A.(Hons.), M.B.A. | 20 | 15.10.1996 | Shaw Wallace & Co. Ltd., G M Marketing |
| Sen Gupta P | 56 | General Manager - Internal Audit | 62,56,565 | 31,12,142 | B.Sc.(Hons.) , A.C.A. | 32 | 01.07.1987 | Indian Aluminium Co. Ltd., Finance Officer |
| Senguttuvan R | 52 | SBU Chief Executive (PPB) | 82,21,403 | 40,96,835 | B.E., P.G.D.M. | 28 | 27.05.1991 | Asian Paints, Purchase Exec. |
| Seth Anil | 56 | Executive V.P. - Finance & MIS (ITD) | 88,98,307 | 39,41,371 | B.A. (Hons.), A.C.A., P.G.D.B.M. | 31 | 01.11.1982 | Nil |
| Shanmuga Sundaram A | 47 | Associate General Counsel | 62,97,456 | 33,01,831 | B.L., M.L. | 25 | 20.10.1997 | Maxworth Home Ltd., Manager, Legal |
| Singh Jagdish | 48 | Head - Corporate Treasury | 61,63,474 | 37,23,264 | B.Com.(Hons.), A.C.A | 26 | 01.04.1990 | Lovelock & Lewes, Jr. Asst. |
| Singh S K | 57 | Divisional Chief Executive (PSPD) | 83,76,293 | 42,79,343 | B.Tech. (Chem.) | 37 | 21.06.1977 | # |
| Singhi Rajendra Kumar | 49 | Senior Deputy Company Secretary | 60,17,468 | 33,37,819 | B.Com.(Hons.), LL.B., F.C.S. | 29 | 01.08.1988 | Chemcrown (I )Ltd., Asst Secretary |
| Sivakumar S | 53 | Divisional Chief Executive (ABD) | 1,57,61,053 | 82,33,586 | B.Sc., P.G. Dip. in Rural Mgmt. | 31 | 18.09.1989 | Gujarat Co-op Oil Seeds Growers' Fed. Ltd., Mgr. Mktg. |
| Sridhar R | 55 | Executive V.P. - Human Resources (ITD) | 75,89,717 | 37,44,852 | B.Sc., P.G. Dip. in P.M. & I.R., Fellow in Mgmt. | 32 | 01.06.1982 | Nil |
| Sule Sandeep Arun | 48 | Executive V.P. - Sales Operations & Development (ITD) | 72,01,528 | 35,16,788 | B.Com., M.I.B. | 24 | 16.07.1990 | Bayer India Ltd., Management Trainee |
| Sumant B | 50 | Services on Loan to Subsidiary Co. | 89,49,302 | 42,59,633 | B.E. | 28 | 20.01.1986 | Nil |
| Suresh K S | 53 | General Counsel | 1,17,99,450 | 51,87,095 | B.A., B.L., P.G.D.P.M., I.R. & L.W. | 31 | 01.09.1990 | Chambers of Sri C.S. Venkata Subramaniam, Advocate |
| Suresh Karanam Narasimha | 61 | Chief Technologist - Blending & Cigarette Design (ITD) | 66,17,356 | 33,07,338 | B.Sc., M.Sc. | 39 | 01.03.1977 | Flavours & Essences Pvt. Ltd., Flavour Technologist |
| Tandon R | 60 | Chief Financial Officer | 1,55,61,568 | 69,24,777 | B.Sc., F.C.A. | 36 | 01.01.1987 | Triveni Handlooms Ltd., Finance Mgr. & Secy. |
| Tyagi Shailender | 55 | Executive V.P. - Head of Supply Chain & Logistics (ITD) | 73,28,132 | 36,69,637 | M.Sc , P.G.D. | 32 | 01.02.1982 | Nil |
| Venkateswaran Krishnan (Dr.) | 54 | Chief Scientist - Product Development (PCPB) | 73,53,176 | 46,84,522 | B.Sc., M.Sc., Ph.D. | 29 | 05.05.2005 | Hindustan Lever Ltd., Head - Skin, Cleansing & Care |
| Wali Paritosh | 44 | Head - Biscuits & Confectionery Categories (FD) | 60,40,716 | 30,39,461 | B.Tech., Sloan Fellowship | 23 | 16.08.1991 | Nil |
| Wanchoo Siddharth | 53 | General Manager - Marketing (ITD) | 70,93,452 | 35,44,866 | B.Com. (Hons.) | 33 | 19.10.1981 | Nil |
| Zachariah Abraham | 55 | V.P. & Head - Central Projects Organisation | 61,41,583 | 29,71,354 | B.Sc.(Engg.) | 31 | 01.09.2012 | Lanco Infratech Ltd., Senior Vice President |

Enduring Value

**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 for a part of the year and in receipt of remuneration aggregating ₹ 5,00,000/- or more per month.** | | | | | | | | |
| Ahmad Syed Mahmood | 60 | Services on Loan to Tobacco Institute of India | 39,13,833 | 9,18,464 | B.A., M.A. | 37 | 06.03.1980 | ANZ Grindlays Bank Plc., Mgmt. Trainee |
| Ahuja Arun Kumar | 24 | Asst. Manager - Technical (PPB) | 3,31,532 | 2,96,817 | B.Tech. (Elec.) | 3 | 01.06.2011 | Nil |
| Amrutavakkula Srivani | 24 | Asst. - Technical (FD) | 91,162 | 90,686 | B.Tech. (Food Tech.) | 3 | 14.06.2010 | Kayan Foods, Quality Hygienist |
| Audichya Rahul | 28 | Manufacturing Executive (FD) | 37,963 | 37,670 | B.Tech. | 4 | 29.04.2010 | Nil |
| Bajaj Shivani | 32 | Research Associate (LS & T) | 58,042 | 57,890 | B.Sc., M.Sc. | 9 | 11.09.2006 | Defence Food Research Lab., Trainee |
| Basu S | 62 | Head - Internal Audit | 1,25,25,546 | 64,67,402 | A.C.A., F.C.A. (Eng. & Wales) | 44 | 02.01.1978 | Whinney Murray & Co., London, Audit Asst. |
| Beri Dipak Kumar | 38 | Manager - Finance (PPB) | 3,88,287 | 3,59,676 | A.C.A. | 11 | 01.12.2003 | Metcon Water Systems Pvt. Ltd., Exec. Finance |
| Bhasin P K | 60 | Manager - Projects, North (ITD) | 10,33,580 | 8,82,792 | B.Sc. | 33 | 01.01.1982 | Jagjit Industries Ltd., Material Inspector |
| Bhatnagar M S | 62 | V.P. - Growth & Development (HD) | 55,04,626 | 29,74,031 | B.Sc., M.B.A. | 39 | 01.01.1975 | @ |
| Bhatt Ananth S | 38 | Area Manager (ITD) | 96,369 | 95,622 | B.Tech., M.B.A. | 12 | 20.10.2008 | Australian Trade Commission, Business Dev. Manager |
| Bhatt Saurabh | 32 | Area Executive (ITD) | 53,110 | 52,910 | B.Sc., P.G.D.B.M. | 9 | 07.06.2007 | Ducks, Sales Officer |
| Bhosle Ninad | 60 | V.P. - Operations (ABD) | 43,63,432 | 26,63,453 | B.Sc., M.Sc. | 37 | 15.02.1989 | Voltas International Ltd., Export Manager |
| Chatterji Salil Kumar | 60 | General Manager - Marketing (PSPD) | 16,52,002 | 11,09,310 | B.Sc. | 36 | 14.12.1993 | Modi Xerox Ltd., Manager Tech. & Quality Assurance |
| Chaturvedi Abhay | 28 | Operations Executive - Soap (PCPB) | 1,25,227 | 1,20,541 | B.Tech., H.B.T.I. | 4 | 15.07.2009 | Nil |
| Chowdhury Amiya Kanta | 60 | Head - Operations (ESPB) | 48,94,022 | 27,18,080 | B.E. (Elec.) | 36 | 15.10.1982 | The Gramophone Co. (I) Ltd., Maintenance & Dev. Engr. |
| Das Jayanta Kr | 60 | Asst. Manager (PSPD) | 1,70,642 | 1,68,175 | B.Sc. | 36 | 10.06.1977 | Nil |
| Deo Rujuta Kiran | 26 | Sales Executive (HD) | 1,98,425 | 1,60,921 | Bachelors Degree in Hotel Mgmt. | 3 | 14.07.2010 | Nil |
| Dhayah B | 24 | Officer (PSPD) | 73,667 | 64,799 | B.Tech. (Elec. Engg.) | 2 | 11.07.2011 | Nil |
| Dutt Ashok | 60 | V.P. - Learning & Development | 60,12,071 | 35,68,076 | B.A., Dip. in M.G., M.L.S. | 38 | 01.10.1985 | EIEI Hotels Ltd., Personnel Mgr. |
| Elchetty Prasad S | 49 | Asst. Manager - Projects (HD) | 2,38,642 | 2,27,142 | Dip. in Sanitary Inspection | 23 | 01.06.1999 | @ |
| Gopinath Sushil | 32 | Area Retail Manager (LRBD) | 1,62,768 | 1,55,251 | B.Sc., M.B.A. | 7 | 04.06.2007 | 24/7 Customer Pvt. Ltd., E-Relationship Officer |
| Govindarajan S | 60 | Purchase Manager (HD) | 18,36,789 | 11,14,124 | B.A. | 37 | 01.10.1976 | @ |
| Gupta Sandeep | 32 | Area Executive (ITD) | 78,216 | 77,872 | B.Com., M.B.A. | 13 | 02.04.2007 | HDFC Bank, Sr. Sales Officer |
| Jain Arun | 60 | Manager - Projects (HD) | 8,31,324 | 6,93,824 | Dip. in Refrigeration & AC | 37 | 01.04.1977 | @ |
| Kedia Nishant | 24 | Asst. Manager - Processing (ABD-ILTD) | 1,98,033 | 1,87,565 | B.Tech (Mech.) | 3 | 14.06.2010 | Nil |
| Keshava S | 55 | General Manager - Marketing (ITD) | 37,71,298 | 25,92,583 | B.Com.(Hons.) | 34 | 03.10.1989 | S.A.S. Chemical Pvt. Ltd., Director. |
| Khaitan Nidhi | 30 | Sr. Customer Associate (LRBD) | 23,699 | 20,588 | B.Sc. | 5 | 24.12.2007 | Nil |
| Kikuta Fumio | 51 | Japanese Chef, ITC Gardenia (HD) | 59,73,963 | 42,74,388 | Craftsmanship in Japanese Cuisine, Bahrain | 31 | 11.07.2013 | SATO Japanese Restaurant, Bahrain, Japanese Chef |
| Kumar K Nanda | 60 | Divisional Head - Human Resources (PSPD) | 37,32,862 | 23,74,176 | B.Sc., M.B.A. | 37 | 30.08.1991 | Hindustan Zinc Ltd., Personnel Manager |
| Kumaraswamy H S | 64 | Executive V.P. & Head - Central Projects Organisation | 30,34,375 | 18,20,366 | B.E., M.E. | 41 | 01.10.1982 | Dunlop India Ltd., Sr. Project Engr. |
| Lall U | 63 | Services on Loan to Tobacco Institute of India | 98,20,030 | 56,69,889 | B.A. (Hons.) | 42 | 03.01.1972 | PARCO, Officer on Spl. Duty |
| Madaiah K C | 42 | Sr. Officer - Coffee Curing (ABD) | 1,07,770 | 1,00,913 | B.A., Dip. in Hotel Mgmt. | 20 | 02.07.2007 | Ecom Gill Coffee Trading Pvt. Ltd., Asst. Manager (Works) |
| Mane Kiran Narayan | 28 | Area Executive (ITD) | 52,424 | 52,119 | B.Com., M.B.A. | 5 | 03.11.2008 | ICICI Prudential Life Insurance, Associate Health Assurance |
| Mani Shyamala | 23 | Officer (PSPD) | 72,370 | 63,850 | B.Tech. (Chem.) | 2 | 11.07.2011 | Nil |
| Mathur Pranav | 25 | Asst. Manager - Technical (PPB) | 2,80,563 | 2,56,588 | B.Tech. | 3 | 14.06.2010 | Nil |

Enduring Value

**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 | Experience (Years) | Date of Commencement of Employment | Previous Employment/ Position Held |
|---|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| Mishra Ratan | 37 | Asst. Manager - Manufacturing (FD) | 1,74,198 | 1,68,078 | B.Tech. (Mech.) | 12 | 10.04.2006 | Hindalco Industries Ltd., Engr. |
| Mohan Wagh Aditya | 27 | Asst. Manager - Finance (FD) | 57,116 | 56,855 | B.Com., A.C.A | 2 | 01.04.2013 | BSR & Co., Sr. Auditor |
| Murthy K S V V S | 60 | Executive - Leaf Operations (ABD-ILTD) | 3,77,180 | 3,67,300 | B.Com. | 23 | 10.09.1990 | Nil |
| Naidu S V Prasanth | 28 | Asst. Product Manager (PCPB) | 1,84,595 | 1,77,580 | B.Tech. | 5 | 09.07.2008 | Nil |
| Patel Amrish Kumar | 40 | Asst. Manager - Extension Services (ITD) | 38,646 | 37,806 | B.V.Sc., M.V.Sc. | 9 | 03.08.2012 | Bios Greentech, Manager - Diary Farming |
| Philip Nithin Shaji | 28 | Store Manager (LRBD) | 1,26,395 | 1,19,636 | B.E., M.B.A. | 4 | 14.04.2010 | Nil |
| Prasad Karnati Ram | 27 | Officer - Finance (ABD-ILTD) | 37,697 | 35,933 | B.Com. | 1 | 15.05.2013 | Skanda Prefab Industries (P). Ltd., Tax Head |
| Rajavolu Sujeeth | 27 | Asst. - Logistics (ITD) | 89,458 | 86,663 | B.Tech., M.B.A. | 2 | 01.06.2011 | Nil |
| Ramalingam Revathi | 30 | Asst. - Human Resources (PPB) | 2,29,204 | 2,16,850 | B.E., M.B.A. | 7 | 14.06.2010 | HT Media Ltd., Copy Editor |
| Rao B V S Joga | 60 | Divisional Head - Commercial (PSPD) | 32,38,637 | 20,96,465 | B.Com., M.Com., I.P.M.M., Export Mgmt. | 14 | 24.05.1999 | Bridgeway Trading, Dubai, General Manager |
| Reddy K A S | 60 | Head - Industry Affairs (ABD - ILTD) | 54,12,881 | 32,39,550 | B.Sc. (AG) | 35 | 14.06.1979 | Nil |
| Sebastian K J | 60 | Unit Financial Controller (HD) | 20,55,622 | 12,55,701 | B.Com., A.C.A., P.G. Dip. in Financial Mgmt. | 27 | 01.10.1986 | @ |
| Sebastian Michelle | 31 | Asst. Manager, P.R. - ITC Gardenia (HD) | 87,343 | 83,872 | Bachelors Degree in Hotel Mgmt. | 8 | 01.12.2009 | ISTA, P.R. Manager |
| Sehrawat Sonia | 29 | Asst. Manager, Finance - ITC Maurya (HD) | 1,21,997 | 1,15,634 | B.Com. | 3 | 08.04.2010 | Nil |
| Sharma Sandeep | 32 | Area Executive (ITD) | 71,124 | 70,884 | B.Sc., P.G.D.M. | 8 | 01.06.2007 | Hindustan Coca Cola Beverages Pvt. Ltd., Market Dev. Officer |
| Singh Manjeet | 42 | Div. Manager - Logistics (LRBD) | 2,68,136 | 2,45,403 | B.Com., Dip. in Material Mgmt. | 19 | 20.10.2011 | Future Group, Dy. G.M. |
| Sivadas N M | 62 | Head - Product Development (PPB) | 20,27,116 | 14,50,354 | D.E.E. | 40 | 10.04.1981 | Suri & Nayar Ltd., Engr. |
| Suenwong Shing | 54 | Master Chef - Chinese Cuisine, WelcomHotel, New Delhi (HD) | 24,81,363 | 18,76,858 | Sheung Sha Chuen Secondary School, China | 35 | 01.12.2013 | The Leela Kempinski, Mumbai, Master Chef - Chinese |
| Suganya M V | 25 | Officer (PSPD) | 73,426 | 63,850 | B.Tech. | 2 | 11.07.2011 | Nil |
| Tamta Sanjay Kumar | 35 | Asst. Manager - Manufacturing (FD) | 1,03,817 | 1,02,903 | B.Tech. (Food Tech.) | 14 | 18.11.2004 | M B Foods (P) Ltd., Prod. Shift Incharge |
| Upadhyay Vineet | 42 | Channel Manager (ABD) | 1,31,886 | 1,29,277 | B.Sc., B.Tech., M.B.A. | 14 | 01.08.2005 | Escorts Finance Ltd., Regional Manager |
| Varri Kiran Kumar | 36 | Manager, Six Sigma - ITC Gardenia (HD) | 2,72,906 | 2,51,359 | B.Com., M.B.A. | 9 | 29.10.2007 | HSBC, Asst. Manager, Service Excellence |
| Waghole Vikas Namdev | 32 | Tech. Associate (FD) | 64,822 | 64,536 | Mech. Degree | 14 | 10.10.2006 | Pepsico India Holdings Pvt. Ltd., Operator |

**Abbreviations denote :**

| | | | | | |
|---|---|---|---|---|---|
| ITD | : | India Tobacco Division | HD | : | Hotels Division |
| PSPD | : | Paperboards & Specialty Papers Division | ESPB | : | Education & Stationery Products Business |
| LRBD | : | Lifestyle Retailing Business Division | PCPB | : | Personal Care Products Business |
| ABD | : | Agri Business Division | PPB | : | Printing & Packaging Business |
| ABD - ILTD | : | Agri Business, India Leaf Tobacco Division | LS&T | : | Life Sciences & Technology |
| FD | : | Foods 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 under the Companies Act, 1956.
2. Net remuneration comprises cash income less : a) income tax, surcharge (as applicable) & 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*

New Delhi, 23rd May, 2014

P. V. DHOBALE *Director*

Annexure to the **Report of the Directors**

## CONSERVATION OF ENERGY :

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

**a) Energy conservation measures taken :**

All business units continued their efforts to improve energy usage efficiencies and increase the share of renewable energy in meeting their requirements. Various key performance indicators like specific energy consumption (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. Improvement in energy usage efficiencies of lighting systems by changing over to more efficient lighting solutions such as Light Emitting Diodes and increased usage of daylight harvesting systems.

II. Replacement of existing motors, pumps, fans, air compressors, boilers and air conditioning systems with more energy efficient equipment.

III. Optimisation of lighting and air conditioning systems by installation of automated controls and sensors.

IV. Installation of automatic condenser tube cleaning system for air conditioning plant.

V. Implementation of waste heat recovery from processes and reduction of process steam losses.

VI. Improvement of ventilation system on paper machines to enhance the paper drying process.

VII. Installation of variable frequency drives to optimise energy consumption.

VIII. Enhancement of boiler efficiency by optimising the air-fuel ratio.

IX. Utilisation of biomass gasification technology to generate Producer Gas.

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

I. Installation of additional wind and solar photovoltaic based power plants and biomass residue based boilers across businesses.

II. Installation of small hydro power plants to meet electrical energy demands of the Company's facilities in northern and eastern India.

III. Recovery of waste heat from chillers and air compressors for hot water generation.

IV. Replacement of existing lighting systems with higher efficiency systems and maximising natural day lighting.

V. Replacement of existing motors, pumps and air conditioning systems with more energy efficient sets.

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

The continued focus on energy conservation measures across the Company has resulted in savings in energy cost. Apart from offsetting the inflationary trend in fuel / electricity, these measures along with the usage of renewable energy have also contributed in reducing the Company's greenhouse gas emissions. Significant reductions in specific energy consumption have been recorded across businesses with commensurate reduction in costs. As a result of these improvements, overall energy consumption (thermal and electrical) recorded only a marginal increase, despite a significant scale-up in the manufacturing / processing operations during the year.

d) **Total energy consumption and energy consumption per unit of production as per Form A of the Annexure in respect of industries specified in the Schedule thereto:**

## A. POWER AND FUEL CONSUMPTION

**Relating to Paperboards & Paper**

| | **For the year ended 31st March 2014** | For the year ended 31st March 2013 |
|---|---|---|
| **1. Electricity** | | |
| a) Purchased Units (KWH in Lakhs) | **217** | 311 |
| Total Amount (₹ in Lakhs) | **2133** | 2614 |
| Rate / Unit (₹) | **9.82** | 8.40 |
| b) Own Generation | | |
| i) Through Diesel Generator | | |
| Units (KWH in Lakhs) | **5** | 11 |
| Units / Litre of Diesel Oil | **3.27** | 3.36 |
| Cost / Unit (₹) | **18.97** | 14.36 |
| ii) Through Wind Turbine / Generator | | |
| Units (KWH in Lakhs) | **169** | 163 |
| Cost / Unit (₹) | **0.64** | 0.75 |
| iii) a) Through Steam Turbine / Generator-Coal / Agri waste Fired Boilers Units (KWH in Lakhs) | **4307** | 3752 |
| Units / Kg. of Coal / Agri waste | **1.34** | 1.35 |
| Cost / Unit (₹) | **4.10** | 3.64 |
| b) Through Steam Turbine / Generator - Soda Recovery Boilers | | |
| Units (KWH in Lakhs) | **2575** | 2596 |
| Units / Kg. of Black Liquor Solids | **0.45** | 0.44 |
| Cost / Unit (₹) | Nil - Internally generated[1] | |

[1] since it is a by-product and no significant value is attributable to it.

| | **For the year ended 31st March, 2014** | | | For the year ended 31st March, 2013 | | |
|---|---|---|---|---|---|---|
| | **Process** | **Power** | **Total** | Process | Power | Total |
| **2. Coal and Lignite** | | | | | | |
| Quantity (MT) | **488840** | **321220** | **810060** | 435365 | 277383 | 712748 |
| Total Cost (₹ in Lakhs) | | | **25218** | | | 18439 |
| Average Rate (₹ per MT) | | | **3113** | | | 2587 |
| **3. Furnace Oil** | | | | | | |
| Quantity (KL) | | | **6261** | | | 6567 |
| Total Amount (₹ in Lakhs) | | | **2799** | | | 2917 |
| Average Rate (₹ per KL) | | | **44709** | | | 44427 |
| **4. Others / Internal Generation** | | | | | | |
| i) De Oiled Rice Bran, Saw Dust etc. | | | | | | |
| Quantity (MT) | | | **71858** | | | 111612 |
| Total (₹ in Lakhs) | | | **789** | | | 1601 |
| Rate / MT (₹) | | | **1098** | | | 1435 |
| ii) LP Gas | | | | | | |
| Quantity (MT) | | | **1348** | | | 1277 |
| Total (₹ in Lakhs) | | | **954** | | | 845 |
| Rate / MT (₹) | | | **70733** | | | 66159 |
| iii) Black Liquor Solids | | | | | | |
| Quantity (MT) | | | **572306** | | | 591091 |
| Total (₹ in Lakhs) | Nil - Internally generated[2] | | | | | |
| Rate / MT (₹) | | | | | | |

[2] since it is a by-product and no significant value is attributable to it

## B. CONSUMPTION PER UNIT OF PRODUCTION

| | **For the year ended 31st March, 2014** | For the year ended 31st March, 2013 |
|---|---|---|
| Production - Paperboard / Paper (MT) | **647796** | 601253 |
| Electricity (KWH) | **1106** | 1116 |
| Coal and Lignite (MT) | **0.75** | 0.72 |
| Black Liquor Solids (MT) | **0.88** | 0.98 |
| Furnace Oil (Litre) | **12** | 14 |
| Others - De Oiled Rice Bran / Saw Dust / LP Gas etc. (MT) | **0.10** | 0.16 |

## 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. Site specific, high yielding and disease resistant clones of Eucalyptus, Casuarina and Subabul.

   II. Hybrid development using molecular biology tools and conventional breeding techniques for Eucalyptus with a focus on higher pulp and wood yield.

   III. Development of sustainable agro-forestry models for wood & food security.

   IV. Development of deodorants and men's grooming products.

   V. Development of innovative washes and surface treatments for fabric used for casual wear.

   VI. Packaging boards with modified properties for new contour pack formats have been developed.

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

   I. Improved consumer benefits and development of products with unique value propositions.

II. Differentiated products and enhanced market standing.

III. Improved farm productivity in Eucalyptus, Casuarina and Tobacco leading to higher returns to farmers, enhanced green cover and soil conservation.

**3. Future Plan of Action :**

I. To build a significant portfolio of 'Intellectual Property' across all businesses.

II. Product development with nutritional benefits in the Branded Packaged Foods businesses.

III. Development of high yielding variety of Eucalyptus and Casuarina.

IV. Crop development activities towards sourcing high quality wheat closer to processing centres.

| | **For the year ended 31st March, 2014** |
|---|---|
| **4. Expenditure on R&D :** | **(₹ in Lakhs)** |
| i) Capital | 2,010.44 |
| ii) Recurring | 11,717.91 |
| **Total** | **13,728.35** |
| **Total R&D Expenditure as a % of** | |
| – Gross Revenue | 0.29% |
| – Net Revenue | 0.42% |

**Technology Absorption, Adoption and Innovation**

I. Induction of state-of-the-art paperboard manufacturing line and pulp capacity expansion in Andhra Pradesh.

II. Induction of contemporary technology and continuous improvement projects across businesses towards enhancing flexibility & productivity in manufacture and improving efficiencies by reducing waste, process variability & cycle times.

III. Induction of state-of-the-art technology for the development of unique and differentiated offers.

**Benefits Derived**

I. Enhanced market standing.

II. Improved productivity and operational effectiveness.

III. Reduction in manufacturing cost.

**On behalf of the Board**

**New Delhi** | **Y. C. DEVESHWAR** *Chairman*
**23rd May, 2014** | **P. V. DHOBALE** *Director*