

REPORT OF THE DIRECTORS & Management Discussion and Analysis

For the Financial Year Ended 31st March, 2005

Your Directors submit their Report for the financial year ended 31st March, 2005.

SOCIO-ECONOMIC ENVIRONMENT

Advance estimates of the Central Statistical Organisation (CSO) for 2004-05 indicate a real GDP growth of 6.9% - well above the expectations at the commencement of the year. This growth has been achieved despite a less than normal monsoon, decline in the kharif crop output, unprecedented rise in global oil prices and fears of degrowth in outsourced IT services from India. The decline in kharif foodgrains consequent to the shortfall in south west monsoon is expected to be offset by improved rabi output, which is estimated to exceed kharif production for the first time since 1950-51. The potentially inflationary impact of rising world crude prices has so far been ameliorated through a combination of agile fiscal policy and prudent monetary management. Growth in the Indian IT sector has continued unabated, with software export earnings touching USD 30 billion.

The smart upturn of 8.8% in the manufacturing sector led the growth momentum during the year, resulting in a growth of 8.1% in the Index of Industrial Production till February 2005. The double-digit growth of consumer non-durables is a healthy sign of recovery in this segment. Manufactured goods also led the nation's export effort for the year. In an environment where global GDP growth of 5% for 2004 was the highest in the last three decades, India's overall exports grew by 24% to touch USD 80 billion.

The above-the-trend GDP growth in the last two successive years were founded on a welcome growth in investments, led by the private sector. The investment rate of 26.3% of GDP in 2003-04 was the highest since the mid-nineties. This trend continued during 2004-05, with incremental credit-deposit ratio exceeding 100% for the first time in 15 years. A buoyant investment sentiment coupled with prospects of a normal monsoon in 2005 has led to widespread expectations of GDP growth in the region of 7% for 2005-06.

Economic growth does not necessarily translate to sustainable development. The manner of industrial growth so far has taken an immeasurable toll on finite natural resources, and yet left vast numbers of people in poverty. On the one hand, depletion of biodiversity resources - soil, water, air - has increased the fragility of ecological balance manifold. On the other, the declining rate of growth of agriculture has led to the present situation where nearly 60% of India's population shares barely 22% of its output. Over 75% of those below the poverty line reside in rural India. Poverty manifests itself not only as material impoverishment but also in the lack of real opportunities for the poor to emerge from such a condition. Such fundamental deprivations of freedom suffered by individuals who are casualties of high morbidity and illiteracy affects their economic performance as well as their ability to seize opportunities offered by expanding markets. Growth agendas can become sustainable only if they include in their wake strategies to enhance ecological and social capital, thereby translating to development.

The promise of a 'New Deal' for rural India, the Government's 'Bharat Nirman' proposal involving an investment outlay of over Rs.174000 crores during the next 4 years (2005-2009) towards creating rural infrastructure, and the emphasis on effective delivery mechanisms represent key policy focus areas towards securing sustainable development. Such policy initiatives need to be supplemented with reforms in the agricultural sector, founded upon effective connectivity to markets, improved productivity of resources and enhanced value addition. A comprehensive growth strategy for rural India, including the agri sector, is necessary to address the serious issues relating to sustainability and to enlarge effective domestic demand by including those living at the margin in the process of market development.

Implementation of reforms has assumed even greater urgency in view of the escalating challenges to competitiveness of the various sectors of the economy. The recent slew of Free Trade Agreements at bilateral and regional levels and the consequent calibrated demolition of cross border tariffs would translate to opportunities only if the economy and its constituents can make a successful transition towards global competitiveness. Increasing domestic competitiveness, together with enlarged aggregate domestic demand, can then become the foundation for much higher levels of investment and employment. India's current investment rate of



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26.3% is well below that of China, which sustains a level of 45% of GDP. For India's oft quoted advantage of demographics to become a driver of growth, about 10 million new jobs need to be created annually over the next decade. Public-private partnerships in investment are critical to realise such outcomes, particularly in generating off-farm employment and absorbing displacement of labour inherent in agricultural reform.

In line with this rationale, your Company is engaged in enlarging its contribution across three dimensions – economic, ecological and social – through investments in all its businesses and across the value chain, where feasible. Your Company believes that it has earned the right to make an enlarged contribution on the basis of its ability to create superior economic value. Highlights of your Company's progress are discussed in the sections that follow.

COMPANY PERFORMANCE

Your Company posted yet another year of stellar performance, testifying to the robustness of the corporate strategy of pursuing multiple drivers of growth. The performance is even more heartening when viewed in the context of the challenging environment of the cigarette industry, impact of the absorption of incubation costs of the new business initiatives and the gestation cost of new investments in the hotels and paperboards businesses.

Gross Turnover for the year 2004-05 grew by 13% to Rs.13350 crores, driven by good topline growth across all businesses of your Company. Pretax profit (before exceptional items) increased by 15.3% to Rs.2673 crores, while Post-tax profit (before exceptional items) at Rs.1837 crores registered a growth of 15.3%. The financials for the year include Rs.692 crores representing net income from exceptional items, most of which relate to past litigation. Inclusive of these exceptional items net of tax, your Company's Profit after Tax stands at Rs.2191 crores.

Earnings Per Share (before exceptional items) for the year stands at Rs.73.74. Cash flows from Operations were Rs.2635 crores during the year. The financial results for the year ended 31st March,

2005 include those of the erstwhile ITC Hotels Limited and Ansal Hotels Limited which were amalgamated with your Company with effect from 1st April, 2004.

In order to strike a balance between the need to sustain strategic investments for a secure future and the annual expectation of shareholders for growing income, your Directors are pleased to recommend a dividend of Rs.31.00 per share (previous year Rs.20.00 per share) for the year ended 31st March, 2005. The cash outflow in this regard will be Rs.881.70 crores (previous year Rs.560.10 crores) including Dividend Tax of Rs.108.45 crores (previous year Rs.64.74 crores). Your Board further recommends a transfer to General Reserve of Rs.1100 crores (previous year Rs.1000 crores). Consequently, your Board recommends leaving an unappropriated balance in the Profit and Loss Account of Rs.611.41 crores (previous year Rs.387.84 crores).

Proposed dividend for the financial year ended 31st March, 2005 includes dividend payable on the new Ordinary Shares of the Company, issued and allotted to the shareholders of erstwhile ITC Hotels Limited and Ansal Hotels Limited, which rank pari passu in all respects with the Ordinary Shares of the Company, in accordance with the Scheme of Amalgamation of ITC Hotels Limited and Ansal Hotels Limited with the Company.

PROFITS, DIVIDENDS AND RETENTION

(Rs. in crores) 2005 2004 a) Profit Before Taxation and 2319.06 **Exceptional Items** 2673.07 b) Income Tax 836.00 726.21 c) Profit After Taxation Before **Exceptional Items** 1837.07 1592.85 d) Exceptional Items (net of tax) 354.33 e) Profit After Tax 2191.40 1592.85 f) Add: Profit brought forward from previous year 343.88 387.84 g) Transfer from Hotel Foreign **Exchange Earnings Reserve** 15.14 4.00 Less: Transfer to Hotel Foreign Exchange 5.00 **Earnings Reserve** h) Surplus available for Appropriation 2594.38 1935.73



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		(F	Rs. in crores)
		2005	2004
i)	Transfer to Debenture Redemption Reserve	_	_
	Less: Transfer from Debenture Redemption Reserve	_	10.94
j)	Transfer to General Reserve	1100.00	1000.00
k)	Proposed dividend for the financial year at the rate of Rs.31.00 per Ordinary Share (previous year Rs.20.00 per Ordinary Share)	773.25	495.36
	Income Tax on proposed dividend (2005 – including Rs.1.27 crores for earlier years)	109.72	63.47
l)	Retained profit carried forward to the following year	611.41 2594.38	387.84 1935.73

FOREIGN EXCHANGE EARNINGS

Your Company continues to view foreign exchange earnings as a key priority. All businesses in the ITC portfolio are mandated to engage with overseas markets in a bid to test competitiveness and seek growth opportunities. The ITC Group's contribution to foreign exchange earnings over the last decade amounted to nearly USD 2.2 billion, of which agri exports accounted for about USD 1.6 billion. Earnings from agri exports is an indicator of your Company's contribution to the rural economy through effectively linking small farmers with international markets.

During the financial year 2004-05, your Company, its subsidiaries and the ITC Welcomgroup hotel chain together earned Rs.1378 crores in foreign exchange. Direct foreign exchange earned by your Company amounted to Rs.1269 crores. Your Company's expenditure in foreign currency amounted to Rs.655 crores, comprising purchase of raw materials, spares and other expenses at Rs. 531 crores, and import of capital goods at Rs.124 crores.

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

BUSINESS SEGMENTS

A. FAST MOVING CONSUMER GOODS (FMCG)

FMCG - Cigarettes

The year under review witnessed a number of landmark developments in the Indian cigarette industry. On the regulatory front, severe restrictions were imposed on the industry with respect to advertising, sale and consumption of tobacco products with the implementation of the "Cigarettes and Other Tobacco Products (Prohibition of Advertisement and Regulation of Trade and Commerce, Production, Supply and Distribution) Act, 2003" (COTPA) with effect from 1st May, 2004. Further, the Framework Convention on Tobacco Control, of which India is one of the first signatories, was ratified on 27th February, 2005. The industry and Company's stand on the unconstitutionality of State Luxury taxes on cigarettes was upheld by the Supreme Court. However, cigarettes continue to be subjected to a multiplicity of taxes at the Central and State levels. The industry believes that the levy of State-level taxes on cigarettes tantamounts to an infringement of the agreement between the Centre and the States reached at the National Development Council meeting of 1955 which substituted Statelevel taxes on cigarettes with Additional Excise Duty, levied by the Centre, but distributed amongst the States. In the context of Value Added Tax (VAT), the amendment to the Additional Excise Duty Act by the Finance Act 2003 cognises for the deleterious effect of cascading taxes by prescribing 'transaction value' as the basis for a 4% levy. In view of the highly taxed nature of the product, and the sensitivity to varying tax rates, ideally a single point levy on cigarettes through the existing specific duty mechanism of Central Excise would best serve the key canons of taxation, namely buoyancy, simplicity, certainty and efficiency in collection. Moreover, the intended objective behind VAT of creating a large unified market would only be realised if VAT replaces all other State-level taxes.

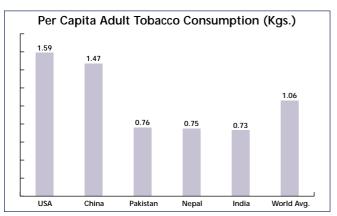
At the central level, after a relatively stable regime of taxation since February 2001, excise duty rates were hiked in March 2005, by as much as 10% for

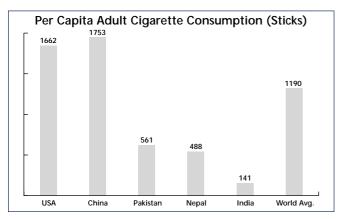


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cigarettes and most other tobacco products. However, the increase in excise rates, sought to be justified on health grounds, excludes bidis, which outsell cigarettes more than 8 times. In view of the already existing high excise burden on cigarettes, this sharp increase in rates will significantly disadvantage cigarettes vis-à-vis other tobacco products. The operating landscape for cigarettes, therefore, continues to be one of ever increasing challenges.

Despite contributing more than 85% of tax revenues from tobacco, today cigarettes constitute only 14% of total tobacco consumed in the country, down from about 21% in 1981-82. In fact, as per latest available published data, while it is evident that on a per capita basis, annual adult tobacco consumption in India is close to 70% of the world average, cigarette consumption ranks amongst the lowest in the world.





Source: Based on Cigarette consumption data (2003) from "World Cigarettes", ERC Group Plc.

In India the taxes on cigarettes are about 30 times higher than those on other tobacco products, on a per kg basis. This heavy burden of tax has led to a progressive shift of tobacco consumption from

the cigarette form to other forms resulting in loss of opportunity to maximise revenue from the tobacco sector. As cigarettes become more and more expensive due to increasing levels of taxation, tobacco consumption migrates to cheaper and revenue inefficient tobacco products. Since the incidence of tax on other tobacco products like bidis, gutkas and chewing tobacco is much lower than that on cigarettes and since these are manufactured pre-dominantly in the unorganised sector, revenue collection from these products remains comparatively insignificant due to leakages and inefficiencies. Fiscal legislation, over time, has thus led to the unintended consequence of suboptimisation of economic value per unit of tobacco consumption.

It is evident that high rates of taxes on cigarettes have neither imparted buoyancy to tax revenues from the tobacco sector nor curtailed overall consumption. It is now a well established principle that sustainable tax buoyancy can be realised only by expanding the tax base. This principle stands reinforced by the experience of China where, despite their per capita incomes being twice as much as India's, rates of taxes on cigarettes are much lower than those in India, resulting in the tobacco sector generating as much as 10 times the revenue collection from the Indian cigarette industry. Unfortunately, in India the tax policy has been focussed hitherto on the minority segment of tobacco, i.e., cigarettes. The inevitable consequence of this has been sub-optimal revenue generation from tobacco. The need of the hour, therefore, is to reduce the difference in effective tax rates across classes of tobacco products in a manner that maximises contribution to the Exchequer from the tobacco sector even in a shrinking basket of overall tobacco consumption. This need for expansion of the tax base has now also been acknowledged by the Central Government: "Extend the ambit of tobacco product taxation, to hitherto untaxed or lightly taxed products such as beedis and chewed tobacco products, and bring their taxes on par with those on cigarettes...." Source: "Report on Tobacco Control in India", Ministry of Health - 2004.

Widening the tax base through moderation in rates can arrest the shift in tobacco consumption to revenue inefficient products.



ANNEXURE TO THE REPORT OF THE DIRECTORS

Statement as at 31st March, 2005, pursuant to Clause 12 (Disclosure in the Directors' Report) of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999.

a) Options granted : 28,22,512 Options granted till 31st March, 2005, as follows:

• 8,57,208 Options granted in 2004, for the financial year 2003-2004, at an Exercise Price of Rs.880.45 per Option.

• 9,99,115 Options granted in 2003, for the financial year 2002-03, at an Exercise Price of Rs.679.90 per Option.

• 6,27,070 Options granted in 2002, for the financial year 2001-02, at an Exercise Price of Rs.617.90 per Option.

3,39,119 Options granted in 2001, for the financial year 2000-01, at an Exercise Price of Rs.779.95 per Option.

b) Pricing formula : Options have been granted at the closing market price of the

Ordinary Shares of the Company on the National Stock Exchange of India Limited, on the date of grant of Options.

c) Options vested : 9,48,902

d) Options exercised : 7,09,443

e) Total number of Ordinary Shares arising : 7,09,443 as a result of exercise of Options

f) Options lapsed : 1,74,459

g) Variation of terms of Options : Nil

h) Money realised by exercise of Options : Rs.48.53 crores

i) Total number of Options in force : 19,38,610

j) i. Details of Options granted to senior : As provided below

managerial personnel

	Name		f Options granted the financial year
1.	Y. C. Deveshwar	Chairman & Wholetime Director	40,888
2.	S. S. H. Rehman	Wholetime Director	19,421
3.	A. Singh	Wholetime Director	19,421
4.	K. Vaidyanath	Wholetime Director	15,333
5.	Y. P. Gupta	Non-Executive Director	6,814
6.	Ajeet Prasad	Non-Executive Director	6,814
7.	P. B. Ramanujam	Non-Executive Director	6,814
8.	B. Sen	Non-Executive Director	6,814
9.	Ram S. Tarneja	Non-Executive Director	6,814
10.	B. Vijayaraghavan	Non-Executive Director	6,814
11.	K. S. Vaidyanathan	Senior Vice President, Corporate Affairs	8,177
12.	A. Nayak	Executive Vice President, Corporate Human Resources	8,177
13.	R. Srinivasan	Divisional Chief Executive, PPD	8,177
14.	R. G. Jacob	Group Head, Research & Development	8,177
15.	B. B. Chatterjee	Executive Vice President & Company Secretary	4,906
16.	S. K. Ahluwalia	Vice President – Quality: Product Development & Housekeeping, I	HD 2,839
17.	S. M. Ahmad	Executive Vice President – Marketing, ITD	4,419
18.	M. R. Ahmed	Divisional Financial Controller, HD	2,839
19.	N. Anand	Divisional Chief Executive, HD	3,975
20.	L. N. Balaji	General Manager, Corporate Strategic Planning	3,032
21.	P. Banerjea	Executive Vice President – Finance & MIS, ITD	3,953
22.	S. Basu	Executive Vice President, Internal Audit	3,850
23.	M. Bhatnagar	Vice President – Finance, HD	2,839



	Name	Designation	No. of Options granted during the financial year
24.	K. C. Biddappa	Vice President – Marketing & R&D, ILTD	2,687
25.	A. Chand	General Manager – Marketing & Retail Operations, LRBD	3,338
26.	P. Chatterjee	Executive Vice President & Corporate Financial Controller	4,436
27.	C. Dar	Divisional Chief Executive, LRBD	4,293
28.	H. M. Dar	General Manager – Trade Marketing & Distribution, ITD	3,087
29.	C. S. Das	SBU Chief Executive, GGSB	3,160
30.	S. V. Dhalewadikar	Chief Scientist, ITD	3,066
31.	S. S. Dhawan	Vice President, HD	2,839
32.	P. Dhobale	Divisional Chief Executive, PSPD	4,415
33.	S. Dutta	General Manager, Corporate Accounts	2,494
34.	M. Ganesan	Vice President – Finance, ILTD	2,831
35.	D. Ganesh	General Manager, Product Development, ITD	3,537
36.	R. Gopal	SBU Chief Executive, Matches	2,431
37.	K. N. Grant	Divisional Chief Executive, ITD	8,177
38.	P. Gupta	General Manager, Corporate Taxation	3,569
39.	H. M. Jha	General Manager, Corporate Human Resources	2,839
40.	S. Kaul	General Manager – New Business Development, ITD	2,309
41.	S. Keshava	General Manager – Marketing (TQM), ITD	3,305 2,839
42. 43.	S. Kumar	Vice President – HD	
	N. Lakshminarayanan	Divisional Risk Officer, IBD	3,050
44. 45.	B. N. Malhotra H. Malik	Executive Vice President, Projects	4,272
45. 46.	K. T. R. Nambiar	General Manager – Marketing, FD Vice President – Finance, PSPD	2,945 2,360
40. 47.	R. S. Naware	Divisional Chief Executive, FD	4,681
48.	A. R. Noronha	Vice President – Technical, Projects & EHS, HD	2,839
49.	R. Parasuram	Vice President – Finance, ITD	3,444
50.	A. Pathak	General Manager – Finance, FD	3,621
50. 51.	K. T. Prasad	General Manager – Human Resources, IBD	2,668
52.	N.V.S.S.V. Prasad	Vice President – Processing & Technology, ILTD	2,996
53.	K. V. Raghavaiah	General Manager, Corporate Human Resources	3,704
54.	A. K. Rajput	Vice President, Corporate Affairs	3,066
55.	G. M. K. Raju	SBU Chief Executive, PPB	2,942
56.	T. V. Ramaswamy	Executive Vice President – Technical & HR, ITD	4,559
57.	S. Rangrass	General Manager – Operations, ITD	3,746
58.	A. K. Rao	General Manager – Research & Development	3,204
59.	S. Janardhana Reddy	Divisional Chief Executive, ILTD	4,210
60.	S. C. Rustagi	Executive Vice President, Corporate EHS	3,666
61.	P. Sanyal	Vice President – Tribeni Operations, PSPD	2,126
62.	C. V. Šarma	General Manager – Finance, IBD	3,192
63.	S. C. Sekhar	Senior Executive Vice President, HD	3,407
64.	P. Sengupta	Vice President – Finance & MIS, LRBD	2,751
65.	K. Singh	General Manager – Snack Foods, FD	2,831
66.	S. K. Singh	Executive Vice President – Manufacturing, PSPD	3,598
67.	S. Sivakumar	Divisional Chief Executive, Agri Business	4,203
68.	R. Sridhar	General Manager – Human Resource, ITD	3,597
69.	B. Sumant	General Manager, FD	3,160
70.	K. S. Suresh	Company Solicitor	4,088
71.	P. K. Talwar	Executive Vice President – Finance, PSPD	3,598
72.	R. Tandon	Executive Vice President, Corporate Finance	4,117
73.	S. R. Tulasi	Vice President – Human Resources, PSPD	1,899
74.	S. Tyagi	General Manager – Retail Marketing, IBD	2,428
75.	S. H. Venkatramani	Head of Corporate Communications	2,504
76.	P. K. Verma	Executive Vice President, HD	2,839
77.	S. Wanchoo	General Manager – Brands, ITD	2,973

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.



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

Diluted Earnings per Share (EPS) pursuant to k) issue of Ordinary Shares on exercise of Options calculated in accordance with Accounting Standard (AS) 20 'Earnings Per Share.'

: Rs. 87.70

- I) Method of calculation of employee compensation cost
- The Company has calculated the employee compensation cost using the intrinsic value method of accounting to account for Options issued under the ITC Employee Stock Option Scheme. The stock-based compensation cost as per the intrinsic value method for the financial year 2004-05 is Nil.
- (ii) Difference between the employee compensation cost so computed at (i) above and the employee compensation cost that shall have been recognised if it had used the fair value of the Options.
- Rs. 8.91 crores.
- (iii) The impact of this difference on profits and on EPS of the Company.
- The effect of adopting the fair value method on the net income and earnings per share is presented below:

Net Income		Rs. in crores
As reported		2191.40
Add: Intrinsic Value Compe	nsation Cost	Nil
Less: Fair Value Compensati (Black Scholes model)	8.91	
Adjusted Net Income		2182.49
Earning Per Share	Basic (Rs.)	Diluted (Rs.)
- As reported	87.97	87.70
- As adjusted	87.61	87.34

Weighted average exercise prices and weighted average fair values of Options granted for Options whose exercise price either equals or exceeds or is less than the market price of the stock.

The Company has granted Options at price which equals the market price of the Company's share on the date of grant.

Weighted average exercise price: Rs.880.45 Weighted average fair value : Rs.219.43

(In respect of Options granted during the year)

- 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:

(i)	Risk-free interest rate	4.89%
(ii)	expected life	2.63 years
(iii)	expected volatility	31.17%
(iv)	expected dividend yield	2.16%
(v)	the price of the underlying share in market	Rs.880.45
	at the time of ention grant	

at the time of option grant

Expansion of abbreviations used:

ITD India Tobacco Division Indian Leaf Tobacco Development Division II TD IBD International Business Division HD **Hotels Division PSPD** Paperboards & Specialty Papers Division Packaging & Printing Division PPD Lifestyle Retailing Business Division I RBD FD Foods Division PPB

Packaging & Printing SBU

Greeting, Gifting & Stationery Business **GGSB**

On behalf of the Board

Y.C. DEVESHWAR Chairman K. VAIDYANATH Director



ANNEXURE TO THE REPORT OF THE DIRECTORS

FOR THE FINANCIAL YEAR ENDED 31ST MARCH, 2005

Name	Age	Designation/ Nature of Duties F	Gross Remuneration (Rs.)	Net Remuneration (Rs.)	Qualifications	Experi- ence (Years)	Date of Commence- ment of Employment	Previous Employment/ Position Held
1	2	3	4	5	6	7	8	9
Employed throughout	the yea	ar and in receipt of remuneratio	n aggregating F	Rs, 24,00,000/- or	more per annum.			
Ahmad S.M.	51	Exec.V.P., Marketing (ITD)	34,24,948	15,10,490	M.A.	28	06.03.1980	ANZ Grindlays Bank, Plc.
Anand N.	48	Div. Chief Exec. (HD)	41,14,273	17,23,927	B.A. (Hons)	25	01.12.1979	Nil *
Banerjea P.	52	Exec.V.P., Finance & MIS (ITD)	26,14,712		B.Sc., M.Sc., F.C.A., F.I.C.W.A.	25	01.10.1982	Shaw Wallace & Co. Ltd., Financial Accountant
Basu S.	53	Exec.V.P., Internal Audit	26,03,620		A.C.A., F.C.A. (Eng. & Wales)	35	02.01.1978	Whinney Murray & Co., London, Audit Asst.
Bhandari R.	43	G.M., Sonar Bangla Sheraton (H	ID) 26,50,392		B.Com (Hons), Dipl. in Hotel Mgmt.	19	01.04.2002	Oberoi Grand, General Mgr.
Chand A.	40	G.M., Marketing & Retail Operations (LRBD)	25,57,878	11,46,330	B.A., M.B.A.	17	01.06.1988	Godfrey Philips (I) Ltd., Mktg. Exec.
Chandrasekhar S.	52	Sr. Exec. V.P Proj., Growth & Development (HD)	29,63,307	12,82,891	B.Sc., F.C.A.	27	01.01.1978	Nil *
Chatterjee B.B.	52	Exec. V.P. & Co. Secretary	34,50,367		B.Com.(Hons.), F.C.A., F.C.S., LL.B.	27	16.05.1983	Wacsgen, Deputy Mgr.
Chatterjee P.	55	Exec.V.P. & Corporate Financial Controller	30,02,252	12,89,209	B.Com.(Hons.), F.C.A.	33	16.09.1974	Macneill & Barry Ltd., Accountant.
Oar C.	49	Div. Chief Exec. (LRBD)	31,61,072	14,30,062	B.Tech.(Hons.), P.G.D.M	l. 26	01.05.1981	Tata Eng. & Loco. Co., Shift Supvr.
Deveshwar Y.C.	58	Executive Chairman	2,17,21,855	98,86,525	B.Tech. (Mech)	36	11.02.1994	Air India Ltd., Chairman & M.
Dhalewadikar S. V.(Dr)	51	Chief Scientist, (ITD)	25,37,339	10,53,215	B.Sc., M. Sc., Ph.D	23	03.03.2003	Hindustan Lever Ltd., Development Mngr
Dhobale P.V.	49	Div. Chief Exec. (PSPD)	32,68,379	14,08,376	B.Tech. (Chem.)	28	01.07.1977	Nil
Fonseka N.	41	Exec. Pastry Chef, Maurya Sheraton (HD)	52,17,936		Dipl. In Hot Mgmt., Dipl. in Sugar Craft	23	15.06.2002	Pastry Chef. Sun Intl. Resorts Mauritius
Ganesh D.	55	General Manager, Product Development (ITD)	25,21,074		B.E., D.M.S., Memb. Inst of Standard Engrs.	32 s	19.11.1979	Metal Box (I) Ltd., Foreman
Grant K.N.	47	Div. Chief Exec. (ITD)	50,75,691	20,45,562	B.A.(Hons.), M.B.A.	26	02.06.1980	DCM Ltd., Mgmt. Trainee
Gupta P.	48	G.M., Corporate Taxation	24,84,814		B.Com.(Hons.), A.C.A., D.M.A.(I.C.A.)	25	15.02.1989	Hindustan Lever Ltd., Group Audit Mgr.
acob R.G.	59	Group Head, Research & Development	50,31,603	20,48,034	B.Tech.	38	15.09.1967	Nil
anardhana Reddy S.	56	Div. Chief Exec. (ILTD)	29,28,917	12,25,809	B.Sc.	32	27.12.1972	Nil
Kumar M.	52	V.P., Corporate Affairs	25,15,329	8,11,090	M.Com, LL.B.	24	01.04.1981	Nil
all U.	54	Services on Loan to Tobacco Institute of India	30,65,483	13,00,591	B.A.(Hons.)	33	03.01.1972	PARCO, Officer on Spl. Duty
Malhotra B.N.	59	Exec. V.P., Projects	28,73,032		B.Tech., M.Tech., P.G. Dip in Soil Mec.	33	17.03.1975	ITDC., Asst. Engr.
Malik H.	38	G. M. Marketing (FD)	27,02,057	10,51,361	B.A., M.B.A	16	01.06.1989	Nil
Marchetti B.	51	Chef - Italian Cuisine Maurya Sheraton (HD)	41,53,057	41,53,057	Specl. In Italian Cuisine	35	25.09.2001	Marchetti's Latin Restaurant
Mukerji A.K.	46	Services on Loan to Subsidiary (Co. 27,89,056	12,40,821	B.Com.(Hons.), A.C.A.	23	01.11.1982	Gupta Chowdhury & Ghose, Jr. Officer



Name	Age	Designation/ Nature of Duties	Gross Remuneration (Rs.)	Net Remuneration (Rs.)	Qualifications	Experi- ence (Years)	Date of Commence- ment of Employment	Previous Employment/ Position Held
1	2	3	4	5	6	7	8	9
Naware R.S.	55	Div. Chief Exec. (FD)	43,91,861	15,78,861	B.Tech., M.M.S.	32	01.07.1974	Otis Elevator Co. (P) Ltd., Mgmt. Trainee
Nayak A.	53	Exec. V.P., Corporate Human Resources	51,38,897	22,99,602	B.Sc., P.G.D.I.R.	32	14.05.1973	Nil
Noronha A. R.	51	V.P., Tech., Proj. & EHS (HD)	24,14,583	9,97,264	B.E. (Elec)	27	01.05.1978	Nil *
Parasuram R.	46	V.P., Finance (ITD)	26,11,178	10,45,913	B.Com.(Hons)., A.C.A.	23	15.09.1982	Nil
Pathak A.	45	G.M., Finance (FD)	30,28,008	11,79,383	B.Com.(Hons)., F.C.A.	22	20.06.1983	Nil
Quing L. X.	43	Chinese Chef - Grand Maratha Sheraton (HD)	49,55,976		Spl. In Chin. Cooking, Cooking School of Beijing Tourism	22	16.04.1999	The Great Wall Sheraton, Beijing
Raghavaiah K.V.	58	G.M., Corporate Human Resources	26,87,939		B.A., P.G.D.P.M., I.R. & L.L.	39	01.09.1985	Coromandel Fertilisers Ltd., Asst. Mgr. (Pers. & Ind. Relations)
Rai R.K.	42	Senior Trader (IBD)	26,40,261	11,66,863	B.A.(Mktg.), P.G.D in Export & Imports	22	16.08.1990	Britannia Industries Ltd., Commercial Officer
Rajput A. K.	49	V.P., Corporate Affairs	25,23,390	10,14,822	B.Com., M.B.A.	29	10.04.1976	Nil
Raju G. M. K.	47	SBU Chief Executive, PPB	24,21,655	9,31,054	B. Tech	25	13.06.1980	Nil
Ramaswamy T.V.	53	Exec. V.P., Technical & H.R. (ITE	34,09,771	14,70,491	B.E., M.M.S.	31	01.07.1974	Nil
Rangrass S.	44	G.M., Operations (ITD)	28,82,153	12,15,087	B.Tech.	23	01.07.1982	Nil
Rehman S.S.H.	61	Executive Director	1,09,28,594	46,30,017	Graduate, Indian Army	41	21.11.1997	ITC Hotels Ltd., Managing Director
Rustagi S. C.	56	Executive V.P., Corp EHS	27,07,580	11,83,233	B.Sc., P.G.D.(Engg)	33	10.02.1983	Sriram Fertilisers & Chemicals Mech. Engineer
Sarma C. V.	43	G.M., Finance (IBD)	24,36,201		B.Com, A.I.C.W.A, A.C.A, A.C.S., P.G.D.M.	17	03.05.1993	Nil
Singh A.	60	Executive Director	1,04,17,046	45,44,227	B.Tech.(Hons.)	37	01.03.1968	Nil
Singh S.K.	48	Exec. V.P., Mftg. (PSPD)	28,56,355	11,52,715	B.Tech. (Chem)	28	26.06.1977	Nil
Sivakumar S.	44	Div. Chief Exec. , Agri Business	37,54,856	17,98,345	B.Sc., P.G. Dipl. In Rura Mgmt.	1 22	18.09.1989	Gujarat Co-op Oil Seeds Growers' Fed. Ltd., Mgr. Mkt.
Sridhar R.	46	G.M., HR (ITD)	24,45,916		B.Sc., P.G. Dipl. in P.M. & IR	23	01.06.1982	Nil
Srinivasan R.	53	Div. Chief Exec. (PPD)	50,57,066	20,83,821	B.Tech.(Hons.)	31	10.09.1974	Nil
Sumant B.	41	G.M. (FD)	25,71,657	10,75,366	B.E.	19	20.01.1986	Nil
Suresh K.S.	45	Company Solicitor	32,92,698		B.A., B.L., P.G.D.P.M., I.R. & L.W.	22	01.09.1990	Chambers of Sri C.S. Venkata Subramaniam, Advocate
Talwar P.K.	57	Exec. V.P., Finance (PSPD)	26,57,889	11,11,412	B.Sc., F.C.A.	33	26.06.1989	Nagarjuna Hire Purchase Ltd., President
Tandon R.	51	Exec. V.P., Corporate Finance	30,36,712	13,43,842	B.Sc., A.C.A.	27	01.01.1987	Triveni Handlooms Ltd., Finance Mgr. & Secy.
Vaidyanath K.	55	Executive Director	81,20,915	36,54,439	B.Com.(Hons.), M.B.A.	32	16.01.1976	Shriram Refrigeration Industries Ltd., Mgmt. Trainee
Vaidyanathan K.S.	65	Sr. V.P., Corporate Affairs	56,26,327	24,43,513	B.Com. (Hons.)	42	08.10.1982	T.V.S. Southern Roadways Ltd. Resident Mgr.
Verma P. K.	58	Exec. V.P., Operations (HD)	29,44,691	11,80,627	B.Sc. (Chem Tech), M.B.A. Dipl. in Hotel Mg	33 mt.	31.01.1986	Oberoi Hotels, Exec. Asst. Mgi
Verma S.	46	Services on Loan to Subsidiary	Co. 25,62,337	12,31,532	B.E.	23	01.11.1981	Nil



Name	Age	Designation/ Nature of Duties	Gross Remuneration (Rs.)	Net Remuneration (Rs.)	Qualifications	Experi- ence (Years)	Date of Commence- ment of Employment	Previous Employment/ Position Held
1	2	3	4	5	6	7	8	9
Employed for a part	of the ye	ear and in receipt of remunerat	ion aggregating R	. 2,00,000/- or r	nore per month.			
Abouzaki S.	63	Manager, Lebanese Restnt, Maurya Sheraton (HD)	28,44,211	28,44,211	High School, Lebanon	35	20.12.2001	Maroush Restaurants
Bandopadhyay S.	40	Head of Corp. Treasury	25,47,955	14,09,576	B.Com (Hons), I.C.W.A A.C.A	19	17.05.1989	ICI (I) Ltd., Asst. Mgr Account
Choudhury K.	34	Mgr., Manpower Systems Development	2,23,225	1,78,169	B.A, M.A., PG Dip. In P.M.	8	01.06.1996	Nil
De Ashish	55	Vice President (PSPD)	20,67,761	6,94,114	B.Sc. (Chem), PGD - Pulp & Paper Tech	25	01.05.1979	Ballarpur Industries Ltd., V.P Operations
Dong D. J.	34	Chinese Chef - Sonar Bangla Sheraton (HD)	12,00,993	12,00,993	Spl. In Chin. Cooking, Cooking School of Beijing Tourism	13	24.11.2004	Sheraton Jumeirah Beach Resor & Tower, Dubai
George A.	58	Exec. Housekeeper (HD)	3,17,130	2,23,530	M.Sc. (Home Science)	24	15.05.1980	Hotel Centaur, Mumbai. Asst. Housekeeper
Mathew C.	36	Exec. Chef - Sonar Bangla Sheraton (HD)	22,10,699	22,10,699	Comml. Cookery Trade Course, Pastry Cooking		14.08.2000	Shangri La Hotel, Bangkok - Exec. Chef
Mukherjee S. N.	53	Chief Mgr., Materials (PSPD)	3,70,845	3,56,652	B.E. (Hons), P.G.D.M.,	30	24.06.1976	India Paper Pulp Co. Ltd., Chemical Engineer Trainee
Sarkar A. C.	64	Exec. V.P., Industry Affairs	12,59,499	8,33,554	B.A (Hons)	44	01.12.1960	Hindustan Steel Ltd., Graduate Apprentice
Suresh M.	43	Dist. Manager (ITD)	8,68,001	5,02,210	B.Com (Hons), Dip in Bus Mgmnt., Dip in Sales & Mktg. Mgmnt., PG Dip in PSIM		05.09.1990	Nil

Abbreviations denote :

 ITD
 :
 India Tobacco Division

 PPD
 :
 Packaging & Printing Division

 PSPD
 :
 Paperboards & Specialty Papers Division

PPB : Packaging & Printing SBU
LRBD : Lifestyle Retailing Business Division
IBD : International Business Division

ILTD : Indian Leaf Tobacco Development Division

FD : Foods Division HD : Hotels Division

Notes:

- 1. Gross remuneration comprises salary, allowances, medical reimbursement, leave travel assistance, Company's contribution to provident, pension and gratuity funds, monetary value of other perquisites computed on the basis of the Income-tax Act and Rules, leave encashment and performance bonus, where applicable. With respect to those employed for a part of the year, such remuneration also includes leave encashment upon separation.
- Net remuneration comprises cash income less : a) income tax and surcharge 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* K. VAIDYANATH *Director*

Kolkata, 27th May, 2005

^{*} Previously employed with ITC Hotels Ltd., which has since merged with the Company with effect from March 23, 2005



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:
 - Regular periodic energy audits & implementation of recommendations.
 - ii) Jet humidifiers installed in place of air washers in cigarette factories.
 - iii) Old vapour absorption units in cigarette factories replaced by high efficiency screw chillers.
 - iv) Old inefficient pumps / motors replaced with higher efficiency sets in various units.
 - v) Installation of waste heat recovery systems from process equipment, flash steam & boiler blow downs in paper & cigarette factories & hotels.
 - vi) Compressed air system optimisation in various units.
 - vii) Better load management through variable speed drives, reactive power compensation, balancing of air supply in air conditioned spaces and controlling lighting load using timers & sensors.
- b) Additional investments and proposals, if any, being implemented for reduction of consumption of energy:
 - i) Upgradation of existing air conditioning plants with higher efficiency sets in hotels & cigarette factories.
 - ii) Solar water heating systems in hotels & cigarette factories.
 - iii) Replacement of inefficient boilers and hot water generating systems in hotels.
 - iv) Replacement of existing fans, pump and motor systems with higher efficiency sets in various units.
 - v) Installation of variable speed drives, in all units.
 - vi) Replacement of existing boiler with high efficiency fluidized bed boilers in Green Leaf Threshing units.
 - vii) Installation of modern electronic governors in turbo generator set at the paper factory.
 - viii) Installation of diffused aeration system in effluent treatment plant at the paper factory.
- c) Impact of measures of (a) and (b) above for reduction of energy consumption and consequent impact on the cost of production of goods:

Above projects and the continued emphasis on energy conservation have helped the Company reduce its direct energy costs by over Rs. 6 crores per annum. The energy savings have also helped the Company reduce total Carbon Dioxide emissions.

A) POWER AND FUEL CONSUMPTION

							For the r ended : March, 2005	Year 31st	or the ended March, 2004
Rel	ating	j to	Paperboa	rds & Pa _l	oer				
1.	Elec	tric	ity (Exclud	ding Cons	sumptio	n in			
	Col	ony)						
	a)	Pur	chased						
		Un	ts (KwH i	n Lakhs)			547	'	247
		Tot	al Amoun	t (Rs. in L	.akhs)		2506)	1091
		Rat	e / Unit (F	Rs.)			4.58	}	4.42
	b)	Ow	n Genera	tion					
		i)	Through	Diesel Ge	eneratio	n Unit	29)	30
			Units per	Litre of [Diesel O	il	3.08	}	2.96
			Cost / Ur	nit (Rs.)			8.13	}	7.59
		ii)	Through	Steam Tu	urbine/C	Senerato	r		
			Units (Kv	vH in Lak	hs)		3007	'	2822
			Units per	Kg. of C	oal		1.78	}	1.68
			Cost / Ur	nit (Rs.)			1.45	;	1.33
					,	ar ended ch, 2005		,	ar ended ch, 2004
				Process	Power	Total	Process	Power	Total
2.	Coal Qua Whe (Gra & 'E	ntity ere U des	& sed) 'C' ROM						
			(M.T.)	151944	169122	321066	142955	168231	311186
	Total (Rs. i					5447			4858
	Avera (Rs.)	age I	Rate			1697			1561
3.	Furn Quai					8380			8174
	Total (Rs. i					1007			928
	Avera	age I	•			12013			11358
4.	Othe	ers /	nternal						

B) CONSUMPTION PER UNIT OF PRODUCTION

Generation

Total

Quantity (M.T.)

(Rs. in Lakhs)

Rate / Unit (Rs.)

CONSOMPTION FER UNIT OF PRODUCTION						
	For the	For the				
	Year ended	Year ended				
	31st March,	31st March,				
	2005	2004				
Products (Paper in M.T.)	329278	234593				
Electricity (KwH)	1092	1236				
Coal 'C' ROM & 'E' ROM Grades (M.T.)	0.46	0.57				
Furnace Oil (Litre)	26	33				
Others – De Oiled Bran/Saw Dust etc. (M	И.Т.) 0.157	0.004				

51808

1379 61

715

980

12

1190.12



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

- Specific areas in which R&D was carried out by the Company:
 - i) (a) Quality evaluation process & criteria of raw materials & manufactured product for atta, biscuits and confectionery items.
 - ii) (a) Development of paper for specific end use application.
 - (b) Waste Disposal in paper factories.
 - (c) Development of high yielding Eucalyptus species having superior fibre characteristics.
 - iii) (a) Development of pre-printed cork tipping paper of international quality.
 - (b) Development of indigenous tools & dyes for Shoulder Box pack manufacturing.
 - (c) Development of indigenous printing machine for spot ultra violet treatment.
 - (d) Development of indigenous waste ejection unit in ATN Roto machine.
 - iv) (a) Identification of new growth zone in India through scientifically validated exploratory trials for the production of premium quality flavourful tobacco.
 - (b) Introduction of varietal changes and tailor made agronomical package of practices in the Burley tobacco growing areas of Andhra Pradesh.
 - (c) Introduction of new formulations of Neem based agri-inputs.
 - (d) Trials on Fertigation in the Northern Light Soil regions of Andhra Pradesh.

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

- i) (a) Quality evaluation of finished products and raw materials, thereby setting standards for the Quality Testing Process for outsourced products and permitting benchmarking for comparative evaluation of ITC products vis-à-vis competition.
- ii) (a) Entered new market segments.
 - (b) Meeting fibre needs indigenously and reducing imports.
 - (c) Improvement in pulp quality through hybrids.
- iii) (a) Import substitution.
 - (b) Export of Shoulder Box packets.
 - (c) Import substitution and meeting customer requirements of high gloss packaging.
 - (d) Reduction in waste and development of indigenous equipment at lower cost.
- iv) (a) Production of internationally sought after flavourful flue-cured tobacco with which India will be in a position to offer full range of quality cigarette tobaccos.
 - (b) Production of internationally benchmarkable quality tobaccos in addition to increase in yield by about 20% in the new Burley tobacco growing areas.

- (c) Improved crop vigour and productivity in addition to keeping the Pesticide Residue Levels under control.
- (d) Established the potential for the production of superior styles of tobacco with improved ripeness and flavour characteristics, in addition to reducing water consumption by 30-40%.

3. Future Plan of Action:

- i) (a) Identify factors for the improvement of manufacturability and flavour amplitude in Indian tobaccos
 - (b) Networking with Universities for applied research projects.
 - (c) Implementation of HACCP at all atta, biscuits & confectionery plants.
 - (d) Roll out of new range of differentiated food products of international quality.
- ii) (a) Continue research on genetic improvement of Eucalyptus, Subabul, Bamboo and other pulpwood species.
 - (b) Development of paperboards for specific end-use applications.
 - (c) Improvement of product / process efficiencies in paper factories.
 - (d) Usage of agri waste for steam generation in paper factories.
- iii) (a) Development of Flexible Structure for different Food Packaging.
 - (b) Development of UV Inks & Varnishes for in-line manufacture.
 - (c) Development of Cylinder Manufacturing.
 - (d) Development of Adhesives.
- iv) (a) Scaling up of Crop Development initiatives to produce significant volumes of flavourful FCV style tobaccos in the new areas.
 - (b) Creation of a holistic organic platform for tobacco and other agri products.
 - (c) Collaborative experimental trials with lead Research Institutes on the identified Advanced Breeding lines and Hybrids in micro zones so as to introduce them in a phased manner.
 - (d) Design and development of Paletted seeds for large-scale introduction of Hybrids.
 - (e) Introduction of a robust scientific approach to develop organic Agri-inputs.

For the year ended 31st March, 2005

4. Expenditure on R&D: (Rs. in Lakhs)

i)	Capital		1177
ii)	Recurring		2505
iii)	Total		3682

iv) Total R&D Expenditure as a % of :

- Gross Turnover	0.28
- Net Turnover	0.48



Technology Absorption, Adoption and Innovation

- i) Introduction of Wave Pack in cigarette factories.
- ii) New Technology for Primary Processing in cigarette factories.
- iii) Use of counter pressure retort hot water spray technology for eliminating all micro-organisms in food factories. Also auto pouch-filling machine for elimination of manual intervention at critical points of the packaging process, installed.
- iv) Upgradation of the surveillance system through digital video recorders in hotels.
- v) Floor Access control in elevator for selected floors in hotels.
- vi) Installed on-line dryer screen cleaning system, which has eliminated hickies and coating flakes problem at the manufacturing stage of paperboards.
- vii) Installed web-cleaning system during slitting, which has resulted in reduction of dusting and fluff accumulation problem in paper manufacturing.
- viii) Development of new colour grades for laminating industries.
- ix) Heidelberg offset machine with 6 printing colour and 2 coating decks alongwith UV drying facility, under commissioning.
- x) Technotrans blanket wash recycling system installed to permit solvent recycling.

Benefits Derived

- i) Manufacture International Quality Products.
- ii) Increase Efficiencies through adoption of best practices in processing.

- iii) Product improvement.
- iv) Consistent product quality and the highest safety and hygiene standards.
- v) Ensuring higher security standards.
- vi) Ensuring state-of-the-art connectivity.
- vii) Cost Reduction
 - (a) Reduced usage of soft wood pulp in value added
 - (b) Improved productivity / runnability of machines with higher fibre & filler retention levels.
- viii) Product Development
 - (a) Introduction of new variant of "Cyber XL Pac".
 - (b) Introduction of "Safire XL Pac".
 - (c) Introduction of gypsum base board in lower grammage.
 - (d) Development of Wax Match tissue.
- ix) Introduction of new laminating grades (import substitution products).
- x) Additional offset printing capacity to handle increase in packaging business.
- xi) Environment friendly technology resulting in recycling of blanket wash solution which otherwise constitutes a hazardous waste.

On behalf of the Board

Y. C. DEVESHWAR Chairman K. VAIDYANATH Director

Kolkata, 27th May, 2005

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

CERTIFICATE

To the Shareholders

We have examined the compliance of conditions of Corporate Governance by ITC Limited for the year ended on 31st March, 2005, as stipulated in clause 49 of the Listing Agreement of the said company with stock exchanges in India.

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

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

We state that in respect of investor grievances received during the year ended 31st March, 2005, no investor grievances are pending against the company as per the records maintained by the company and presented to the Investor Services Committee.

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

> For A. F. FERGUSON & CO. Chartered Accountants

> > M. S. DHARMADHIKARI Partner

Kolkata, May 27, 2005