

The Directors present the Company's Report on Corporate Governance.

ITC Limited has been one of the frontrunners in India to have put in place a formalised system of Corporate Governance.

THE COMPANY'S GOVERNANCE PHILOSOPHY

ITC defines Corporate Governance as a systemic process by which companies are directed and controlled to enhance their wealth-generating capacity. Since large corporations employ a vast quantum of societal resources, ITC believes that the governance process should ensure that these resources are utilised in a manner that meets stakeholders' aspirations and societal expectations. This belief is reflected in the Company's deep commitment to contribute to the "triple bottom line", namely the development, nurture and regeneration of the nation's economic, social and environmental capital.

ITC's Corporate Governance structure, systems and processes are based on two core principles:

- (i) Management must have the executive freedom to drive the enterprise forward without undue restraints, and
- (ii) This freedom of management should be exercised within a framework of effective accountability.

ITC believes that any meaningful policy on Corporate Governance must empower the executive management of the Company. At the same time, Governance must create a mechanism of checks and balances to ensure that the decision-making powers vested in the executive management are used with care and responsibility to meet stakeholders' aspirations and societal expectations.

From this definition and core principles of Corporate Governance emerge the cornerstones of ITC's governance philosophy, namely trusteeship, transparency, empowerment and accountability, control and ethical corporate citizenship. ITC believes that the practice of each of these creates the right corporate culture that fulfils the true purpose of Corporate Governance.

Trusteeship recognises that large corporations, which represent a coalition of interests, namely

those of the shareholders, other providers of capital, business associates and employees, have both an economic and a social purpose, thereby casting the responsibility on the Board of Directors to protect and enhance shareholder value, as well as fulfil obligations to other stakeholders. Inherent in the concept of trusteeship is the responsibility to ensure equity, namely, that the rights of all shareholders, large or small, are protected.

Transparency means explaining the Company's policies and actions to those to whom it has responsibilities. Externally, this means maximum appropriate disclosures without jeopardising the Company's strategic interests and internally, this means openness in the Company's relationship with its employees and in the conduct of its business. ITC believes transparency enhances accountability.

Empowerment is a process of unleashing creativity and innovation throughout the organisation by truly vesting decision-making powers at the most appropriate levels and as close to the scene of action as feasible, thereby helping actualise the potential of its employees. Empowerment is an essential concomitant of ITC's first core principle of governance that management must have the freedom to drive the enterprise forward. ITC believes that empowerment combined with accountability provides an impetus to performance and improves effectiveness, thereby enhancing shareholder value.

Control ensures that freedom of management is exercised within a framework of checks and balances and is designed to prevent misuse of power, facilitate timely management of change and ensure effective management of risks. ITC believes that control is a necessary concomitant of its second core principle of governance that the freedom of management should be exercised within a framework of appropriate checks and balances.

Ethical Corporate Citizenship means setting exemplary standards of ethical behaviour, both internally within the organisation, as well as in external relationships. ITC believes that unethical behaviour corrupts organisational culture and undermines stakeholder value. Governance processes in ITC continuously reinforce and help realise the Company's belief in ethical corporate citizenship.



THE GOVERNANCE STRUCTURE

The practice of Corporate Governance in ITC is at three interlinked levels:

- i. Strategic supervision by the Board of Directors
- ii. Strategic management by the Corporate Management Committee
- iii. Executive management by the Divisional / Strategic Business Unit (SBU) Chief Executive assisted by the respective Divisional / SBU Management Committee.

The three-tier governance structure ensures that:

- (a) Strategic supervision (on behalf of the shareholders), being free from involvement in the task of strategic management of the Company, can be conducted by the Board with objectivity, thereby sharpening accountability of management;
- (b) Strategic management of the Company, uncluttered by the day-to-day tasks of executive management, remains focused and energised; and
- (c) Executive management of a Division or Business, free from collective strategic responsibilities for ITC as a whole, focuses on enhancing the quality, efficiency and effectiveness of the business.

The core roles of the key entities flow from this structure. The core roles, in turn, determine the core responsibilities of each entity. In order to discharge such responsibilities, each entity is empowered formally with requisite powers.

The structure, processes and practices of governance enable focus on the Corporate purpose while simultaneously facilitating effective management of the wider portfolio of businesses.

The Governance Document that sets out the structure, policies and practices of governance of the various entities within the organisation is available on the Company's corporate website www.itcportal.com for general information.

ROLES OF VARIOUS ENTITIES

Board of Directors (Board): The primary role of the Board is that of trusteeship to protect and enhance shareholder value through strategic supervision of ITC, its wholly owned subsidiaries and their wholly owned subsidiaries. As trustees, the Board ensures that the Company has clear goals relating to shareholder value and its growth. The Board sets strategic goals and seeks accountability for their fulfilment. The Board also provides direction and exercises appropriate control to ensure that the Company is managed in a manner that fulfils stakeholders' aspirations and societal expectations. The Board, as part and parcel of its functioning, also periodically reviews its role.

Corporate Management Committee (CMC): The primary role of the CMC is strategic management of the Company's businesses within Board approved direction / framework. The CMC operates under the strategic supervision and control of the Board.

Chairman: The Chairman of ITC is the Chief Executive of the Company. He is the Chairman of the Board and the CMC. His primary role is to provide leadership to the Board and the CMC for realising Company goals in accordance with the charter approved by the Board. He is responsible, inter alia, for the working of the Board and the CMC, for ensuring that all relevant issues are on the agenda and for ensuring that all Directors and CMC members are enabled and encouraged to play a full part in the activities of the Board and the CMC. He keeps the Board informed on all matters of importance. He is also responsible for the balance of membership of the Board, subject to Board and Shareholder approvals. He presides over General Meetings of Shareholders.

Divisional Management Committee (DMC) / SBU Management Committee (SBU MC): The primary role of the DMC / SBU MC is executive management of the Divisional / SBU business to realise tactical and strategic objectives in accordance with Board approved plan.

Executive Director: The Executive Directors, as members of the CMC, contribute to the strategic management of the Company's businesses within Board approved direction / framework. As Directors accountable to the Board for a business / corporate function, they assume overall responsibility for its strategic management, including its governance processes and top management effectiveness. As Directors accountable to the Board for a wholly owned subsidiary or its wholly owned subsidiary, they act as the custodians of ITC's interests and are responsible for their governance in accordance with the charter approved by the Board.

Non-Executive Director: Non-Executive Directors, including Independent Directors, play a critical role in imparting balance to the Board processes by bringing an independent judgement on issues



of strategy, performance, resources, standards of Company conduct etc.

Divisional / **SBU CEO**: The Divisional / SBU CEO is the Chief Operating Officer for a business with executive responsibility for its day-to-day operations and provides leadership to the DMC / SBU MC in its task of executive management of the business.

BOARD OF DIRECTORS

In terms of the Company's Corporate Governance Policy, all statutory and other significant and material information are placed before the Board to enable it to discharge its responsibility of strategic supervision of the Company as trustees of the Shareholders.

Composition

The ITC Board is a balanced Board, comprising Executive and Non-Executive Directors. The Non-Executive Directors include independent professionals. Executive Directors, including the Chairman, do not generally exceed one-third of the total strength of the Board.

The Governance Policy requires that the Non-Executive Directors be drawn from amongst eminent professionals with experience in business / finance / law / public enterprises. Directors are appointed / re-appointed with the approval of the Shareholders for a period of three to five years or a shorter duration in accordance with retirement guidelines as determined by the Board from time to time. All Directors are liable to retire by rotation unless otherwise approved by the Shareholders. One-third of the Directors who are liable to retire by rotation, retire every year and are eligible for re-election. In terms of the Articles of Association of the Company, the strength of the Board shall not be fewer than five nor more than eighteen. The present strength of the Board is thirteen, of which four are Executive Directors.

The following is the composition of the Board as on 31st March, 2007:

Category	No. of Directors	Percentage to total no. of Directors
Executive Directors	4	31
Non-Executive Independent Directors	7	54
Other Non-Executive Directors	2	15
Total	13	100

Director	Category	No. of other Directorship(s) (*)	No. of Membership(s)/ Chairmanship(s) of Board Committees of other companies (**)
Executive Directors	S		
Y. C. Deveshwar	Chairman	3	Nil
S. S. H. Rehman		8	Nil
A. Singh		2	Nil
K. Vaidyanath		6	4 (including 3 as Chairman)
Non-Executive Dire	ectors		
S. H. Khan***	Independent Director	6	7 (including 4 as Chairman)
B. Sen	Independent Director	5	4 (including 1 as Chairman)
Ram S. Tarneja	Independent Director	11	6 (including 2 as Chairman)
B. Vijayaraghavan	Independent Director	Nil	Nil
S. B. Mathur	Independent Director- Representative of Life Insurance Corporation of India as Investor	13	2 (including 1 as Chairman)
P. B. Ramanujam	Independent Director - Representative of General Insurance Corporation of India and its erstwhile subsidiaries as Investor	2	Nil
D. K. Mehrotra****	Independent Director - Representative of Specified Undertaking of the Unit Trust of India as Investor	2	Nil
J. P. Daly		Nil	Nil
C. R. Green		Nil	Nil

^{*} Excludes Directorship in Indian Private Limited Companies, Foreign Companies, Membership of Managing Committees of Chambers of Commerce / Professional Bodies and Alternate Directorship.

^{**} Represents Membership / Chairmanship of Audit Committee and Investors Grievance Committee of Indian Public Limited Companies.

^{***} Appointed a Director w.e.f. 30th October, 2006.

^{****} Appointed a Director w.e.f. 26th May, 2006.



Meetings and Attendance

During the financial year ended 31st March, 2007, five meetings of the Board took place as against six, as per the Company's Governance Policy. The sixth meeting, scheduled for the last week of March, 2007, could be held only on 4th April, 2007. The intervening period between two Board meetings was well within the maximum gap of four months prescribed under Clause 49 of the Listing Agreement. The annual calendar of meetings is broadly determined at the beginning of each year.

Board Agenda

Meetings are governed by a structured agenda. The Board members, in consultation with the Chairman, may bring up any matter for the consideration of the Board. All major agenda items are backed by comprehensive background information to enable the Board to take informed decisions. Agenda papers are generally circulated seven working days prior to the Board meeting.

Information placed before the Board

Apart from the items that are required to be placed before the Board for its approval, both under the statutes and the Governance Policy, the following are also tabled for the Board's periodic review / information:

- Quarterly performance against plan, including business-wise financials in respect of revenue, profits, cash flow, balance sheet, investments and capex.
- Half-Yearly summary of all long-term borrowings made, bank guarantees issued and investments made.
- Treasury Policy, both domestic & forex, as and when changes take place.
- Internal Audit findings and External Audit Management Reports (through the Audit Committee).
- Status of safety, security and legal compliance.
- Status of business risk exposures, its management and related action plans.
- Company's management development processes and succession of senior management (through the Nominations Committee).
- Show Cause, demand, prosecution and adjudication notices, if any, from revenue

authorities which are considered materially important, including any exposure that exceeds 1% of the Company's net worth, and their outcome.

- Default, if any, in payment of interest and repayment of principal on any public deposit, dues to any major creditor or Financial Institution.
- Product liability claims of a substantial nature, if any.
- Information on strikes, lockouts, retrenchment, fatal accidents etc., if any.
- Significant court judgement or order passing strictures, if any, on the conduct of the Company or a subsidiary of the Company or any employee, which could negatively impact the Company's image.
- Terms of reference of Board Committees.
- Policy on Shareholder Disclosures.
- Incident of theft / fraud / dishonesty of a significant nature, if any.
- Write-offs / disposals (fixed assets, inventories, receivables, advances etc.) on a half-yearly basis.

Post-meeting follow-up system

The Governance processes in the Company include an effective post-meeting follow-up, review and reporting process for action taken / pending on decisions of the Board, the Board Committees, the Corporate Management Committee and the Divisional / SBU Management Committees.

Details of Board Meetings during the financial year

During the financial year ended 31st March, 2007, five meetings of the Board were held, as follows:

SI. No.	Date	Board Strength	No. of Directors present
1	26th May, 2006	12	11
2	21st July, 2006	12	11
3	21st July, 2006	12	11
4	30th October, 2006	13	11
5	31st January, 2007	13	11



Attendance at Board Meetings and at Annual General Meeting (AGM) during the financial year

Director	No. of Board Meetings attended	Attendance at last AGM
Y. C. Deveshwar	5	Yes
S. S. H. Rehman	5	Yes
A. Singh	5	Yes
K. Vaidyanath	5	Yes
J. P. Daly	3	Yes
C. R. Green	3	No
S. H. Khan*	1	NA
S. B. Mathur	5	Yes
D. K. Mehrotra**	3	Yes
P. B. Ramanujam	5	Yes
B. Sen	5	Yes
Ram S. Tarneja	5	Yes
T. S. Vijayan***	NA	NA
B. Vijayaraghavan	5	Yes

- * Appointed a Director w.e.f. 30th October, 2006.
- ** Appointed a Director w.e.f. 26th May, 2006.
- *** Ceased to be a Director w.e.f. 26th May, 2006.

COMMITTEES OF THE BOARD

Currently, there are four Board Committees – the Audit Committee, the Compensation Committee, the Investor Services Committee and the Nominations Committee. The terms of reference of the Board Committees are determined by the Board from time to time. Meetings of each Board Committee are convened by the respective Committee Chairman. Signed minutes of Board Committee meetings are placed for the information of the Board. Matters requiring the Board's attention / approval are generally placed in the form of notes to the Board from the respective Committee Chairman. The role and composition of these Committees, including the number of meetings held during the financial year and the related attendance, are provided below.

I. AUDIT COMMITTEE

The Audit Committee of the Board, inter alia, provides reassurance to the Board on the existence of an effective internal control environment that ensures:

- efficiency and effectiveness of operations, both domestic and overseas;
- safeguarding of assets and adequacy of provisions for all liabilities;

- reliability of financial and other management information and adequacy of disclosures;
- compliance with all relevant statutes.

The Audit Committee is empowered, pursuant to its terms of reference, inter alia, to:

- investigate any activity within its terms of reference and to seek any information it requires from any employee;
- obtain legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise, when considered necessary.

The role of the Committee includes the following:

- (a) Overseeing the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statements are correct, sufficient and credible;
- (b) Recommending the appointment and removal of external auditors, fixation of audit fee and approval of payment of fees for any other services rendered by the auditors;
- (c) Reviewing with the management the financial statements before submission to the Board, focusing primarily on:
 - Any changes in accounting policies and practices
 - Major accounting entries based on exercise of judgement by management
 - Qualifications in draft audit report
 - Significant adjustments arising out of audit
 - The going concern assumption
 - Compliance with Accounting Standards
 - Compliance with Stock Exchange and legal requirements concerning financial statements
 - Related party transactions;
- (d) Reviewing with the management, external and internal auditors, the adequacy of internal control systems and the Company's statement on the same prior to endorsement by the Board;
- (e) Reviewing the adequacy of the internal audit function, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure, coverage and frequency of internal audit;



- (f) Reviewing reports of internal audit and discussion with internal auditors on any significant findings and follow-up thereon;
- (g) Reviewing the findings of any internal investigations by the internal auditors and the executive management's response on matters where there is suspected fraud or irregularity or failure of internal control systems of a material nature and reporting the matter to the Board;
- (h) Discussion with the external auditors, before the audit commences, on nature and scope of audit, as well as after conclusion of the audit, to ascertain any areas of concern and review the comments contained in their management letter;
- (i) Reviewing the Company's financial and risk management policies;
- (j) Looking into the reasons for substantial defaults, if any, in payment to the depositors, debentureholders, shareholders (in case of non-payment of declared dividends) and creditors;
- (k) Considering such other matters as may be required by the Board;
- (I) Reviewing any other areas which may be specified as role of the Audit Committee under the Listing Agreement, Companies Act and other statutes, as amended from time to time.

Composition

The Audit Committee comprised three Non-Executive Directors, all of whom are Independent Directors. The Director responsible for the Finance function, the Head of Internal Audit and the representative of the Statutory Auditors are Invitees to the Audit Committee. The Head of Internal Audit is the Co-ordinator and the Company Secretary is the Secretary to the Committee. The representative of the Cost Auditors is invited to meetings of the Audit Committee whenever matters relating to cost audit are considered. All members of the Committee are financially literate; two members, including the Chairman of the Committee, have accounting and financial management expertise.

The names of the members of the Audit Committee, including its Chairman, are provided elsewhere in the Report and Accounts.

Meetings and Attendance

Details of Audit Committee Meetings during the financial year

During the financial year ended 31st March, 2007, nine meetings of the Audit Committee were held, as follows:

SI. No.	Date	Committee Strength	No. of Members present
1	15th May, 2006	3	3
2	26th May, 2006	3	3
3	29th June, 2006	3	3
4	21st July, 2006	3	3
5	5th October, 2006	3	3
6	30th October, 2006	3	3
7	26th November, 2006	3	3
8	31st January, 2007	3	3
9	28th March, 2007	3	3

Attendance at Audit Committee Meetings during the financial year

Director	No. of meetings attended
P. B. Ramanujam	9
S. B. Mathur	9
B. Vijayaraghavan	9

II. REMUNERATION COMMITTEE

The Remuneration Committee of the Board, under the nomenclature 'Compensation Committee', inter alia, recommends to the Board the compensation terms of Executive Directors and the seniormost level of management immediately below the Executive Directors. This Committee also has the responsibility for administering the Employee Stock Option Scheme of the Company.

Composition

The Compensation Committee comprised five Non-Executive Directors, three of whom are Independent Directors. The Chairman of the Committee is a Non-Executive Independent Director.

The names of the members of the Compensation Committee, including its Chairman, are provided elsewhere in the Report and Accounts.



Meetings and Attendance

Details of Compensation Committee Meetings during the financial year

During the financial year ended 31st March, 2007, three meetings of the Compensation Committee were held, as follows:

SI. No.	Date	Committee Strength	No. of Members present
1	25th & 26th May, 2006	5	4
2	21st July, 2006	5	4
3	29th & 30th October, 2006	5	5

Attendance at Compensation Committee Meetings during the financial year

Director	No. of meetings attended
B. Sen	3
J. P. Daly	2
C. R. Green	2
S. B. Mathur	3
Ram S. Tarneja	3

Remuneration Policy

ITC's remuneration strategy aims at attracting and retaining high calibre talent. The remuneration policy, therefore, is market-led and takes into account the competitive circumstance of each business so as to attract and retain quality talent and leverage performance significantly.

Remuneration of Directors

Remuneration of Executive Directors is determined by the Compensation Committee comprising only Non-Executive Directors. The recommendations of the Compensation Committee are considered and approved by the Board subject to the approval of the Shareholders. The Chairman and Executive Directors are entitled to Performance Bonus for each financial year up to a maximum of 100% and 85% of their consolidated salary, respectively, subject to the approval of the Shareholders, and as may be determined by the Board on the recommendation of the Compensation Committee.

Non-Executive Directors are entitled to remuneration by way of commission for each financial year, up to a maximum of Rs.4,00,000/- individually, as approved by the Shareholders. Non-Executive Directors' commission is determined by the Board based, inter alia, on the Company's performance and regulatory provisions. Such commission is payable on a uniform basis to reinforce the principle of collective responsibility. Non-Executive Directors are also entitled to sitting fees for attending meetings of the Board and Committees thereof, the limits for which have been approved by the Shareholders. The sitting fees, as determined by the Board, are presently Rs.15,000/-, Rs.10,000/- and Rs.5,000/- for each meeting of the Board, Audit Committee and other Board Committees, respectively. Non-Executive Directors are also entitled to coverage under Personal Accident Insurance.

Details of Remuneration of the Directors for the financial year ended 31st March, 2007

(Rs. in Lakhs)

Director	Consolidated Salary	Perquisites and other Benefits	Performance Bonus / Commission	Sitting Fees	Total
Y. C. Deveshwar	204.00	28.51	204.00	_	436.51
S. S. H. Rehman	94.50	21.10	80.33	_	195.93
A. Singh	94.50	15.80	80.33	_	190.63
K. Vaidyanath	79.50	12.84	67.58	_	159.92
J. P. Daly	_	_	4.00 *	@	4.00
C. R. Green	_	_	4.00 *	@	4.00
S. H. Khan**	_	_	1.68	0.15	1.83
S. B. Mathur	_	_	4.00 *	1.85	5.85
D. K. Mehrotra***	_	_	3.40 *	0.45 *	3.85
P. B. Ramanujam	_	_	4.00 *	2.15	6.15
B. Sen	_	_	4.00	2.55	6.55
Ram S. Tarneja	_	_	4.00	0.95	4.95
T. S. Vijayan ⁺	_	_	0.60 *	_	0.60
B. Vijayaraghavan	_	_	4.00	1.70	5.70

- @ Waived entitlement to sitting fees.
- * Payable to the Institution / Company the Director represents.
- ** Appointed a Director w.e.f. 30th October, 2006.
- *** Appointed a Director w.e.f. 26th May, 2006.
- + Ceased to be a Director w.e.f. 26th May, 2006.

Note: Disclosure with respect to Non-Executive Directors – Pecuniary relationship: None.

Employee Stock Option Scheme

The Company granted 60,95,625 Options during the financial year to the eligible employees of the Company and some of its subsidiary companies.



SHAREHOLDER INFORMATION

AGM Details

Date	Friday, 27th July, 2007
Venue	Science City Main Auditorium JBS Haldane Avenue Kolkata 700 046
Time	10.30 a.m.
Book Closure Dates	Wednesday, 18th July, 2007 to Friday, 27th July, 2007 (both days inclusive)
Dividend Payment Date	Monday, 30th July, 2007

Registrar & Share Transfer Agents

The in-house Investor Service Centre of the Company (ISC), accredited with ISO 9001:2000 certification for its investor servicing, provides share registration and other related services. The Company is registered with SEBI as Category II Share Transfer Agent.

Share and Debenture Transfer Committee

The Share and Debenture Transfer Committee of the Company generally meets every week for approving share transfers. The processing activities with respect to requests received for share transfers are generally completed within five working days from the date of receipt of request. There were no share transfers pending as on 31st March, 2007. The Committee met fifty-one times during the financial year.

The Committee comprised the following:

K. Vaidyanath, Executive Director - ChairmanB.B. Chatterjee, Company Secretary - MemberK.S. Suresh, General Counsel - Member

A. Bose, Assistant Secretary and Head of ISC, is the Secretary to the Committee and is also the Compliance Officer under Securities and Exchange Board of India (Registrars to an Issue and Share Transfer Agents) Regulations, 1993.

Shareholder / Investor Complaints

The Company attended to Shareholder / Investor complaints and other correspondence generally within a period of five working days except where constrained by disputes or legal impediments. There are some pending cases relating to disputes over title to Shares in which the Company has been made a party. These cases however are not material in nature.

The Company received 13 share related complaints during the financial year ended 31st March, 2007, which translate to 0.003% of the total number of Shareholders of the Company. The said complaints have been resolved.

Nature of Complaints	Nos.	%
Non-receipt of Dividend	5	38
Non-receipt of Share Certificates	5	38
Transfer of Shares	1	8
Issue of Duplicate Share Certificates	1	8
Others	1	8
Total	13	100

The e-mail ID earmarked for investor complaints: isc@itc.in

Dematerialisation of Shares and Liquidity

The Shares of the Company are required to be traded in the dematerialised form and are available for trading under both the Depository Systems in India – NSDL and CDSL. The International Securities Identification Number (ISIN) allotted to the Company's Shares under the Depository System is INE154A01025. The annual custody fee for the financial year 2007-08 has been paid to NSDL and CDSL, the Depositories.

During the year, 1,48,86,346 Shares of the Company, covered in 6,255 requests and constituting 0.4% of the issued and subscribed Share Capital of the Company, were dematerialised. As on 31st March, 2007, 2,41,09,64,064 Shares of the Company constituting 64.08% of the issued and subscribed Share Capital stand dematerialised. The processing activities with respect to requests received for dematerialisation are generally completed within one working day.

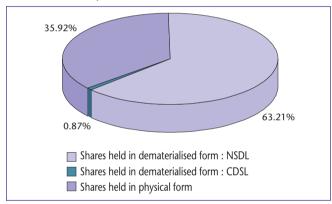
The Company's Shares are among the most liquid and actively traded shares on the Indian Stock Exchanges and consistently rank among the top frequently traded shares, both in terms of number of shares traded as well as in terms of value.



Distribution of Shareholding as on 31st March, 2007

No. of Shares	No. of Shareholders			No. of Shares						
Slab	Physical	Demat	Total	%	Physical	%	Demat	%	Total	%
1 – 5000	49,439	4,31,952	4,81,391	95.60	5,23,33,581	1.39	16,20,62,192	4.31	21,43,95,773	5.70
5001 – 10000	3,562	8,367	11,929	2.37	2,60,77,230	0.70	6,07,15,899	1.61	8,67,93,129	2.31
10001 – 20000	1,424	4,284	5,708	1.13	1,96,51,520	0.52	6,00,36,568	1.60	7,96,88,088	2.12
20001 – 30000	569	1,441	2,010	0.40	1,39,13,690	0.37	3,53,94,030	0.94	4,93,07,720	1.31
30001 – 40000	179	562	741	0.15	62,14,745	0.17	1,94,78,653	0.51	2,56,93,398	0.68
40001 - 50000	112	375	487	0.10	50,12,550	0.13	1,69,58,039	0.45	2,19,70,589	0.58
50001 – 100000	113	563	676	0.13	78,83,205	0.21	3,83,20,688	1.02	4,62,03,893	1.23
100001 and above	52	563	615	0.12	1,22,01,72,195	32.43	2,01,79,97,995	53.64	3,23,81,70,190	86.07
Total	55,450	4,48,107	5,03,557	100.00	1,35,12,58,716	35.92	2,41,09,64,064	64.08	3,76,22,22,780	100.00

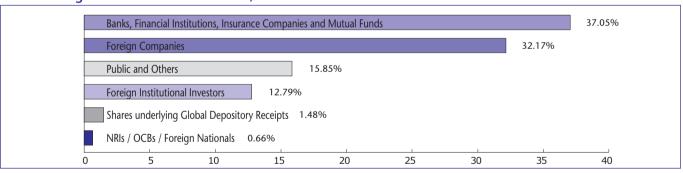
Shares held in Physical and Dematerialised form as on 31st March, 2007



Categories of Shareholders as on 31st March, 2007

Category	No. of Shares held	%
Banks, Financial Institutions, Insurance Companies and Mutual Funds	1,39,40,19,297	37.05
Foreign Companies	1,21,04,38,380	32.17
Foreign Institutional Investors	48,10,82,374	12.79
Shares underlying Global Depository Receipts	5,56,13,501	1.48
NRIs / OCBs / Foreign Nationals	2,47,45,577	0.66
Public and Others	59,63,23,651	15.85
Total	3,76,22,22,780	100.00

Shareholding Pattern as on 31st March, 2007



Top Ten Shareholders as on 31st March, 2007

SI.	Name of the Shareholder	No. of	%
No.		Shares held	
1.	Tobacco Manufacturers (India) Limited	99,27,82,440	26.39
2.	Life Insurance Corporation of India*	47,79,57,681	12.70
3.	Unit Trust of India*	44,86,47,169	11.93
4.	Myddleton Investment Co. Limited	16,21,03,980	4.31
5.	The New India Assurance Company Limited	9,37,56,835	2.49
6.	General Insurance Corporation of India	7,50,25,522	1.99
7.	The Oriental Insurance Company Limited	7,43,10,780	1.98
8.	National Insurance Company Limited	6,89,61,110	1.83
9.	Citibank N.A. New York, NY ADR Department**	5,56,13,501	1.48
10.	Rothmans International Enterprises Limited	5,16,51,630	1.37

^{*} Excludes Mutual Fund holdings.
** Shares underlying Global Depository Receipts.



Global Depository Receipts

Pursuant to the offer of Global Depository Receipts (GDRs) made by the Company in 1993, 5,56,13,501 GDRs, representing 5,56,13,501 underlying Shares of the Company i.e. 1.48% of the issued and subscribed Share Capital, were outstanding as on 31st March, 2007.

The Company's GDRs are listed on the Luxembourg Stock Exchange (Code: 004660919) at Societe de la Bourse de Luxembourg, 11, av de la Porte-Neuve, L-2227 Luxembourg. The Listing Fee for the calendar year 2007 has been paid.

Listing of Shares on Stock Exchanges (with Stock Code)

Stock Exchange	Stock Code	Stock Exchange	Stock Code
National Stock Exchange of India Ltd. 'Exchange Plaza', Bandra-Kurla Complex Bandra (E) Mumbai 400 051 e-mail : ignse@nse.co.in website : www.nseindia.com	ITC	Bombay Stock Exchange Ltd. Phiroze Jeejeebhoy Towers Dalal Street Mumbai 400 001 e-mail : is@bseindia.com website : www.bseindia.com	500875
The Calcutta Stock Exchange Association Ltd. 7, Lyons Range Kolkata 700 001 e-mail : mop@cse-india.com website : www.cse-india.com	10000018		

Stock Exchange	Reuters Code	Bloomberg
National Stock Exchange of India Ltd.	ITC.NS	NITCL IN
Bombay Stock Exchange Ltd.	ITC.BO	ITC IN

The Listing Fee for the financial year 2007-08 has been paid to the Stock Exchanges.

Monthly High & Low quotes and Volume of Shares traded on National Stock Exchange (NSE), Bombay Stock Exchange (BSE) and Calcutta Stock Exchange (CSE)

		NSE			BSE			CSE	
Year & Month	High	Low	Volume in 000's	High	Low	Volume in 000's	High	Low	Volume in 000's
	(Rs.)	(Rs.)	(Nos.)	(Rs.)	(Rs.)	(Nos.)	(Rs.)	(Rs.)	(Nos.)
2006 APRIL	208.50	182.00	12,49,86	207.90	181.00	2,96,99	NA	NA	Nil
MAY	212.50	145.00	17,52,70	212.70	152.10	4,19,09	203.00	164.40	2
JUNE	184.00	140.50	21,09,86	183.90	140.40	5,82,73	182.60	161.70	1
JULY	186.90	161.25	13,50,11	188.00	161.30	3,06,91	186.90	164.00	11
AUGUST	192.60	165.70	9,47,66	192.00	165.30	2,41,07	181.90	166.00	23
SEPTEMBER	193.00	176.00	9,58,02	192.95	176.10	2,23,49	NA	NA	Nil
OCTOBER	196.70	182.00	7,88,03	196.45	181.90	1,84,10	NA	NA	Nil
NOVEMBER	192.80	174.00	8,46,24	193.00	174.00	2,14,48	NA	NA	Nil
DECEMBER	191.95	166.50	8,21,60	192.00	167.00	1,60,15	NA	NA	Nil
2007 JANUARY	181.00	160.10	10,40,82	180.60	160.30	2,28,47	NA	NA	Nil
FEBRUARY	180.00	155.10	9,34,89	179.90	157.00	1,65,69	NA	NA	Nil
MARCH	175.00	130.00	19,74,25	175.00	140.15	4,51,00	NA	NA	Nil

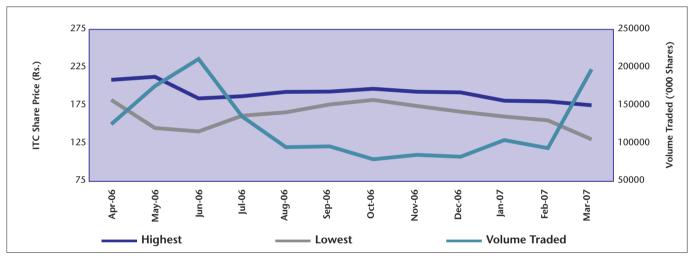


ITC Share Price vis-à-vis S & P CNX Nifty



Notes – Indicates monthly closing positions.
 The ITC Share price was broadly in line with the S & P CNX Nifty during the first half of the year; sentiments however suffered in the latter half of the financial year on account of the impending imposition of VAT on cigarettes.

ITC Share Price & Volume traded on NSE



Note - Indicates monthly high & low price and monthly volume.

Dividend History (Last 10 Years)

Financial Year	Dividend (%)	Total Dividend (Rs. in Lakhs)
2006-07	310*	11,66,29*
2005-06	265**	9,95,12**
2004-05	310	7,73,25
2003-04	200	4,95,36
2002-03	150	3,71,27
2001-02	135	3,34,14
2000-01	100	2,45,41
1999-00	75	1,84,06
1998-99	55	1,34,98
1997-98	45	1,10,44

* Subject to approval of Members.

^{**} On the expanded Share Capital arising out of issue of Bonus Shares in the ratio of 1:2.



Financial Calendar

	Financial Year 2007-08				
1	First Quarter Results	July 2007			
2	Second Quarter and Half-Year Results	October 2007			
3	Third Quarter Results	January 2008			
4	Fourth Quarter and Annual Results	May 2008			

Particulars of past three AGMs

AGM	Financial Year	Venue	Date	Time	Special Resolutions passed
95th	2005-06		21/07/2006	10.30 a.m.	Appointment of Auditors.
94th	2004-05	Science City Main Auditorium JBS Haldane Avenue Kolkata 700 046	29/07/2005	10.30 a.m.	 Appointment of Auditors. Stock Option limits for Non-Executive Directors. Amendment of Articles of Association to reflect increase in the Authorised Share Capital.
93rd	2003-04	Nomaca 7 00 040	30/07/2004	10.30 a.m.	Appointment of Auditors.Modification of ITC Employee Stock Option Scheme.

Postal Ballot

During the year the Members approved, by means of Postal Ballot, offer and issue of Shares up to five percent of the issued and subscribed Share Capital of the Company as on 31st March, 2006 under a new Employee Stock Option Scheme in accordance with the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 read with Section 81(1A) of the Companies Act, 1956. Salient features of the Postal Ballot, in respect of the above, are provided below:

- The Board of Directors of the Company, at its meeting held on 30th October, 2006, appointed R. L. Auddy, a Senior Solicitor, as the Scrutinizer for conducting the Postal Ballot voting process;
- Notice alongwith Postal Ballot Form was despatched to the Members whose names appeared on the Register of Members on 21st November, 2006; such despatch was completed on 11th December, 2006;
- The last date of receipt of Postal Ballot Forms was 10th January, 2007;
- The Scrutinizer submitted his Report dated 16th January, 2007 to the Chairman of the Company;
- Based on the Scrutinizer's Report, the results of the Postal Ballot were declared on 22nd January, 2007 at the Registered Office of the Company, as follows:

Resolution No. 1 - Special Resolution for offer and issue of Shares under an Employee Stock Option Scheme to employees and Directors of the Company.

	No. of Members	No. of Votes (value in Rs.)	% of Votes
Total Postal Ballots received	22,312	2,66,12,25,632	_
➤ Postal Ballots – Valid	21,140	2,65,96,83,104	99.94
➤ Postal Ballots – Invalid	1,172	15,42,528	0.06
Postal Ballots – In favour of the Resolution	19,012	2,65,57,83,771	99.79
Postal Ballots – Against the Resolution	2,128	38,99,333	0.15



SHAREHOLDER REFERENCER

Unclaimed Dividend

Unclaimed dividend for the years prior to and including the financial year 1998-99 has been transferred to the General Revenue Account of the Central Government / the Investor Education and Protection Fund established by the Central Government (IEPF), as applicable.

Shareholders who have not encashed their dividend warrants relating to financial year(s) up to and including 1993-94 may claim such dividend (transferred to the General Revenue Account) from the Registrar of Companies, West Bengal, Government of India, Nizam Palace, II MSO Building, 2nd Floor, 234/4 A.J.C. Bose Road, Kolkata 700 020, in the prescribed form. This form can be furnished by the Investor Service Centre of the Company (ISC) on request or can be downloaded from the Company's corporate website www.itcportal.com under the section 'Investor Relations'.

The dividend for the undernoted years, if unclaimed for 7 years, will be transferred by the Company to IEPF in accordance with the schedule given below. Attention is drawn that the unclaimed dividend for the financial year 1999-2000 will be due for transfer to IEPF later this year. Communication has been sent by the Company to the concerned Shareholders advising them to lodge their claims with respect to unclaimed dividend.

Once unclaimed dividend is transferred to IEPF, no claim shall lie in respect thereof.

ITC Limited

Financial Year	Dividend Identification	Date of Declaration of Dividend	Total Dividend (Rs.)	Unclaimed Dividend as on 31/03/2007		Due for transfer to IEPF
	No.			(Rs.)	%	on
1999-00	70th	28th July, 2000	1,84,06,11,780.00	1,26,32,087.00	0.69	15th September, 2007*
2000-01	71st	3rd August, 2001	2,45,41,49,040.00	2,06,42,133.00	0.84	9th September, 2008
2001-02	72nd	26th July, 2002	3,34,14,27,743.00	2,56,63,749.00	0.77	31st August, 2009
2002-03	73rd	25th July, 2003	3,71,26,78,290.00	2,38,48,718.00	0.64	30th August, 2010
2003-04	74th	30th July, 2004	4,95,35,77,020.00	3,35,88,620.00	0.68	4th September, 2011
2004-05	75th	29th July, 2005	7,73,24,56,356.00	5,07,52,301.00	0.66	3rd September, 2012
2005-06	76th	21st July, 2006	9,95,12,91,267.00	7,38,87,332.00	0.74	26th August, 2013

^{*} It will not be possible to entertain claims received by ISC after 14th September, 2007.

Erstwhile ITC Hotels Limited

Financial Year	Date of Declaration of Dividend	Total Dividend (Rs.)	Unclaimed Dividend as on 31/03/2007		Due for transfer to IEPF
			(Rs.)	%	on
1999-00	25th August, 2000	3,02,16,492.00	3,19,648.00	1.06	10th October, 2007*
2000-01	17th August, 2001	3,02,16,492.00	3,04,552.00	1.01	20th September, 2008
2003-04	14th July, 2004	6,04,32,984.00	6,99,704.00	1.16	18th August, 2011

^{*} It will not be possible to entertain claims received by ISC after 9th October, 2007.

Bank Details

Shareholders holding Shares in the physical form are requested to notify / send the following to ISC to facilitate better servicing:-

- i) any change in their address / mandate / bank details, and
- ii) particulars of the bank account in which they wish their dividend to be credited, in case the same have not been furnished earlier.

Shareholders are advised that respective bank details and addresses as furnished by them or by NSDL / CDSL to the Company, for Shares held in the physical form and in the dematerialised form respectively, will be printed on dividend warrants as a measure of protection against fraudulent encashment.



In the event Shareholders wish to receive dividend in a bank account other than the one specified by them while opening their Depository Account, they may advise the same to their Depository Participants (DPs) furnishing complete details of such bank account including the MICR code.

Electronic Clearing Service (ECS) Facility

The Company, with respect to payment of dividend, provides the facility of ECS to Shareholders at the following cities:

Ahmedabad, Bengaluru, Bhopal, Bhubaneshwar, Chandigarh, Chennai, Coimbatore, Delhi, Guwahati, Hyderabad, Indore, Jaipur, Kanpur, Kolkata, Lucknow, Ludhiana, Madurai, Mangalore, Mumbai, Nagpur, Nashik, Panaji, Patna, Pune, Surat, Thiruvananthapuram, Vadodara, Vijayawada and Visakhapatnam.

Shareholders holding Shares in the physical form, who wish to avail the ECS facility, may send their ECS mandate in the prescribed form to the Company, in the event they have not done so earlier. The ECS mandate form can be furnished by ISC on request or can be downloaded from the Company's corporate website www.itcportal.com under the section 'Investor Relations'.

Nomination Facility

Shareholders who hold Shares in the physical form and wish to make / change nomination in respect of their shareholding in the Company, as permitted under Section 109A of the Companies Act, 1956, may submit to ISC the prescribed Form 2B. This Form can be furnished by ISC on request or can be downloaded from the Company's corporate website www.itcportal.com under the section 'Investor Relations'.

Dalal Street, Fort

Mumbai 400 023

Depository Services

Shareholders may write to the respective Depository or to ISC for guidance on depository services.

Address for Correspondence with Depository

National Securities Depository Limited Trade World, A Wing, 4th floor

Kamala Mills Compound Senapati Bapat Marg, Lower Parel

Mumbai 400 013

Telephone no.: 022-2499 4200

Facsimile nos. : 022-2497 2993/2497 6351 e-mail : info@nsdl.co.in

website : www.nsdl.co.in

Telephone no. : 022-2272 3333

Facsimile nos. : 022-2272 3199/2272 2072 e-mail : investors@cdslindia.com website : www.cdslindia.com

Central Depository Services (India) Limited

Phiroze Jeejeebhoy Towers, 17th floor

Address for Correspondence with ISC

Investor Service Centre ITC Limited 37 Jawaharlal Nehru Road Kolkata 700 071 India

Telephone nos.: 033-2288 6426/2288 0034

Facsimile no. : 033-2288 2358 e-mail : isc@itc.in

website : www.itcportal.com

Shareholders holding Shares in the dematerialised form should address their correspondence to their respective DPs, other than for dividend, which should be addressed to ISC.

In all correspondence with ISC, to facilitate prompt response, account numbers / DP ID & Client ID numbers are required to be furnished. Shareholders are requested to also provide their e-mail address and telephone / fax numbers.



REPORT OF THE DIRECTORS & Management Discussion and Analysis

For the Financial Year Ended 31st March, 2007

Your Directors submit their Report for the financial year ended 31st March, 2007.

SOCIO-ECONOMIC ENVIRONMENT

Advance estimates of the Central Statistical Organisation indicate a real GDP growth of 9.2% for 2006/07. The average growth rate over the past four years stands at 8.6%, making it the fastest pace of growth in India's history. While all three sectors of the economy recorded positive growth during 2006/07, the key driver was the industrial sector, which grew by an estimated 10%. Industrial growth was led by the manufacturing sector, which recorded an impressive increase of 11.3% bolstered by capital goods production, which grew by 17.7% over the previous year. The strong showing of the capital goods sector reflects the continuing momentum of the investment cycle. The Services sector posted a robust growth of 11.2% in line with the strong performance trend of the previous years. Agriculture sector recorded a relatively low growth of 2.7%.

The value of India's merchandise exports grew by 20.8% to touch USD 124.6 billion during the year. Exports clocked an impressive 21.6% growth for the first 8 months of the year but lost momentum thereafter due to a slowdown in the US economy and the appreciation of the Indian Rupee. India's trade deficit widened further to touch USD 56.7 billion, an increase of 40.6% over 2005/06, mainly on account of a sharp increase in the value of oil imports. However, net invisibles surplus on account of buoyant service exports helped ameliorate the impact on the current account. The overall position on external balances remains strong with foreign exchange reserves increasing by USD 47 billion during the year. The strong overall economic performance during the year was however accompanied by rising inflation. Several policy measures were announced in response, aimed at curtailing liquidity and improving supply side conditions. These included the increase in the repo rate and cash reserve ratio, duty free imports of wheat and pulses, and reduction in import duties on non-ferrous metals, cement, capital goods etc.

The strong investment momentum and high levels of business confidence justify the double-digit GDP growth aspirations set in the 11th Plan.

High levels of economic growth are essential to realise the oft quoted demographic dividend through the creation of employment opportunities for the 9 to 10 million people expected to enter the job market annually, the majority of whom would be from rural India. However, economic growth does not necessarily translate to sustainable development. The manner of industrial growth so far has taken an immeasurable toll of finite natural resources, and yet left vast numbers of people in poverty. On the one hand, depletion of biodiversity resources - soil, water, air – has considerably increased the fragility of ecological balance. On the other hand, the declining rate of growth of agriculture has led to the present situation where nearly 60% of India's population shares less than 20% of its output. These dichotomies can be eliminated only if the challenges of inclusive growth, national competitiveness and environmental sustainability are addressed in an integrated fashion.

Over 75% of those below the poverty line reside in rural India. A comprehensive growth strategy for rural India, including the agricultural sector, is necessary to address the serious issues relating to sustainability and to enlarge effective domestic demand. Empowerment of the rural population has therefore assumed centrality in policy focus. Time bound programmes, such as Bharat Nirman, National Rural Employment Guarantee Scheme, Sarva Shiksha Abhiyan etc., and the emphasis on physical outcomes rather than on mere financial outlays, have the potential to contribute significantly to economic capacity creation at the grassroots and to create the right sentiment for enlarged participation of private entrepreneurship in the economic advancement of rural India.

In this context, your Company's pioneering e-Choupal initiative is a powerful illustration of linking business purpose with a larger societal cause. The e-Choupal leverages the power of the Internet to empower the small and marginal farmer with a host of services related to know-how, best practices, timely and relevant weather information, transparent discovery of prices and much more. This digital infrastructure is also increasingly being used for channelising services related to credit and insurance and can be extended to areas such as health,



education and entertainment. It can also serve as a strong foundation for linking small and marginal farmers to the futures markets to facilitate farmer risk management. The access to e-Choupals, within walking distance from the farm gate, is supplemented through physical infrastructure – the ITC Choupal Saagar – which functions as a hub for a cluster of villages within tractorable distance. These made-to-design hubs also serve as warehouses, and as rural hypermarkets for a variety of goods. In effect, the e-Choupal infrastructure is potentially an efficient delivery channel for rural development and an instrument for converting village populations into vibrant economic organisations.

Growth agendas can become sustainable only if they include in their wake strategies to enhance ecological and social capital, thereby translating to development. In line with this philosophy, your Company is engaged in enlarging its contribution across all the three dimensions – economic, ecological and social – through investments in all its businesses and across the value chains, where feasible. Highlights of your Company's progress in pursuit of the 'triple bottom line' objectives are discussed in the sections that follow.

COMPANY PERFORMANCE

Your Company completed yet another year of strong performance with robust topline growth and high quality earnings. All business segments posted strong growth in revenues and enhanced their market standing, testifying to the robustness of the corporate strategy of creating multiple drivers of growth. This performance is even more satisfying when viewed in the light of the challenging business environment of the cigarette industry, incubation costs of the new FMCG businesses and the rural marketing initiatives and the gestation costs of fresh investments in the paperboards and hotels businesses.

Gross Turnover for the year grew by 20.2% to Rs. 19505 crores. Net Turnover at Rs. 12369 crores grew by 26.3% driven by the non-cigarette FMCG businesses, higher agri-business revenues and the continuing strong performance by the Hotels business. The non-cigarette portfolio grew by 37.6% during the year and now accounts for 52.3% of the

Company's Net Turnover. Pre-tax profit increased by 20.1% to Rs. 3927 crores, while Post-tax profit at Rs. 2700 crores registered a growth of 20.8%. Earnings Per Share for the year stands at Rs. 7.19. Cash flows from Operations stood at Rs. 3402 crores during the year.

In order to strike a balance between the need to sustain strategic investments for a secure future and the annual expectation of shareholders for growing income, your Directors are pleased to recommend a dividend of Rs. 3.10 per share (previous year Rs. 2.65 per share) for the year ended 31st March, 2007. The cash outflow in this regard will be Rs. 1364.50 crores (previous year Rs. 1134.70 crores) including Dividend Tax of Rs. 198.21 crores (previous year Rs. 139.56 crores). Your Board further recommends a transfer to General Reserve of Rs. 1250 crores (previous year Rs. 1150 crores). Consequently, your Board recommends leaving an unappropriated balance in the Profit and Loss Account of Rs. 647.53 crores (previous year Rs. 562.06 crores).

PROFITS, DIVIDENDS AND RETENTION

(Rs. in crores)

		(-	,
		2007	2006
a)	Profit Before Taxation and Exceptional Items	3926.70	3269.19
b)	Income Tax	1226.73	988.82
c)	Profit After Taxation Before Exceptional Items	2699.97	2280.37
d)	Exceptional Items (net of tax)	_	(45.02)
e)	Profit After Tax	2699.97	2235.35
f)	Add : Profit brought forward from previous year	562.06	611.41
g)	Surplus available for Appropriation	3262.03	2846.76
h)	Transfer to General Reserve	1250.00	1150.00
i)	Proposed dividend for the financial year at the rate of Rs. 3.10 per Ordinary Share of Re. 1/- each (previous year : Rs. 2.65 per Share)	1166.29	995.12
	Income Tax on proposed dividend (2006 - including Rs. 0.02 crore for earlier years)	198.21	139.58
j)	Retained profit carried forward to the following year	647.53 3262.03	562.06 2846.76



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 with a view to testing international competitiveness and seeking growth opportunities. The ITC Group's contribution to foreign exchange earnings over the last ten years amounted to nearly USD 2.8 billion, of which agri exports constituted nearly 65%. 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 2006/07, your Company, its subsidiaries and the ITC Welcomgroup hotel chain together earned Rs. 2444 crores in foreign exchange. Direct foreign exchange earned by your Company amounted to Rs. 2283 crores. Your Company's expenditure in foreign currency amounted to Rs. 1219 crores, comprising purchase of raw materials, spares and other expenses at Rs. 737 crores, and import of capital goods at Rs. 482 crores.

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

BUSINESS SEGMENTS

A. FAST MOVING CONSUMER GOODS

FMCG – Cigarettes

Your Company's uncompromising commitment to providing superior value to consumers through world-class products helped in sustaining its leadership position in the cigarette industry. The year also saw significant growth in exports, with sales increasing by nearly 60% over the previous year.

In line with your Company's mantra of continuous and consistent offering of value added world-class products to the Indian consumer, a unique IT-enabled 'Six Sigma' based product development process was implemented during the year. This strategic intervention enabled the launch of several key initiatives across the brand portfolio in terms of pack modernisation, limited edition offerings in different flavours and the introduction of 'Silk Cut' in the King Size and Regular Filter

formats. The success of these initiatives is evidenced by the significant enhancement of your Company's market standing in the Premium categories and higher market shares in all segments in key competitive markets across the country. Strategies borne out of deep consumer insights nurtured by your Company and supported by substantial investments have resulted in three of your Company's brands featuring, once again, amongst the top 5 FMCG brands in India.

In keeping with the policy of maintaining global standards across the value chain, your Company continued to induct state-of-the-art and cutting-edge technology in its manufacturing facilities such as high speed cigarette making and packing machines, round corner/beveled edge packers and automatic filter feed systems. Capability augmentation like in-house expanded tobacco manufacture at the Bangalore facility has already started delivering considerable cost reduction and import substitution benefits. Your Company's tobacco research laboratories obtained the ISO/IEC 17025 Certification from the National Accreditation Board for Testing and Calibration Laboratories (NABL) earning international recognition for your Company's R&D capabilities from the scientific and regulatory communities.

The EHS initiatives of your Company continue to be acknowledged by international and national bodies. All the four production facilities have once again won the 'RoSPA Gold Award' conferred by the Royal Society for Prevention of Accidents as well as the 'Five Star Rating' by the British Safety Council. The Munger, Bangalore and Saharanpur units were awarded the 'Greentech Safety Gold Award', whilst the Bangalore and Saharanpur facilities also won the 'Sword of Honour' from the British Safety Council. The Kolkata, Bangalore and Munger units were conferred the 'Greentech Environment Excellence Award'. In addition, the Bangalore factory was honoured with the 'Platinum Standard for Outstanding Achievement in Safety Management' by the Greentech Foundation, 'Safety Innovation Award 2006' by the Institution of Engineers and the 'Unnatha Suraksha Puraskara' by the National Safety Council (Karnataka Chapter). The Munger factory won National Awards for Excellence in Water and Energy Management from CII,



while the Kolkata unit was awarded the 'CII SHE Award' for Occupational Health and Safety by CII Eastern Region, the 'Environment Excellence Award' by the Indian Chamber of Commerce and West Bengal Pollution Control Board and the '1st National Security Today Award' for the Best Maintained Fire Safety System.

A major cause for concern, however, remains the severe taxation and regulatory milieu for cigarettes in India. Cigarettes continue to be discriminated against cheaper and revenue inefficient tobacco products like bidis and chewing tobaccos. Excise duty rates on cigarettes were increased for the second successive year. However, while duty rates on cigarettes went up in excess of 6% in the Union Budget 2007, the same were left unchanged in respect of most of the other tobacco products. Moreover, with effect from 1st April, 2007, cigarettes have been brought under the ambit of Value Added Tax (VAT) by the States at a rate of 12.5% on invoice price, without a reduction/set off in excise duties collected in lieu of State level sales tax. Such a move is against the opinion of Expert Committees on taxation which have, for more than a decade, repeatedly and consistently recommended the exclusion of cigarettes from ad-valorem duties in favour of a single-point specific excise duty structure.

Since taxes already constitute around 130% of the net realisation value of cigarettes, the combined impact of the 6% increase in excise duty and the imposition of 12.5% ad-valorem VAT is equivalent to a 33% increase in excise tax incidence on cigarettes – the highest ever increase that the industry has faced. Bidis, on the other hand, have been exempted from VAT by most States. An ad-valorem levy such as VAT on a highly taxed product like cigarettes can have grievous consequences on the livelihood of more than a million farmers and farm-workers. It is pertinent to note that studies conducted by the Central Tobacco Research Institute (CTRI) have established that the Indian flue cured Virginia tobacco farmer does not, as yet, have an alternative to a remunerative crop like tobacco.

Apart from the distressing impact on farmer livelihoods, such punitive ad-valorem taxes

will also severely restrict the ability of manufacturers to offer world-class products to the Indian consumer.

As evidenced in the past, as cigarettes become more and more expensive due to increasing levels of taxation, tobacco consumption migrates to cheaper, revenue inefficient products like bidis and chewing tobaccos. This phenomenon sub-optimises the economic value per unit of tobacco consumption since the revenue yield from the other tobacco products is low and is declining in spite of an increase in consumption. This is borne out by the following:

Tobacco Consumption in Cigarette & Other Forms

(Million Kgs.)

		•	•
Year	Cigarettes	Others	Total
1981/82	86 21%	320 79%	406
2005/06	76 15%	417 85%	493
Difference	-10	+97	+87

Source: USDA & Tobacco Institute of India

Excise Duty Collected from Tobacco Products in India

(Rs. Crore)

Product	2001/02	2002/03	2003/04	2004/05	2005/06	Cumulative Growth (%)
Cigarettes Growth	5342 -0.8%	5427 2%	5662 4%	6185 9%	7242 17%	36%
Other Tobacco Products Growth	1384 NA	1284 -7%	1152 -10%	1134 -2%	1134	-18%

Source : Answer to Rajya Sabha unstarred question no. 4242 dated May 3, 2005 and Tobacco Institute of India.

The difference in the effective tax rates between various classes of tobacco products needs to be reduced in a manner that maximises economic value and contribution to the Exchequer from the tobacco sector, even in a shrinking basket of overall tobacco consumption. As highlighted in the past, sustainable tax buoyancy can be realised only by expanding the tax base as evidenced 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 Chinese tobacco sector generating as much as ten times the revenue collection from the Indian cigarette industry.

Historically, highly taxed products like cigarettes are prone to smuggling by unscrupulous international players. It is apprehended that the tax arbitrage opportunity, which is already extremely attractive, will now be enhanced by the imposition of VAT, encouraging an even greater level of smuggling of cigarettes into India. Smuggled international brands already account for about 7% of the market and cost the exchequer approximately Rs.2000 crores by way of foregone taxes and foreign exchange outflow. This is bound to increase.

The scales are heavily tilted against the domestic cigarette industry on the regulatory front also. The provisions of the Cigarettes and Other Tobacco Products (Prohibition of Advertisement and Regulation of Trade and Commerce, Production, Supply and Distribution) Act, 2003, (COTPA), require that the packages of all tobacco products manufactured in the country must bear pictorial health warnings. Since the bulk of tobacco products, apart from cigarettes, are manufactured in the unorganised sector, the provisions of COTPA will, in effect, apply mainly to domestic cigarette manufacture. While smuggled stocks will, in any case, not bear such warnings, most other tobacco products could also escape these stringent legislative requirements. This will give a further fillip to the contraband market in India. While these provisions of COTPA were notified to be effective from 1st June, 2007, in response to representations from stakeholders in the industry, implementation has now been deferred to enable a Committee of Ministers to examine the issues arising from these provisions and make suitable recommendations to the Government. It is hoped that the Committee will take on board the views of all segments of the tobacco industry before framing its recommendations to ensure a fair and equitable legislative climate for all tobacco products.

India is the third largest tobacco producer in the world. Millions of people depend on this crop for their livelihood – directly and indirectly. The plight of farmers in 2000/01, when, for the first time in India's history a tobacco crop-holiday was declared, is still fresh in public memory. Thereafter, relative stability in taxation has helped the farmers regain some of the lost ground. Farmer realisations improved significantly last year alongwith considerable growth in exports of tobacco and tobacco products. As noted in the Report on Tobacco Control in India, Ministry of Health and Family Welfare, 2004 - "Tobacco occupies a prime place in the Indian economy on account of its considerable contribution to the agricultural, industrial and export sectors". Unfortunately, harsh fiscal legislation, over time, coupled with a discriminatory regulatory framework has led to the unintended consequence of sub-optimisation of the economic potential of this important crop.

While your Company continues to comply with the statutes in letter and in spirit, it is also engaged in dialogue with governmental agencies and policy-makers on an ongoing basis for formulation of equitable and inclusive tobacco control and taxation policies that address the interests and concerns of all stakeholders in an even-handed and sustainable manner.

As mentioned in last year's Report, 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 the Company in this regard. However, the State of Andhra Pradesh has filed a contempt petition in the Supreme Court claiming a sum of about Rs. 323.25 crores towards luxury tax, and a further sum of about Rs. 261.97 crores towards interest, on the allegation that your Company had charged and collected luxury tax from its customers, but in view of a stay order passed by the Court on 1st April, 1999, did not pay the tax to the Government. The State's contention is baseless, contrary to facts and is also contrary to the



assessment orders passed by the State luxury tax authorities consistently holding that the Company, right from 1st March, 1997, did not charge or collect any amount towards luxury tax from its customers. Accordingly, the State's petition is being contested.

The year ahead, however, presents an extremely challenging operating ambience. In view of the bleak taxation and regulatory scenario for tobacco, exacerbated by debilitating discontinuities like VAT etc., it is quite likely that industry volumes will be under pressure. Your Company though is confident that its leadership position can be retained, even in a shrinking basket of tobacco consumption, by the vitality of its strategies and the continuing loyalty of its value seeking consumers.

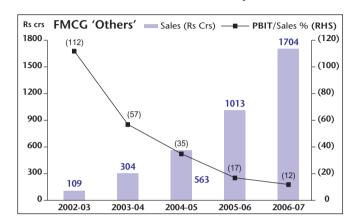
FMCG - Others

As discussed in detail in earlier years' Report of the Directors, it is the strategic intent of your Company to secure long-term growth by synergising and blending the diverse pool of competencies residing in its various businesses to exploit emerging opportunities in the FMCG sector. Your Company remains bullish on the prospects of the FMCG sector. The key demand drivers for FMCG products in India include rising disposable incomes and a favourable demographic profile; the relatively low levels of per capita consumption and penetration of these products; growing urbanisation; growing population of working women and the increasing penetration of organised retail.

During the year under review, your Company continued to rapidly scale up the newer FMCG businesses comprising Branded Packaged Foods, Lifestyle Retailing, Greeting, Gifting & Stationery and Safety Matches & Incense Sticks (Agarbattis).

It is a matter of deep satisfaction to report that your Company continues to be the number one FMCG Company in the country in terms of distribution reach. Your Company services the largest number of markets and retail outlets in the FMCG sector across the country. This formidable distribution infrastructure is the result of strategic initiatives including deeper penetration into grocery and modern format stores, strengthening of the stationery channel and expansion of the e-Choupal based rural distribution model.

The Segment Report set out in Schedule 20 to the Accounts reflects the outcome of this rapid scaling up. Segment Revenues grew by 68% over 2005/06 to touch Rs. 1704 crores during the year. The table below illustrates the rapid growth of these businesses over the last few years:



Segment Results reflect the gestation costs of these businesses largely comprising costs associated with brand building, product development and infrastructure creation. Highlights of progress in each category are set out below.

Branded Packaged Foods

The Branded Packaged Foods business continued to expand rapidly with sales recording an impressive growth of 51% over the previous year. The range of offerings now comprises more than 150 distinct food products under six brands. Your Company's unwavering commitment to internationally benchmarked quality standards enabled it to further enhance the market standing of all its brands. In terms of consumer spend, 'Aashirvaad' and 'Sunfeast' have both become more than five hundred crore rupee brands within a short span of time.

The year marked your Company's foray into the fast growing Rs. 1900 crores organised Salty Snacks market with the launch of the Bingo! range of potato chips and finger snacks. The launch, initially comprising 16 highly innovative and differentiated flavours, is backed by extensive market research leading to crafting of products/variants customised for the Indian palate. Your Company is confident of redefining this category on the strength of its insightful understanding of consumers, a robust product development strategy bolstered by the