REPORT OF THE DIRECTORS & Management Discussion and Analysis

For the Financial Year Ended 31st March, 2003

Your Directors submit their Report for the financial year ended 31st March, 2003.

SOCIO-ECONOMIC ENVIRONMENT

India's GDP growth for 2002-03 is estimated at 4.4%, well below the target of 6.7% and the 5.6% growth registered in 2001-02. The slower growth was a result of the de-growth in the agriculture sector, as the country's worst drought in more than fifteen years choked a nascent recovery in the industrial sector. Economic performance for the three quarters ending December 2002 indicates a decline of 2.1% in agriculture, which partly offsets the growth of 5.7% and 7.4% in industry and services respectively.

The farm sector, home to nearly 60% of the country's workforce now accounts for barely 23% of the GDP. With the economy still reliant to a large degree on the rural sector to stimulate demand, volatility in agri output with consequent impact on incomes severely undermines the sustainability of growth in other sectors. The objective of securing higher economic growth, therefore, necessitates an effective growth strategy for rural India.

Urgent implementation of reforms in the agri sector, supported by investments in rural infrastructure and the development of agri-based industry are vital to rapidly grow rural incomes. Growth in rural incomes would pave the way for progressive reduction in the distortions caused by subsidies, and broaden the tax base. Reform is not only necessary to eliminate poverty, but is also essential for creating a growing demand base for Indian industry. In this context, the declining share of investment as a percentage of GDP, particularly that of primary investment in agriculture, is a matter of concern. Total share of investment declined for the second successive year from 24% of GDP in 2000-01 to 23.7% in 2001-02, with the share of agriculture in total investment falling below 7%. Higher level of investment in agriculture is the foundation to progressively enlarge the domestic demand base for industry to attain optimal scales of operation and facilitate diversification of land use aligned to market demand.

A growing domestic base will strengthen overall preparedness to face the challenges posed by increasing globalisation of markets. The slowdown in the US economy, India's largest trading partner, and China's entry into the WTO compound the challenges manifold. While upgradation of physical and social infrastructure is vital for enhancing competitiveness, taxation reforms are crucial to mobilise resources to support increased public investment. Multiplicity of taxes, particularly at the State level, serves to fragment the Indian market, leading to sub-optimal revenue generation for the Exchequer. A harmonised tax structure, together with moderation in taxes, will expand the tax base and induce buoyancy of revenue.

In order to leverage the economic multiplier potential of the agri sector, government and industry must come together to play a mutually supportive role. The participation of Indian industry needs to be harnessed to bring about competitiveness in India's rural sector. No Indian enterprise using agri raw materials can attain decisive international competitiveness in isolation. Its competitiveness is inextricably intertwined with that of the farm sector and indeed with the entire value chain from the farm to the consumer. The corporate sector therefore has an enlightened vested interest in contributing to and securing the competitiveness of India's farm sector.

In line with this philosophy, your Company, with its deep agri sector linkages nurtured over time, is engaged in leveraging technology to enlarge its contribution to the Indian farm sector. Your Company's interventions based on information technology and biotechnology carry the potential to yield a profound transformational impact on India's rural economy. Details of these interventions are set out in the sections on Agri business and Paperboards in this Report.

COMPANY PERFORMANCE

Notwithstanding difficult trading conditions, your Company concluded yet another year of all-round growth in all its business segments. The financial performance for the year ended 31st March 2003 is satisfying as it has been achieved in the wake of several challenges confronting your Company's businesses including the general economic slowdown that affected the FMCG industry in particular, the burgeoning impact of State level taxes, low tourist arrivals into India in the first half coupled with the gestation of new hotel investments, and incubation of new business initiatives.

Quantum improvement in each of your Company's business segments resulted in a robust 12% growth in Gross Turnover to Rs.11,025 crores. Pre-tax profit increased by an impressive 15.5 % to Rs. 2056 crores, while Post-tax profit at Rs. 1371 crores registered a growth of 15.3%. After adjusting for certain once off items, underlying Pre-tax profit for the year registered an even more impressive growth of 19.1% while underlying Post-tax profit grew by a substantial 18.5%. Earnings Per Share for the year stands at Rs. 55.41. Healthy operating results coupled with further efficiency in the management of working capital contributed to an 18% increase in Cash flows from Operations to Rs. 2627 crores.

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.15.00 per share (previous year Rs. 13.50 per share) for the year ended 31st March, 2003. The cash outflow in this regard will be Rs.418.84 crores (previous year Rs. 334.14 crores) including Dividend Tax of Rs.47.57 crores (previous year Nil). Your Board further recommends a transfer to General Reserve of Rs.1000 crores (previous year Rs.800 crores). Consequently, your Board recommends leaving an unappropriated balance in the Profit and Loss Account of Rs. 343.88 crores (previous year Rs. 325.87 crores).

PROFITS, DIVIDENDS AND RETENTION

(Rs. in crores)

	2003	2002
a) Profit Before Tax	**2056.19**	1780.26
b) Income Tax	**684.84**	590.54
c) Profit After Tax	**1371.35**	1189.72
d) Add : Profit brought forward from previous year	**325.87**	282.50
e) Transfer from Hotel Foreign Exchange Earnings Reserve	**9.00**	—
Less : Transfer to Hotel Foreign Exchange Earnings Reserve	**4.00**	3.00
f) Release from Investment Allowance Reserve	**—**	—
g) Surplus available for Appropriation	**1702.22**	1469.22
h) Transfer to Debenture Redemption Reserve	**—**	21.49
i) Less : Transfer from Debenture Redemption Reserve	**60.50**	12.28
j) Transfer to General Reserve	**1000.00**	800.00
k) Proposed dividend for the financial year at a rate of Rs. 15.00 per Ordinary Share (previous year Rs.13.50 per Ordinary Share)	**371.27**	334.14
Income Tax on proposed dividend	**47.57**	—
l) Retained profit carried forward to the following year	**343.88**	325.87
	1702.22	1469.22

FOREIGN EXCHANGE EARNINGS

The ITC Group's contribution to foreign exchange earnings over the last decade amounted to nearly US$ 2.2 billion, of which over US$1.6 billion was accounted for by agri exports. In this context, it is significant that your Company's earnings from agri exports represent over 2% of the country's export earnings from this sector - a major indicator of your Company's contribution to the rural economy.

During the year under review, your Company, its subsidiaries and the ITC Welcomgroup hotel chain together earned Rs. 1368 crores in foreign exchange representing a growth of over 35%. Direct foreign exchange earned by your Company amounted to Rs. 1294 crores. Your Company's expenditure in foreign currency amounted to Rs.408 crores, comprising purchase of raw materials, spares and other expenses at Rs. 341 crores, and import of capital goods at Rs. 67 crores.

The 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 operating environment for cigarettes in India continues to pose an increasing order of challenge, particularly in the spheres of taxation and regulation of consumption and communication.

The prolonged trend of high taxation has the effect of being almost exclusively directed towards the cigarette segment of the tobacco industry since most other tobacco products belong to the cottage and unorganised sectors, the fragmented nature of which leads to ineffective enforcement and consequent low incidence of taxation. To illustrate, on most tobacco products other than cigarettes, the effective excise duty is equivalent to about 12% of the net value of the product whereas on cigarettes this component is as high as 140%, thereby rendering cigarettes unaffordable to a majority of tobacco consumers even while other forms of tobacco consumption continue to grow. The progressive migration to lower value forms of consumption has resulted in the share of cigarettes declining from 21% in 1981-82 to a mere 14% currently. In the last 20 years, tobacco consumption in non-cigarette varieties has increased especially in the chewing format by 68 million kgs. and reduced in the cigarette format by 21 million kgs. It would also be evident that such a discriminatory form of taxation has not even subserved the social objective.

(Million Kgs)

Year	Cigarettes	Others	Total	Share of cigarettes
1981-82	86	320	406	**21%**
2001-02	65	388	453	**14%**
Variance	**-21**	**+68**	**+47**	

Source: Tobacco Institute of India

Cigarettes, although constituting only 14% of tobacco consumption, contribute 85% of revenues to the Exchequer from the tobacco sector. The effective tax incidence per kilogram of cigarette is 21 times greater than on bidis and 17 times greater than on chewing tobacco. As a result per capita consumption of cigarettes in India is the lowest in the world – less than one-tenth the world average of 1267 sticks per annum.

Country	Per Capita Adult Cigarette consumption per annum
India	**119**
Bangladesh	232
Pakistan	562
Nepal	628
China	1,315
UK	1,833
USA	2,372
Japan	2,855
World Average	**1,267**

Source: Tobacco Institute of India

In sharp contrast to the declining share of cigarettes in tobacco consumption in India, the consumer internationally has been able to upgrade tobacco consumption to cigarettes, reflecting in the much higher share of cigarettes in tobacco consumption. For example, the share of cigarettes in China is almost 100%, and in U.S.A it is nearly 80%, with the world average in the region of 85%. Even in South Asia, consumption of tobacco in the cigarette format is higher, accounting for about 60% of total tobacco consumed in Pakistan and 50% in Nepal. Apart from the shrinking share of cigarettes in India, there is also downgrading of consumption within cigarettes. King size cigarettes, which represent the highest quality of tobacco, account for only 5% of the Indian cigarette industry. The small base of domestic cigarette consumption discourages investment in R&D and quality enhancement of tobacco varieties and thereby sub-optimises the export potential of tobacco.

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 well established that sustainable tax buoyancy can be realised only from an expanding tax base. Moderation in rates of taxes, coupled with the aspiration of tobacco consumers to upgrade consumption, can multiply the share of cigarettes even in a shrinking basket of tobacco consumption. Consequently, the tax base of the sector can stand significantly enhanced, yielding for the Exchequer the much needed resources for critical priorities. This approach can realise the objective of multiplying resources even with reduced aggregate per capita consumption of tobacco.

China, which has followed such a policy, is a good example of optimising the revenue potential of tobacco. With a per capita GNP roughly double that of India, China levies taxes on cigarettes which are half that of India resulting in revenue collections from the cigarette industry of US $ 13.9 billion per annum – 10 times the revenue collections from the Indian cigarette industry.

The shift in the pattern of tobacco consumption away from cigarettes and towards low value added products adversely impacts the potential economic multiplier of other important and vital constituents of the value chain, in particular the tobacco farmer. Analysis of farmer economics in Andhra Pradesh by the Central Tobacco Research Institute (Ministry of Commerce) has confirmed that in most regions net returns to the cigarette type tobacco farmer is significantly higher than that realised from alternative crops, thus contributing incrementally to rural prosperity. A stable and growing demand for cigarette type tobacco leaf in the domestic market would strengthen the farming community, provide insulation from the vagaries of fluctuating global markets, and serve as a springboard for leveraging export opportunities. The example of China cited earlier demonstrates that moderate taxes secure a strong domestic cigarette base, which in turn facilitates investment in quality with consequent buoyancy in revenue, exports and farm incomes. Drawing on the strength of a strong domestic base, China has grown its exports to over 140 million kgs per annum over the last three years overtaking India's exports of 86 million kgs. The resultant favourable impact on the livelihood of thousands of farmers cannot be over-emphasised in this context.

The incidence of high and discriminatory taxes on cigarettes is compounded by the levy of State level taxes in various forms such as luxury tax, entry tax and octroi. The levy of State level taxes militates against the understanding between the Centre and States arrived at in 1955, wherein the States agreed to give up their right to levy such taxes on tobacco in lieu of which Additional Excise Duties is levied by the Centre and distributed exclusively to the States as per recommendations of the Finance Commissions. This arrangement of taxation and tax assignment recognises the high degree of sensitivity of taxes on cigarette trade and embodies the principle of uniform, single point taxation. High levels of aggregate taxes serve to hasten downtrading of consumption from cigarettes to other low value forms of tobacco. Multiplicity of State level taxes imparts a cascading effect to an already highly taxed commodity. Differential rates of such taxes distort trade and undermine the economic benefits of a larger common market. The unabated imposition of a slew of such taxes on cigarettes resulted in a runaway increase in State level taxes by 50% during the year under review.

Your Company is currently contesting the levy of luxury and other taxes at appropriate forums, including the Supreme Court, and is hopeful of a positive outcome. As stated in last year's Report, the levy of entry tax in Tamil Nadu and luxury tax in the states of Delhi, Kerala, Andhra Pradesh and Tamil Nadu have been stayed by the respective High Courts. Your Company, by way of abundant caution, continues to provide for the disputed amounts in its Accounts.

The principle of uniform, moderate taxation to expand the tax base and realise the benefit of a larger common market is even more relevant in the context of the proposal to replace the State level sales tax system with a modern system of Value Added Tax (VAT). The Union Budget 2003 proposed an amendment to the AED Act to enable States to levy VAT upto 4% of the transaction value of goods exigible to Additional Excise duty in lieu of State taxes. The levy of VAT on a product like cigarettes which is already subject to a plethora of taxes will only serve to magnify the chasm in taxation levels between cigarettes and other tobacco products and result in further contraction of the share of cigarettes with consequent adverse impact on tax collections and export earnings. It is therefore imperative that with the imposition of VAT the States withdraw all other levies on these products so as to mitigate the pernicious effects of cascading taxes and multiplicity of tax systems.

High rates of taxation on cigarettes have also spawned a growing trade in contraband, causing all-round economic loss of over Rs.1,600 crores annually through loss of revenue and unaccounted outflow of foreign exchange. For example, contraband king size cigarettes from Bangladesh are sold in Indian markets at Rs.5/- for a packet of 10 cigarettes – implying that contraband is available to consumers at only 34% of the excise duty alone on domestic king size cigarettes. In order to minimise the serious economic injury caused by smuggling, the legal framework relating to imports of cigarettes needs to be reviewed so as to prevent misuse by traders in contraband. To begin with, imports of cigarettes for re-export should be banned. Such amendments to legislation require to be supplemented by strengthening the enforcement machinery. In this regard your Company continues to make comprehensive recommendations to the Government.

It is a serious misconception to equate tobacco consumption with consumption of cigarettes in India. All regulatory restrictions, including those proposed in the Cigarettes and other Tobacco Products (Prohibition of Advertisement and Regulation of Trade and Commerce, Production, Supply and Distribution) Bill, 2003 have the effect of regulating only the domestic cigarette industry, thereby further shrinking the tax base and severely hampering export potential of Indian tobaccos. Whilst seeking to reduce per capita consumption of all forms of tobacco over time, regulations should not impede the maximisation of economic value per unit of consumption. The Cigarettes and other Tobacco Products Bill, 2003 passed by the Parliament recently contains measures which place the domestic cigarette industry at a serious disadvantage vis-à-vis foreign brands on the one hand and other forms of tobacco on the other.

The Bill imposes a ban on media advertising by domestic companies while international cigarette brand owners advertise their brands in various media and continue to direct their communication into the Indian market through satellite channels largely watched by the young. The inclusion of pictorial warnings on packaging of tobacco products and mandatory declaration of tar and nicotine contents will, in practice, lead to discrimination against the domestic cigarette industry, since there are over 1000 brands of non-cigarette tobacco products and an even larger number of unbranded and unpackaged products on which it will not be possible to implement the declarations. Further, contraband cigarettes, which bear no such declaration will mislead consumers in India and thereby fuel faster growth to the detriment of the economy and the domestic industry. Restrictions on sale of cigarettes and other tobacco products within a prescribed radius from educational institutions would disrupt lakhs of petty shopkeepers, subjecting them to harassment at the lowest level of enforcement. In the rural context, such restrictions on sale imply that local vendors would often need to relocate beyond village boundaries. Even the World Health Organisation does not advocate such measures, nor is it a practice in developed economies like USA, Japan, U.K, and E.U.

Such discriminatory regulation of the domestic cigarette industry vis-à-vis international cigarette brands as well as other forms of tobacco would: (a) erode Indian Brand Equity since domestic brand owners would be severely hampered in their ability to command a fair price for value provided and therefore forced to compromise on quality (b) set in motion a vicious economic cycle of low quality, low farm earnings, lower revenue collections and low investment (c) provide an unintended fillip to contraband trade and (d) trigger large scale loss of employment.

Your Company supports a rational and equitable regulatory policy for the tobacco industry, which is practical and implementable. India is the second largest producer of tobacco in the world with significant employment linked to the growing of tobacco, unlike most developed countries. Therefore, phased regulation would be more appropriate until a viable strategy is put in place for alternative employment for tobacco farmers and others engaged in the trade.

Despite the challenging circumstances, your Company continues to invest in its brands to provide world-class standards for the Indian consumer. Over the last seven years your Company has invested over Rs.1000 crores in creating internationally benchmarked product and process quality. According to an Economic Times-A C Nielson study, two of your Company's brands are the top FMCG brands of the country, accounting for over 35% of the consumer spend of the top 10 FMCG brands in the country. The unwavering commitment to providing superior value for the consumer resulted in the launch of several innovative products. Gold Flake Kings Cool Mist was rolled out in select markets, supplementing the range of taste and flavour options for consumers. Consequent to the ongoing upgradation of packaging all filter cigarettes are now marketed in the internationally preferred hinged lid form of packaging. Building on the successful extension of the prestigious India Kings Lights version in the ultra premium bevelled edge packaging, all the Lights versions of your Company's premium brands are now available to consumers in this packaging format. Encouraged by the initial response to the 5s form of packaging, two more brands-Scissors Standard and Capstan Standard- are progressively being marketed in this format thereby enhancing buying convenience. A new benchmark in product and packaging quality was defined with the launch of Insignia in the super premium category in a unique shoulder box package. This brand, a product of in-house development, is rapidly creating a franchise in the consumers' minds as the finest global standard in cigarette quality. Already being one of the country's largest users of consumer and trade research, every innovation serves to deepen your Company's resolve to get even closer to the consumer.

Your Company continues to be engaged in upgrading in-house capabilities. ITC's commitment to world-class standards in products and processes continues to receive national and international acknowledgement. During the year, the Saharanpur and Munger factories received 5 star ratings from the British Safety Council.

Successful execution of well-researched and robust strategies has enabled your Company to consolidate its leadership position during the year. However, the increasing levels of taxation and restrictive regulation continue to pose challenges. As stated earlier, nearly 86% of tobacco consumption in formats other than cigarettes represents a large potential market with tobacco consumers aspiring to upgrade consumption. A policy of moderation in taxes can fulfil this aspiration, thereby creating growing value from the tobacco sector. In summary, moderation of taxation and equitable regulation of tobacco will ensure progressive migration to the cigarette format of tobacco consumption, thereby maximising economic value from the industry even in a scenario of shrinking overall tobacco consumption. Given an enabling environment, your Company, with its strategy of continuous value addition to its brands, is well positioned to sustain its leadership role in the tobacco sector.

Your Company is engaged in further expanding the distribution and delivery bandwidth to serve as a springboard to cater to a much wider range of branded consumer products. Concurrently, the competencies residing in the ITC Technology Centre at Bangalore are being enlarged to service the emerging requirements of the new FMCG businesses.

FMCG – Others

Growing disposable incomes in India and the progressive evolution of consumer preferences towards value added consumer products present exciting growth opportunities for your Company. It is the strategic intent of your Company to secure long term growth by synergising and blending the diverse pool of competencies residing in the various businesses in the portfolio. During the year under review your Company crossed significant milestones both in the range of consumer products developed as well as the breadth of geographical coverage.

Investment in people systems, trade marketing expertise and product development enabled the launch and national rollout of several other branded consumer products spanning Apparel, Packaged Foods, Greeting Cards and Stationery, Safety Matches and Incense sticks (Agarbatti). The business model in these product categories envisages retaining critical elements of each value chain in-house while manufacture is outsourced largely to small and medium enterprises (SMEs). Such a model enables ITC to participate effectively in strengthening the capability of these SMEs, thereby enhancing the competitiveness of the entire value chain. The Segment Report set out in Schedule 20 to the Accounts reflects the rapid scale up of operations. Segment Revenue grew over five fold from Rs.22 crores in 2001-02 to Rs. 109 crores in 2002-03. Segment Results reflect the start-up phase of these products and largely comprise costs associated with infrastructure, product development and brand building.

Lifestyle Retailing

Your Company's Lifestyle Retailing business completed the first phase of establishing upmarket retail presence in key markets. During 2002-03, 10 new exclusive stores were added, taking the tally to 48 Wills Lifestyle stores across 38 cities in India. The product range was expanded with the launch of 'Wills Classic' in 20 select Wills Lifestyle stores to cater to the high potential formal work wear segment. The products have been well received and already account for over 19% of the turnover of these outlets. Development is under way to further expand the range to establish full representation in the fashion portfolio.

The business' internationally benchmarked quality continues to earn industry recognition, with 'Wills Sport' winning the "Most Admired Women's Wear Brand" at the Images Fashion Awards 2002.

Apart from consolidating and growing share in the premium segment of the Western ready to wear market, your Company views the branded mid-priced segment as a significant opportunity for growth. The size of this segment is estimated to be about Rs 2400 crores with annual growth rates in the region of 15%. Your Company made an entry into this segment by launching a range of high quality, attractively priced men's wear under the brand 'John Players'. The brand was introduced in Karnataka in December 2002 and extended thereafter to 18 markets during 2002-03 with an ambitious target to rapidly roll out the product nationally.

The business is engaged in addressing the challenge of gearing the supply chain to cater to significantly higher scale of operations, both in terms of the range of products as well as the number of outlets serviced. The investment in the state-of-the art Master Facility in Gurgaon provides the platform for R&D activities on fabrics and washes, besides facilitating prototyping of designs. A pilot just-in-time production line is being set up to shrink market response time and manage risk of obsolescence.

The business aims to progressively enlarge its engagement across the fuller value chain from fibre to fashion, thereby creating the basis for higher order value creation, from both domestic and international markets.

Branded Packaged Foods

The branded foods market represents a significant opportunity for long term growth. Alongside growing per capita incomes, consumer preference in India is expected to progressively evolve from unbranded basic foods to branded value added products. Changing consumer habits and heightened quality awareness, together with the expected reform of the regulatory framework and tax structures, will provide a fillip to the food processing industry. Your Company possesses many a strength to exploit this growth opportunity including vast trade marketing and distribution skills, agri-sourcing capability and specialist cuisine and bakery knowledge residing in the Hotels business.

As stated in this Report last year, your Company's foray into the branded foods market commenced with ready-to-eat gourmet foods under the brand 'Kitchens of India'. Significant progress was made during the year towards establishing your Company as a leading player in the branded packaged foods industry. Operations continue to be rapidly scaled up. The branded foods portfolio now extends to four distinct categories– Ready-to-Eat, Staples, Confectionery, and Snack Foods & Biscuits.

In the Ready-to-Eat segment, the product portfolio was expanded with the introduction of new recipes in the vegetarian and dessert categories. The launch of the 'Gharana' range of products strengthened the premium position of the flagship brand 'Kitchens of India'. In the Staples segment, your Company introduced the 'Aashirvaad' brand of packaged Atta in two variants i.e. 'Aashirvaad Select' at the premium end and 'Aashirvaad Whole Wheat Atta' in the popular segment. The agri-sourcing capability of your Company assures the finest product quality to consumers. The introduction of 'Aashirvaad' Pure Salt in March 2003 reinforced the staples portfolio. 'Aashirvaad' is rapidly progressing towards establishing leadership position as a national brand.

Your Company made impressive progress during the year in the Confectionery segment with the launch of the 'mint-o' brand in the compressed lozenges category. The product was progressively rolled out to target markets and is currently available in 3 variants – Regular, Orange and Lemon. This brand has substantially expanded the compressed lozenges category and has acquired around 35% market share in less than a year of launch. The 'Candyman' brand was launched in the children's confectionery segment in 2 unique flavours – Mango Delite and Wild Banana, gaining wide market acceptance and popularity. Entry into the Snack foods market was marked with the launch of baked snacks under the brand name 'I Bischips'. This unique baked product offers the consumer a healthy snacking option.

The business is gearing capabilities to launch a host of high-quality products across segments. Your Company has established a state-of-the-art Food Technology Centre at Bangalore, which will impart to the Foods Business the ability to develop a range of differentiated products, thereby enabling a higher order of value capture.

Greeting Cards & Gifts

During the year, your Company's Greeting Cards business nearly tripled its turnover to achieve a market share of about 15%. In an affirmation of the growing market standing of this business, over 300 retail stores opted to sign up for the "Expressions Valued Customer" scheme entitling them to display the 'Expressions' signage besides other associated benefits.

Investment in in-house design capability, supplemented by outsourced visuals and finished designs from the best-in-class, provides the creative wherewithal to emerge as the preferred choice of consumers. The business' streamlined back-end operations are a source of competitive advantage. Towards this end, the business forged new value chain partnerships encompassing all areas of operations viz. design, manufacturing and retail.

During the year, the product range was enlarged with the introduction of Gift wrappers, Autograph books and Slam books. The Social Cause range of cards introduced in partnership with the SOS Children's Villages of India is now one of the top social cause greeting cards brands in the country. The business also test marketed its range of premium stationery products under the brand 'Expressions Paperkraft', leveraging the competencies residing in the Paperboards and Specialty Paper business of your Company. The premium stationery range is targeted for all India launch in 2003-04.

Your Company's Greeting Cards and Gifts business with its strengthening capability and distribution reach is well positioned to capture emerging growth opportunities.

Safety Matches

ITC's philosophy of contributing to enhancing the competitiveness of the entire value chain found yet another expression in the Safety Matches initiative. Your Company commenced marketing Safety Matches leveraging its printing and packaging knowhow, superior product development, branding, and trade marketing and distribution capabilities. These capabilities complement the manufacturing capacities of small enterprises, resulting in superior, differentiated products for the Indian market.

After initial launch in North Kerala in August 2002, market coverage was rapidly extended to all major metros, all southern states and many states in Western, Northern and Eastern India. Your Company's brands, i Kno, Mangaldeep, Delite, Vaxlit and Aim met with encouraging consumer response and gained impressive market shares, touching about 15% in the metros and nearly 10% in other markets where present. These products continue to gain market share on the strength of superior product quality and greater ease of availability through the reach and depth of your Company's distribution network.

The business model envisages sourcing through SSI units and supporting improvement of their quality base. As at March 2003, the supply chain comprised 28 such SSI units with capability to supply over 100 million boxes per month. The business is poised to expand market coverage significantly. A key challenge in the progress towards international competitiveness is the recent imposition of an 8% ad valorem excise duty without Cenvat credit on matches made by the semi-mechanised and mechanised sectors vide the Union Budget 2003.The duty impost places semi-mechanised units at a considerable disadvantage in comparison to other match units and impedes their ability to invest in quality. A supportive tax regime can hasten the upgradation of the small scale sector, with consequent enhancement in the economic multiplier.

Incense Sticks (Agarbattis)

Your Company's foray into the marketing of Incense sticks marks the manifestation of its partnership with the cottage sector. The business envisages sourcing high quality sticks in finished form from cottage sector units located in Bangalore and Pondicherry, while the ITC Technology Centre at Bangalore provides product development support. Your Company's strengths in packaging and printing have been harnessed in the development of high quality packaging, thereby assisting the quality effort of the cottage sector.

During the year under review, your Company commenced marketing its products in three cities. Three brands in six fragrances were part of the initial launch. Consumer response has been encouraging and distribution is being extended in a phased manner to cover all target markets in 2003-04.

Your Company aims to become the most preferred provider of incense products to Indian consumers by creating a presence across all segments and price points with superior products of world-class quality. Towards this end plans are on the anvil to enlarge the product portfolio.

Each of these business initiatives, while seeking to establish leadership in emerging growth markets, also serves to expand the depth and width of ITC's trade marketing and distribution capability. The expanded trade marketing capabilities, blended with a state-of-the-art information technology transaction backbone and the e-Choupal rural network discussed later in this Report, provide the basis for a low cost, broadband supply chain fulfilment capability for any consumer product. Such fulfilment capability can be likened to an FMCG super highway which can also be used as an effective infrastructural link to align Indian farmers with markets. The super highway can serve as a basis for powerful partnerships with other FMCG brand owners who wish to obtain the benefits of such a wide and deep trade marketing and distribution capability. Over the long term, such strategic partnerships are expected to be a basis for growth in revenues and shareholder value.

B. HOTELS

The commissioning of the 250 room ITC Hotel Sonar Bangla Sheraton and Towers in Kolkata on December 31, 2002 marks another strategic milestone in the completion of the ITC Welcomgroup chain. This super deluxe hotel's unmatched ambience combines the finest features of a resort with the contemporary functionalities of a business hotel, drawing widespread accolades as Asia's finest business resort. Construction at ITC Grand Central in Mumbai resumed in March 2003 and the hotel is now likely to open by end 2004.

The Tourism industry is a powerful instrument of economic transformation, having contributed to the turnaround and growth of several economies around the world. Notwithstanding periodic setbacks, tourism continues to be the world's largest and fastest growing industry. Its contribution to the world economy, both in terms of GDP growth and employment generation, is spectacular. According to the World Travel and Tourism Council, the Travel and Tourism industry is estimated to have contributed about US$ 1.36 trillion to the world's Gross Domestic Product in 2001, accounting for 4.2 % of global GDP. The industry employs 207.1 million people, constituting 8.2% of total global employment. According to the projections of the World Tourism Organisation (WTO), tourist movements will more than double to 1.6 billion by the year 2020. Income from Tourism, excluding transport, will touch a staggering US$ 2 trillion.

In the Indian context, growth in the tourism and hotels sector is a sure and fast means of employment generation across a spectrum of skills. This sector can therefore contribute significantly to the larger national goal of inclusive economic growth. The progress in India's immediate neighbourhood brings home this potential. China currently clocks 31 million arrivals a year, while Malaysia and Thailand have crossed the 10 million milestone. In sharp contrast, India notches barely 2.5 million visitors annually. Just two decades ago, China was on par with India with tourist arrivals of around 750,000 a year. According to the WTO, China today has more than 950,000 hotel rooms. Beijing by itself has as many rooms as the whole of India - estimated at 80,000.

There is a growing appreciation of the significance of the tourism and hotels industry in contributing to the important national goals of employment generation and foreign exchange earnings. The Government's ambitious target of attaining 0.62% of the world tourism market share by 2007, the enabling proposals contained in the Union Budget and the Exim Policy 2003, and the substantial allocation of funds for upgradation of physical infrastructure reflect this appreciation. Tourism is an industry of industries. It will prosper as all-round development takes place in the quality and scale of infrastructure. In the context of this potential, India is grossly under-roomed even in comparison with its much smaller neighbouring East Asian countries.

Even to service a modest GDP growth of 6% per annum, the capacity of hotel rooms in India would need to double over five years.

Your Company's initial objective of completing the ITC Welcomgroup chain in the super deluxe segment in all key locations in India is nearing fulfilment. The outlay todate towards the new properties and projects amount to Rs.841 crores as highlighted in the notes to Segment Assets set out in Schedule 20 to the Accounts. These world-class hotels together with ITC Welcomgroup's competitively superior hoteliering capability, strongly position your Company to attain industry leadership.

C. PAPERBOARDS, PAPER AND PACKAGING

All-round improvement in the performance of the Paperboards, Specialty Paper and Packaging segment is evident in the Segment Report annexed as Schedule 20 to the Accounts. While Segment Revenue grew by 13% to touch Rs.1163 crores, Segment Results improved substantially by nearly 40% to Rs.226 crores. These results stand testimony to the robustness of strategy and resilience of operations of this business segment.

Paperboards and Specialty Paper

During the year, your Company realised the operating synergies envisaged in the amalgamation of the erstwhile ITC Bhadrachalam Paperboards Limited. The Tribeni Tissues Division and the Bhadrachalam Paperboards Division were integrated as the Paperboards and Specialty Papers Division. Production of the combined entity during 2002-03 was 233574 MT compared to 229762 MT during the previous year. While overall sales including interdivisional sales increased to 230094 MT from 228505 MT, sale of value added products grew by nearly 62% to 57653 MT, resulting in an enriched mix and higher profitability.

Despite a decline of over 2% in global production, the industry in India grew by over 6% in 2002-03 and is expected to grow at the rate of 6-7% every year. The value added paperboards segment is expected to grow even faster by over 20% per annum primarily driven by the growing sophistication of the Indian consumer and the consequent need for product differentiation, growth in organised retailing and improvement in conversion technology.

The domestic paperboard industry is fragmented with approximately 100 players constituting the industry's 1 million tonne installed capacity. Radical changes in consumer product distribution and retailing triggered by the rapid globalisation of the Indian market are increasingly making quality a key differentiator. Your Company's mill at Bhadrachalam is India's largest integrated paperboard mill and the quality leader by far.

During the year under review, the range of value added products stood enhanced with the commissioning of a poly extrusion plant and a super calender at the Bollarum unit. The poly extrusion plant imparts barrier properties to the paperboard and caters to the fast growing cup stock segment, while the super calender enhances presence in the superior graphic and cultural segments.

The world-class quality of your Company's products sustained a growing contribution to the national effort of foreign exchange conservation through substitution of imports and export of value added paperboards. Besides conserving over Rs.120 crores in foreign exchange through import substitution, exports during 2002-03 touched nearly Rs. 100 crores, bagging in the process the Capexil award for exports yet again. The product footprints now extend to Sri Lanka, Bangladesh, Malaysia, South Africa, Bulgaria, UAE, UK and Iran.

Apart from the widening range of value added products, your Company also continued to make significant strides towards international competitiveness with several initiatives covering pulp and energy – the two main components of product cost. The Elemental Chlorine Free (ECF) Pulp mill commissioned in October 2002 achieved 90% capacity utilisation. This facility is the only one of its kind in the country, meeting world-class environmental standards. Apart from producing environmentally compliant pulp, the investment in the pulp mill also enhanced your Company's cost competitiveness, enabled the launch of superior value added grade of paper and substituted pulp imports. The pulp mill project also included a recovery boiler based on bio-fuel, thereby conserving nearly 25000 MT of coal annually. International prices of pulp have been on an increasing trend from the last quarter of 2002-03, adversely impacting the profitability of most mills. The commissioning of the ECF pulp mill would substantially insulate your Company's paperboards business from the impact of such volatility.

As stated in earlier Reports, the paperboards business has over the years pursued an aggressive clonal propagation strategy, making available high-yielding disease-resistant clones and seedlings of the desired species, together with extension services to farmers engaged in planting pulp wood on their marginal private wastelands. The quality of these clones and seedlings, a product of your Company's biotechnology-based research programme, has been tested for effectiveness in more than 10,000 hectares of plantations. During 2002-03, this social and farm forestry effort was stepped up significantly. 20 million saplings were planted against 3.9 million in the previous year. Subabul and Bamboo species were also added to the planting stock in addition to Eucalyptus thereby contributing to bio-diversity. Sustained commitment to this unique partnership between the farming community and your Company will increase access to cost effective fibre, while simultaneously bringing into productive use vast tracts of degraded land and contributing to the restoration of ecological balance. It is the strategic intent of your Company to progressively achieve self-sufficiency in fibre requirements in the command areas around the mill at Bhadrachalam.

The paper industry being energy intensive, expertise in energy management is another source of distinct competitive advantage for your Company in the Indian market. Nearly 94% of energy requirements are currently met out of captive generation. During the year, initiatives in energy management earned industry recognition, winning for the business the national award for excellence in energy management from the Confederation of Indian Industry and the national award in energy conservation from the Government of India.

The business continues to focus on enhancing competitiveness through improved operating efficiencies. In order to shrink market response time and provide value added customer service, a manufacturing execution systems initiative was launched in April 2003 by leveraging information technology. With the ISO 14000 accreditation of the Tribeni mill during the year, all the 3 manufacturing locations of the business now carry the ISO 9000 and ISO 14000 certification.

As stated earlier, the growing sophistication of the Indian consumer is expected to accelerate the demand for high quality packaging for branded goods and the resultant demand for value added paperboards. Further, it is estimated that the Asian region, excluding Japan, would become a net importer of paperboards over the next few years. In order to position your Company to exploit the growth opportunity, the business is actively engaged in examining expansion opportunities, both greenfield and non-organic. The expanding range of world-class products and the scaling up of operations, including the vital farm forestry programme, further enhance the prospects of your Company towards attaining a leadership position in the Afro-Asian region.

Packaging and Printing

The Packaging and Printing business continues to engage in technology upgradation and product development to support not only your Company's Cigarettes business but also the competitiveness of the paperboards business and the new FMCG initiatives. Cutting edge competencies in print and paperboard-based packaging were leveraged to develop a host of value added packaging options. The business developed capability to manufacture bevelled edge cigarette packs, besides continuously supporting the Cigarette business with new packaging formats, new designs and anti-counterfeiting features. A new strike surface in packaging was created for safety matches, bringing distinct product superiority to your Company's Safety Matches business. The carton designed for the Branded Packaged Foods business won the World Star Award. The factories at Tiruvottiyur and Munger, which are ISO 9000 and ISO 14000 certified, received 5 star ratings from the British Safety Council during the year.

D. AGRI BUSINESS

Cigarette Leaf Tobacco

The global leaf tobacco industry was characterised by continuing over-supply, with Brazil more than bridging the shortfall in supply from Zimbabwe. Steep devaluation of currencies by the tobacco exporting countries like Brazil and Argentina, and the formation of regional trade blocs like AFTA (ASEAN Free Trade Agreement) pose serious challenges to India's export competitiveness. The adverse economic environment was further exacerbated by the drought situation in India.

Although India is currently the second largest producer of tobacco, exports of tobacco constitute a mere 0.7% of the value of world trade in tobacco. This relatively meager share of world trade is the direct consequence of the continuous shift in tobacco consumption away from cigarettes to other forms in India. Since cigarettes constitute over 90% of tobacco consumption internationally, global demand is predominantly for cigarette type Virginia Flue Cured tobaccos. Contrary to the international scenario, India's domestic consumption in the cigarette form accounts for a mere 14% of the total tobacco production of 575 million kgs. Despite these constraints, your Company's exports of cigarette tobaccos during 2002-03 grew significantly by over 18% (Rs.220 crores against Rs.187 crores in the previous year). This export performance was achieved by continuing to provide customers with a comprehensive range of high quality tobaccos, innovating distinctive grades and providing cost effective products through technology upgradation at both farm and processing ends.

At the farm end, your Company focused on crop development and research in conjunction with the Central Tobacco Research Institute and the Tobacco Board, addressing issues of farmer productivity and quality enhancement. Drawing on the experience of the e-Choupal model, the web-enabled Tobacco Portal was scaled up in collaboration with the Tobacco Board, enhancing the quality of extension services by empowering the farm community with customised knowledge inputs. This initiative now covers 100 installations in Andhra Pradesh and Karnataka, with plans to double the reach in 2003-04. At the processing end, your Company's state-of-the-art threshing lines and internationally benchmarked processes provide superior product integrity and traceability. The processing plants at Chirala and Anaparti were conferred the OHSAS 18000 accreditation - a measure of your Company's commitment to the highest standards of occupational safety and health. These initiatives would not only improve your Company's export competitiveness but also support the quality enhancement objective of your Company's cigarettes business.

Agri Commodities

Your Company's agri commodities export performance during 2002-03 forcefully demonstrates its commitment to the agri value chain. Agri commodity exports grew substantially yet again to Rs. 845 crores, representing a growth of nearly 50% over the previous year and 133% over that of 2000-01. The window of opportunity to export non-basmati rice was leveraged through the unique Customer Relationship Management initiative and superior logistics management, as a result of which your Company emerged as India's largest exporter of rice during the year. Your Company has been engaged in progressively broadening the range of agri products as a foundation for a higher order of value capture. Towards this end, some key breakthroughs were achieved in the export of value added marine products, and a beachhead entry was gained in the export of processed fruits.

Apart from occupying a leadership position as India's premier exporter of high quality agri commodities, the Agri business is also engaged in leveraging its agri sourcing capability to support your Company's Branded Packaged Foods business. The year 2002-03 witnessed the commencement of sourcing high quality wheat for the 'Aashirvaad' brand of atta. This unique capability of your Company is already making a decisive difference in the marketplace, earning for 'Aashirvaad' the coveted attribute of consistent quality, besides securing cost advantages through efficient procurement.

Your Company's strategic objective of rapidly transforming the Agri business from a commodity exporter to a major player across the agricultural value chain is primarily founded on the pioneering e-Choupal initiative. As elaborated in this Report last year, the e-Choupal initiative leverages information technology to: (a) deliver real-time information and customised knowledge to improve farmers' decision making ability, and thereby better align farm output to market demands and secure better quality, productivity and improved price discovery (b) aggregate demand in the nature of a virtual producers' cooperative and thereby access higher quality farm inputs and knowledge at lower cost and (c) set up a direct marketing channel virtually linked to the mandi system for the purpose of price discovery, yet eliminating wasteful intermediation and multiple handling, thus reducing transaction costs and making logistics efficient.

Besides significantly enhancing your Company's competitive capability, the e-Choupal intervention has several far-reaching implications across the agri value chain. This alternative marketing channel induces efficiency in the mandi channel through competition, thereby also serving to conserve public resources that would otherwise be required for the expansion and upgradation of the mandi infrastructure. Further this model enables a quantum improvement in the cost and quality of extension services by conferring the power of expert knowledge on even the smallest of individual farmers. This digital infrastructure can also be used for channelising services related to credit, insurance, health, education and entertainment, in addition to serving as a strong foundation for creating a vibrant futures market to facilitate farmer risk management.

Your Company continues to successfully scale up the e-Choupal network, adding 1080 choupals during 2002-03. In the aggregate, 2100 choupals have been installed todate (May '03), reaching out to more than one million farmers in 10,000 villages in the states of Madhya Pradesh, Karnataka, Andhra Pradesh and Uttar Pradesh. This e-network now extends beyond Soya to Wheat, Coffee and Marine products.

The benefits from e-Choupals testify to the validity of the assumptions of efficiency gains through virtual integration of the supply chain. Export of commodities purchased from the e-Choupal network exceeded Rs.100 crores during the year under review. The model also enhanced efficiency in the physical transmission capabilities of existing intermediaries in the supply chain while disintermediating them from information flow and market signals. Your Company now proposes to reinforce the network through creation of bulk storages and handling capacities at key locations. ITC's investment in such a valuable e-infrastructure, whilst creating abiding value for the farmer, is in turn placing your Company in a unique position of trust with the farming community as a reliable supplier of goods and services on the one hand, and as a buyer of high quality, cost effective farm output on the other, thereby supporting its own competitiveness.

During the year, your Company executed several proof-of-concept pilots in various products and services that could be marketed in rural India using the e-Choupal network. Rollout is planned into select segments like agri inputs and insurance distribution during 2003-04. Your Company also intends to leverage the e-Choupal network to extend programmes like integrated watershed management and holistic community development selectively.

Apart from further scaling up the network, the coming year would also witness the use of the e-Choupal to create a new feature in commodity markets through creation of traceability led differentiation. This innovative concept would initially be used in sourcing wheat for the Branded Packaged Foods business to further strengthen the 'Aashirvaad' brand by sourcing a menu of blends for different consumer segments. Plans are also afoot to launch an online transaction platform (the e-marketplace) to assist participants to buy and sell coffee in the spot market. The platform provides on-line market features to enable participants to unlock value through better reach, efficient price discovery, counterparty flexibility, access to cutting edge risk management tools, anonymity and a wide range of trading mechanisms.

Realising such ambitious plans requires careful attention to capability building. Besides ongoing emphasis on competency development, talent management and performance management, a collaborative knowledge portal is being specifically designed for frontline resources in the e-Choupal organization. Such careful nurturing of capabilities is essential to ensure that the e-Choupal intervention continues to be an instrument of convergence between sustainable shareholder value creation and the larger goal of contribution to national value.

NOTES ON SUBSIDIARIES

The following may be read in conjunction with the Consolidated Financial Statements enclosed with the Accounts, prepared in accordance with Accounting Standard 21, and the Statement pursuant to Section 212 of the Companies Act, 1956.

Surya Nepal Pvt. Limited

Your Company acquired a further 56,000 Ordinary Shares of Nepalese Rupees 100/- each of Surya Nepal Private Limited (Surya Nepal) - formerly Surya Tobacco Company (P) Limited - a company incorporated under the laws of Nepal. With this acquisition, the total shareholding of your Company in Surya Nepal increased from 49% to 59%. Consequently, Surya Nepal became a subsidiary of your Company with effect from 20th August, 2002.

During the year under review, the Nepalese GDP grew at a mere 1%, the lowest growth rate in the last 18 years, and significantly lower than the growth of 5.8% recorded during the previous year. The spread of insurgent activities continues to adversely impact the Company's supply chain. In order to meet the budget deficit arising out of the slowdown in the economy, an additional budget was announced during the year imposing higher excise and customs duties, apart from increasing effective rates of corporate tax. As a result, cigarette industry volumes declined by 2% during the year under review compared to a growth of 12% in the previous year.

Despite difficult trading conditions, the Company's focus on creating value for its consumers together with continuous productivity improvements and strategic cost management resulted in a 6% increase in gross turnover with a 21% increase in profit after tax for the year ended 32nd Ashad 2059 (16th July 2002). Surya Nepal continues to be the single largest contributor to the Nepalese Exchequer in the private sector accounting for around 4% of the total revenue collected by His Majesty's Government. Dividend for the year was increased to 120% compared to 100% for the previous year.

During the year, packaging for the Company's prominent brands - Surya, Khukuri and Bijuli - was upgraded and modernised. Two new brands - Surya Lights and Shikhar Filter - were launched. These were well received by consumers. The Company's cigarette factory at Simra was accredited with the ISO 9002 certification. Surya Nepal also earned the prestigious National Excellence Award from the Federation of Nepalese Chambers of Commerce and Industry in recognition of the Company's excellence in management.

The Company commenced in-house manufacture of cigarette filters from August 2002. The Company also views the export of apparel to India as a significant opportunity for growth in view of synergies with the Lifestyle Retailing business of its holding company coupled with sourcing advantages in Nepal. Apparel export operations commenced in November 2002, initially following an outsourced manufacturing model. In keeping with diversifying portfolio of businesses, Members of the Company approved a change in name to Surya Nepal Pvt. Ltd. with effect from July 2002.

ITC Hotels Limited

With the commissioning of ITC Hotel Sonar Bangla Sheraton & Towers, the Company now operates and manages eleven hotels, in addition to two owned hotels, one each at Bangalore and Jaipur. The travel and tourism industry in India exhibited early signs of recovery towards the second half of 2002-03 resulting in improved performance over the previous year.

Despite sluggish market conditions prevalent during the major part of the year, the Company earned a Gross Income of Rs.137.78 crores, representing a growth of 6%. Profit Before Tax for the year ended 31.3.2003 was Rs.1.44 crores (previous year Loss of Rs. 3.79 crores). Keeping in view the nascent nature of the turnaround and the need to conserve cash to support planned renovation and refurbishment of properties, the Board of Directors of the Company has not recommended payment of dividend for the year 2002-03. The ITC Welcomgroup chain's foreign exchange earnings for the year 2002-03 amounted to Rs.222 crores, comprising Rs.109 crores earned by the hotel properties of ITC Ltd., Rs.51 crores earned by the hotels owned / licensed by ITCHL and Rs.62 crores by the other properties of the chain.

The world-class hoteliering capability of the ITC Welcomgroup chain continues to be affirmed through recognition at various forums. ITC Hotel Grand Maratha Sheraton & Towers in Mumbai was voted the best luxury hotel of the year by the Hotel & Food Services Magazine. ITC Welcomgroup's flagship, ITC Hotel Maurya Sheraton & Towers retains its pre-eminent position as the preferred hotel for world leaders, having played host during the year to a number of distinguished guests including Mr. Tony Blair, Mr. Vladimir Putin and Crown Prince Fredrick of Denmark. The world famous Bukhara restaurant was once again voted the 'Best Indian Eatery' by the internationally renowned 'Restaurant' Magazine.

In a testimony to the Company's commitment to environment conservation, ITC Hotel Maurya Sheraton & Towers was chosen as the 'Environment

Champion' of the Year 2002 by FHRAI and WelcomHotel Rajputana Palace Sheraton was awarded the 'Golden Peacock' Environment Management Award 2002 by the World Environment Foundation. Four more hotels, namely ITC Hotel Kakatiya Sheraton & Towers, Chola Sheraton, WelcomHotel Mughal Sheraton and WelcomHotel Rajputana Palace Sheraton were awarded the ISO 14001 certificate.

ITC Hotels Limited continues to invest in the upgradation of the quality of human resource, which makes the decisive difference in this service industry. World-class recruitment and training programmes reinforce the ethos of superior service and are recognised as the industry benchmark in India. The 'Golden Peacock' Training award for the year 2002 conferred on the Welcomgroup Management Institute is a manifestation of this recognition.

The WelcomHeritage and WelcomFortune brands were strengthened through enlarged presence. The hotel management expertise of the ITC Welcomgroup chain is now available to 36 properties under these brands, with 8 more mid-market properties being in various stages of development.

The Company and its holding company, ITC Ltd. view the hotels business as a significant opportunity for long term growth. The target of the Planning Commission to achieve a 0.62 percent share of the world tourism market from the current 0.38 percent by 2007 translates to about 5.6 million overseas visitors against the present 2.4 million, indicative of the exciting potential. The ITC Welcomgroup chain with its growing presence in the premium, heritage and mid-market segments, its world-class properties, its renowned excellence in cuisine and superior service quality offers an unmatched product and service proposition and is thus well placed to attain leadership in the Indian market.

Russell Credit Limited

During the year, the Company purchased 75,632 (0.49%) equity shares of VST Industries Limited.

The Company's Counter Offer to the shareholders of VST Industries Limited, in accordance with the Securities and Exchange Board of India (Substantial Acquisition of Shares & Takeovers) Regulations, 1997, pursuant to a Public Offer made by an Acquirer, closed on 13th June, 2001 (Financial Year 2001 -2002).

As stated in this Report last year, a suit was filed by an individual in the High Court at Calcutta, seeking an injunction against the Company's Counter Offer to the shareholders of VST Industries Limited, made in accordance with the Securities and Exchange Board of India (Substantial Acquisition of Shares & Takeovers) Regulations, 1997, as a competitive bid, pursuant to a Public Offer made by an Acquirer, which closed on 13th June, 2001. The High Court at Calcutta, while refusing to grant such an injunction, instructed that the acquisition of shares pursuant to the Counter Offer by the Company and the other Acquirer, would be subject to the final Order of the High Court, which is still awaited. Similar suits filed by an individual and two shareholders, in the High Courts of Delhi at New Delhi and Andhra Pradesh at Hyderabad, had earlier been dismissed by the respective High Courts.

The Company holds 16,20,774 equity shares (10.50%) of VST Industries Limited, as at close of business on 31st March, 2003.

During the year under review, the Company, in response to its application, received from the Reserve Bank of India, Kolkata the Certificate of Registration to carry on the business of a non-banking financial institution without accepting public deposits. The Company also enrolled with the Association of Mutual Funds as an "AMFI Registered Mutual Fund Advisor", in accordance with SEBI Circular No. MFD/CIR/20/23230/2002 dated 28th November, 2002, issued under Regulation 77 of SEBI (Mutual Funds) Regulations, 1996.

BFIL Finance Limited

The Company continues to focus on recoveries through negotiated settlements including property settlements and by pursuing legal cases against various defaulters. Some of the property settlements received have been offered to the banks in settlement of dues. While one bank has accepted the same and documentation is in progress, other banks are in the process of examining the proposal. A number of defaulters have come forward for negotiated settlements which are under evaluation by the Company.

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

There were no major events to report with respect to these companies.

Landbase India Limited

The circumstances in which your Company acquired a 70% stake in Landbase India Limited (LBI) and supported its restructuring were set out in the Report of the Directors last year. The development of golf based resorts presents attractive long term prospects in view of their growing popularity the world over. LBI's capability, having developed a world-class golf course and premium condominium in the National Capital Region, complements the resort development capability residing in your Company's hotels business. LBI is engaged in streamlining operations prior to embarking on development of projects to coincide with the expected upturn in market conditions. In view of the long term potential, your Company believes that it can redeem the value of its investments in LBI over time, including, if necessary, by exiting.

ITC Infotech India Limited

Cost pressures arising from depressed economic conditions in most parts of the developed world resulted in corporations shrinking their IT expenditure. With a view to maximising utilisation of IT assets, corporate IT outlays in the US and UK were largely directed towards integrating existing business systems as opposed to developing bespoke solutions. Margins of Indian IT Companies continued to be under severe pressure due to lower billing rates and the higher costs of delivery processes and project management skills, compounded further by the trend of global IT outsourcing firms replicating the offshore services model of Indian software companies.

ITC Infotech India Limited (I3L) aligned its competence inventory with market requirements through re-training and recruitment where necessary. For the year under review, revenues grew 132% and losses were lower by 51% compared to the previous year. Continued investment in business development in the US and European markets began to yield results. I3L added significant new names to its customer universe, thus acquiring business depth and diversifying market risk. Substantial improvement in resource utilization led to reduction in losses. The economic slowdown in the USA and Europe continues to drive the momentum in favour of IT Services (ITS) outsourcing to India. I3L continues to reinforce its skills in relationship building, its delivery processes and its knowledge capital to aggressively compete in the ITS arena.

During the year under review the Company received the approval of the Reserve Bank of India to invest a further US$ 2.5 million in the equity share capital of ITC Infotech (USA), Inc. (I2A), a wholly owned subsidiary of I3L. Accordingly I3L invested US$ 1.8 million in the equity share capital of I2A by subscribing to 18,000 Common Shares-without par value for cash at US$100 each.

Comparative cost advantages, availability of well trained professionals and high quality support services, and an appreciably lowering defect intensity together create an attractive value proposition, resulting in a growing trend for outsourcing IT enabled services (ITES) to India. I3L proposes to exploit the significant growth opportunity in ITES and progressively acquire a significant presence in this segment. In line with this strategic objective, I3L is in the concluding stages of negotiations with ClientLogic Operating Corporation, USA for setting up a joint venture in India to provide India based call centre/contact centre services. Accordingly, CLI3L e-Services Limited was incorporated in Bangalore, India on 29th January, 2003 with an investment of Rs 2,49,990/- towards equity share capital by I3L as a subscriber to the Memorandum of Association of that company. An initial investment of Rs 15 crores is proposed in this venture on signing of the Shareholders' Agreement.

ITC Global Holdings Pte Ltd

Since 8th November, 1996, the Judicial Managers have been conducting the affairs of ITC Global under the authority of the High Court of Singapore.

The Judicial Managers had indicated to your Company that the outstanding dues of ITC Global to its creditors were likely to be around US$ 50 million (apart from the debt of approximately US$10 million owed by ITC Global to ITC and for which your Company has already filed its formal Proof of Debt to the Judicial Managers) and had sought your Company's financial support to ITC Global to enable it to settle with its creditors. Your Board does not accept any legal liability in this regard and has accordingly advised the Judicial Managers.

However, without prejudice, and with the intention of preserving the goodwill of the international banking and other investing communities and thereby to subserve your Company's future business interests in a fast-globalising economy, your Company proposed a goodwill assistance of US$26 million to ITC Global. It was made clear that this would be subject to your consent and all necessary approvals from all Government and other authorities, both at Singapore, and in India, and also subject to concluding a comprehensive Agreement between your Company and the Judicial Managers in this regard. However, before your Board could consider the draft Agreement as forwarded by the Judicial Managers, the Company's Singapore lawyers received a letter from the lawyers for the Judicial Managers containing certain baseless and unwarranted allegations against the Company. Subsequently, your Board, while approving the draft Agreement stipulated a condition that the execution of the Agreement will be subject to the receipt of an unconditional apology and withdrawal of the allegations and offensive comments made against your Company by the Judicial Managers in their letter. Though it initially appeared that the Judicial Managers would be complying with the stipulations of your Board, in September 2002, their lawyers wrote to your Company's lawyers informing that the Judicial Managers may initiate legal proceedings against your Company. In this situation, your Company believes that there is no likelihood of the proposed goodwill assistance to ITC Global progressing any further. Your Company has since sought and obtained the permission of the Reserve Bank of India to write off the export receivables of around US$10 million due from ITC Global.

As explained in the previous Report of the Directors, the High Court of Singapore had ruled that, "the Company (i.e. ITC Global) is not required to conduct any audit of the Company during the period of judicial management of the Company". As a consequence of the aforesaid Order, your Company cannot annex the audited accounts of ITC Global and its subsidiaries for the year ended 31st December, 2002, this position having also prevailed in the previous six years. Approval in this regard is awaited from the Central Government granting exemption from the provisions of Section 212 of the Companies Act, 1956. Your Company shall, as soon as such accounts are received, circulate the same to the Members of the Company.

NOTES ON JOINT VENTURES

ITC Filtrona Limited

ITC Filtrona retained market leadership with a 58% value share of the Indian cigarette filter industry. Gross sales for the year ending 31st December, 2002 at Rs. 67.35 crores registered a growth of 4.7% over the previous year. The Company also posted a 5.5% growth in PBT. The Board of Directors of ITC Filtrona recommended a dividend of 25% for the year.

The Company's plant in Bangalore was upgraded to include a computerised shopfloor management system and the creation of a separate facility for manufacturing specialised filters. ITC Filtrona continues to focus on improvement in every area of operations to remain competitive in servicing the Indian cigarette industry.

King Maker Marketing Inc.

Your Company's foray into the US markets has been enabled through King Maker Marketing Incorporated, a company registered in the State of New York and engaged in the business of marketing and distribution of cigarettes and other FMCG products and providing market research services.

The impact of the slowdown in the US economy was compounded by unfair pricing practices by certain manufacturers due to their non contribution to the Master Settlement Agreement. Despite such difficult market conditions, King Maker Marketing clocked a gross sales turnover of US$ 31 million and a profit after tax of US$ 0.1 million for the period ended 30.4.2002. King Maker Marketing paid a preferential dividend of US$ 100,000 to your Company.

REAL ESTATE

As stated in this Report last year, your Company expects to redeem its investments over time as and when economic revival makes it attractive to develop the substantial real estate assets. During the year under review there were no significant events to report in this area.

AUDIT AND SYSTEMS

Your Company believes that internal control is a necessary concomitant of the principle of governance that freedom of management should be exercised within a framework of appropriate checks and balances. Your Company remains committed to ensuring an effective internal control environment that provides assurance on the efficiency of operations and security of assets.

Your Company's well established internal audit process continuously monitors the adequacy and effectiveness of the internal control environment across the various businesses and the status of compliance with operating systems and policies, and assists in the formulation of risk management policies. Efforts continue to be directed at securing adequacy and effectiveness of laid down systems and policies, particularly in the new business initiatives. In the networked IT environment of your Company, validation of IT security receives focused attention of the internal audit team whose members are regularly trained on contemporary audit techniques and methodologies. The Internal Audit function also reviews the execution of all ongoing projects involving significant expenditure to ensure that project management controls are adequate.

The Audit Committee of your Board met ten times during the year. It reviewed the adequacy and effectiveness of the internal control environment and monitored implementation of internal audit recommendations. It also actively engaged in overseeing financial disclosures and in reviewing your Company's risk management policies.

HUMAN RESOURCE DEVELOPMENT

It is your Company's belief that people are at the heart of corporate purpose and constitute the primary source of sustainable competitive advantage. The thrust of your Company's human resource development efforts therefore is to create a responsive and market-driven organisation. Market connectivity, proactive response to market signals, unity of purpose and world-class execution of strategy are the hallmarks of ITC's performance culture.

In pursuit of your Company's strategy to create new engines of growth by blending competencies residing in different parts of ITC, human resource strategies continue to focus on the development of distributed leadership at all levels in the organisation.

In December 2002, senior managers of your Company engaged in a review of corporate strategy, which provided an opportunity to collectively take stock of initiatives in recent years to achieve international competitiveness in each business, to ideate on future growth opportunities and determine strategic responses. The Review served to reinforce your Company's strategic focus on enhancing market standing and internal vitality.

Your Company's belief in trust, transparency and teamwork improved employee productivity at all levels. ITC's commitment to harmonious industrial relations through partnership and collaboration resulted in enhancing effectiveness of operations, and enabled the achievement of international benchmarks in productivity and quality. Your Company's ongoing objective is to create an inspirational work climate where talented employees engage in creating sustained value for the shareholder and other stakeholders.

Your Directors record their sincere appreciation of the efforts of the 13,285 strong team of world-class employees.

ENVIRONMENT, OCCUPATIONAL HEALTH & SAFETY

Your Company's EHS Philosophy cognises for the twin needs of conservation and creation of productive resources. Your Company is therefore committed to conducting its operations with due regard for the environment, and providing a safe and healthy workplace for employees. The collective endeavour of your Company's employees at all levels is directed towards sustaining and continuously improving standards of environment, occupational health and safety in a bid to attain and exceed international benchmarks. Various international and national awards and accreditations cited earlier in this Report and in the Reports of prior years stand testimony to ITC's commitment.

Your Company continues to invest substantial resources towards implementing a host of initiatives including improvement of specific energy consumption, use of renewable energy, reduction of greenhouse gas emission, water conservation and afforestation. Over 10,000 person days were invested in EHS training, with approximately one fourth of such training specifically focused on improving environmental performance. Employees are continuously trained in the use of cutting edge techniques towards improving your Company's already impressive EHS record. Adherence to company policy and guidelines is monitored through an effective system of EHS audits. The pictorial section of this Annual Report provides glimpses of your Company's range of EHS initiatives, highlighting the contribution towards sustainable development.

EXCISE

In the Report & Accounts of the last sixteen years, your Directors have mentioned, a Show Cause Notice dated 27th March, 1987 was issued to your Company for alleged evasion of Excise Duty during the period from 1st March, 1983 to 28th February, 1987. Your Company and its contract manufacturers were asked to Show Cause as to why they should not be required to pay duty at the higher slab corresponding to the actual price of cigarettes alleged to have been charged by the retailers, amounting to an unprecedented sum of Rs. 803.78 crores besides other penalties in law.

The Commissioner of Central Excise, Delhi, by an Order dated 29th December, 1995 confirmed a differential excise duty demand of Rs. 681.54 crores against your Company and also levied a penalty of Rs. 66.50 crores on it. Personal penalties aggregating to Rs.3.15 crores were also imposed on six ex-Directors of your Company. The Commissioner also confirmed a demand of Rs. 118 crores on seven contract manufacturers of your Company and levied penalties on them aggregating to Rs. 7 crores.

Your Company preferred an Appeal to the Customs Excise and Gold (Control) Appellate Tribunal (CEGAT) against the Commissioner's Order dated 29th December, 1995 as also an Application for dispensing with the pre-deposit of the differential duty amount of Rs. 681.54 crores and penalty amount of Rs. 66.50 crores, and for stay. Similarly, all six ex-Directors of your Company, as well as the contract manufacturers, preferred Appeals to the CEGAT as also Applications for waiver of pre-deposit of the differential duty and penalty amounts, and for stay.

In respect of the contract manufacturers, the CEGAT directed that the pre-deposit of the entire amounts of differential duty and penalty should be dispensed with in their case. In the case of the six ex-Directors also directions for dispensing with the pre-deposit of the penalties were given by the CEGAT.

Further, by its Order dated 15th March, 1996 the CEGAT directed your Company to deposit Rs. 110 crores on or before 30th April, 1996 and a further amount of Rs. 240 crores in eight equal monthly instalments commencing 1st June, 1996. The requirement of pre-deposit of the balance differential duty amount of Rs. 331.54 crores and the entire penalty amount of Rs. 66.50 crores was waived, subject to the conditions regarding payment of instalments as indicated above and also furnishing of Bonds. In compliance with the above Order of the CEGAT, your Company deposited with the Excise Collectorates having jurisdiction over five factories of your Company, a total amount of Rs. 350 crores, and also furnished a Bond as directed.

Thereafter, the CEGAT heard the appeals between February and May 1998, and by its Order dated 4th September, 1998 :-

a) set aside the demand of differential excise duty on the contract manufacturers of ITC ;

b) set aside the penalties imposed on ITC, six of its ex-Directors and its contract manufacturers ;

c) set aside the quantification of the excise duty demand on ITC ; and

d) remanded the matter to the Adjudicating Authority for fresh quantification of duty demand on ITC in accordance with the guidelines provided in the Order and after giving ITC an opportunity of personal hearing.

Since your Company believes that it has no legal liability to pay any differential excise duty, and the Order of the CEGAT is, therefore, unsustainable in law, the Company has filed an Appeal in the Supreme Court. The Excise Department has also filed Appeals challenging the CEGAT's Order. At the admission stage, the Supreme Court, on 15th January, 1999 passed an Order to the following effect :-

a) The Appeal filed by the Company against CEGAT's Order holding the Company liable for differential duty has been admitted.

b) The Appeal filed by the Excise Department in respect of the Company has been admitted; adjudication proceedings for fresh quantification of differential duty in accordance with CEGAT's Order may continue, but no orders pursuant to such proceedings shall be passed without the leave of the Supreme Court.

c) Excise Department's appeals in respect of the contract manufacturers have been admitted only on the limited question of their liability, if any, upto six months preceding the Show Cause Notice.

d) Excise Department's appeals challenging the quashing of penalties imposed on the former Directors have been dismissed.

A few days before the CEGAT passed its Order on 4th September, 1998 the Excise Department filed criminal complaints on 30th August, 1998 in the Economic Offences Courts at Meerut, Bangalore, Mumbai, Patna and Kolkata against the Company and the six ex-Directors on the basis of Order of the CCE, Delhi dated 29th December, 1995. These prosecutions are being contested by your Company and the individuals.

On applications moved by the ex-Directors, the proceedings before the Bangalore, Kolkata and Meerut Courts have been stayed by the High Court of Karnataka, the Calcutta High Court and the Allahabad High Court respectively.

With regard to the period prior to March, 1983, various Show Cause Notices were issued in respect of Bangalore, Saharanpur and Munger factories of the Company between 1975 and 1985. These Show Cause Notices were assigned to the Director General of Inspection, Customs & Central Excise, New Delhi ('DG') who passed his Order on 10th April, 1986. Although the differential duty payable under the DG's Order was determined and paid by your Company on an admitted interpretation of Rule 5 of Central Excise (Valuation) Rules (which interpretation has since been upheld by the CEGAT and affirmed by the Supreme Court), the Excise Department raised doubts on such interpretation and issued revised demands under the DG's Order, in respect of Bangalore, Munger and Saharanpur factories. The Bangalore demand for Rs.27.58 crores was set aside by the Commissioner (Appeals), Bangalore, by his Order dated 22nd November, 1999 against which the Department has filed an Appeal and the same is pending before CEGAT. The Saharanpur demand of Rs.80.30 crores was confirmed by the Commissioner (Appeals) to the extent of Rs.76.03 crores, against which your Company filed an Appeal before CEGAT, Delhi. Since your Company had made a pre-deposit of Rs.20 crores for hearing of its Appeal by the Commissioner (Appeals), CEGAT stayed recovery of the remaining amount of Rs.56.03 crores pending disposal of the Company's Appeal before it. By an Order dated 28th November, 2001, a three-member Bench of the CEGAT to whom the Appeal was referred, answered all questions arising in the Appeal in favour of your Company. Thereafter, the CEGAT by its Order dated 2nd August, 2002 allowed the appeal of your Company by setting aside the demand for Rs.76.03 crores and remanding the matter to the Asst. Commissioner for re-quantification in accordance with the Order of its three-member Bench. The Department has filed an Appeal before the Supreme Court which has been admitted for hearing. As regards the Munger factory the revised demand of Rs.8.29 crores under the DG's Order was dropped by the Commissioner of Central Excise, Patna vide his Order dated 20th September, 2001.

As mentioned in the Report of the Directors for 1987 and thereafter, the Excise Department, during 1987 and 1988, again reopened some of the issues already settled by the Order of the DG, by issuing fresh Show Cause Notices in respect of the period upto 28th February, 1983. The Notices proposed to recover differential duties of Rs.43.88 crores (for Munger factory), Rs.143.22 crores (for Bangalore factory), Rs.31.05 crores (for Kidderpore factory), Rs.41.51 crores (for Parel factory) and Rs.26.43 crores (for Saharanpur factory). All these Notices were assigned to the Commissioner of Central Excise, Delhi, for investigation and adjudication. Your Company, apart from denying any liability as claimed in the Notices, challenged the maintainability of all these Show Cause Notices.

As mentioned in the 1997 Report of the Directors, the Commissioner of Central Excise, Delhi, passed orders directing the Departmental Authorities to finalise the assessments in respect of Bangalore, Parel and Munger factories for the pre-March 1983 period. On an Appeal filed by your Company against an Order of the Commissioner, rejecting the Company's contentions on the issue of maintainability, the CEGAT, Chennai, by its judgement dated 13th January, 2000 upheld the contention of your Company and set aside the Bangalore Show Cause Notice for Rs.143.22 crores with the direction, inter alia, that the allegations made therein should be considered while finalising the assessments in respect of the Bangalore factory, which has been your Company's contention all along. Though the Department filed an Appeal in Supreme Court against the Order of CEGAT, Chennai and the same was pending, pursuant to the Order of CEGAT, Chennai, the Assistant Commissioner, Central Excise, Bangalore, by his Order dated 26th July, 2001 demanded a differential duty of about Rs.583 crores for the cigarettes cleared from the Bangalore factory during the period 1st October, 1975 to 28th February, 1983 and this demand also took into account the effect of the DG's order which culminated in the Order dated 22nd November, 1999 passed by the CCE (Appeal), Bangalore. On an appeal filed by your Company, the Commissioner (Appeals) initially stayed the demand on pre-deposit of Rs. 20 crores and subsequently by an Order dated 30th August, 2002, set aside the said Order and Demand dated 26th July, 2001. On requantification in accordance with the said Appellate order, the Department has determined that your Company has made excess duty payment of Rs. 3.76 crores. The Department's Appeal against the Order dated 13th January, 2000, passed by CEGAT, Chennai was dismissed by the Supreme Court by its Order dated 6th March, 2003 as infructuous.

Your Company's Appeals against similar Orders passed by the Commissioner of Central Excise, New Delhi during September, 1996 relating to the Show Cause Notices issued in respect of Munger and Parel factories are pending before CEGAT, Kolkata and Delhi respectively. As regards the Show Cause Notice in respect of Saharanpur factory, your Company has filed a Writ Petition in the Delhi High Court which is pending.

Despite the differential duty on account of notional interest on Security Deposit for excise valuation on cigarette clearances during the period 1st July, 1980 to 30th June, 1983 from Parel factory consequent to DG's Order having been paid by your Company in the year 1986 itself, the Excise Authorities were also persisting with two more Notices, issued in 1983 and 1984 for a total sum of Rs.57.66 crores. These two Notices were also assigned to the Commissioner of Central Excise, Delhi, for investigation and adjudication. The Commissioner, Delhi, by his order dated 13th September, 1996 rejected your Company's contentions on maintainability of the Notices, especially after DG's Order but restricted the demand to Rs.75.27 lakhs (as against Rs.57.66 crores originally proposed) which amount has been directed to be adjusted with the equivalent amount already paid by your Company pursuant to the DG's Order. By the said Order, a penalty of Rs.5 lakhs has also been imposed on your Company. The Company has filed an Appeal before CEGAT, Mumbai against the said Order dated 30th September, 1999 which is pending.

Similarly, though the Company's Appeal against the Show Cause Notice relating to Parel factory for Rs.41.51 crores is pending before CEGAT, the Commissioner of Central Excise, Delhi by his Order dated 29th December, 2000 raised a demand for Rs.5.96 crores or such higher or lower amount as may be redetermined by the Jurisdictional Officer. By the same order the liability of the two contract manufacturers were roughly determined at Rs.83 lakhs and Rs.41 lakhs as against the differential duty of Rs.6.65 crores and Rs.2.89 crores respectively proposed in the said Show Cause Notice. Your Company and the contract manufacturers have filed separate Appeals in CEGAT, against the said Order of the Commissioner. The CEGAT has granted a complete stay against the said demands. The Department has also filed an Appeal against the said Order dated 29th December, 2000 passed by the Commissioner, Delhi before CEGAT, Delhi which is pending.

Prior to the Order dated 29th December, 2000 passed by the Commissioner, Delhi, the Deputy Commissioner of Central Excise, Mumbai I, in compliance with the earlier orders of the Commissioner, Delhi, has finalised the assessments relating to Parel factory by his Order dated 22nd September, 2000. In terms of the said Order, a sum of Rs.87.83 lakhs as excise duty is shown to have been paid in excess by your Company. The Department's Appeal against the said Order has been partially allowed as against which your Company has filed an Appeal which is pending in CEGAT, Delhi.

With respect to cigarettes and smoking mixtures cleared from the Munger factory, proceedings for finalisation pursuant to remand have resulted in the Deputy Commissioner's Orders dated 29th August, 2002 and 8th October, 2002 demanding Rs.13.09 crores and Rs. 1.73 crores respectively. On appeals filed by your Company, the Commissioner (Appeals), Patna has stayed the recovery of the demands on pre-deposit of Rs.2 crores and Rs.0.55 crores respectively.

So far as the Kidderpore factory is concerned the Notices were set aside and all pre-March 1983 valuation disputes stand resolved pursuant to the finalisation of the provisional assessments.

In accordance with the law laid down by the CEGAT and upheld by the Supreme Court, the exorbitant duty demands under the aforesaid Show Cause Notices and orders on interpretation of Rule 5 of the Central Excise Valuation Rules, 1975 would stand virtually extinguished.

Although your Company in a spirit of settlement, paid the differential Excise Duty that arose out of the Order of the Director General as early as in March 1987, and although the Excise Department's aforesaid Demands had either been quashed or stayed, the Collectorates in Meerut, Patna and Bangalore, during the year 1995, filed criminal complaints in the Special Court for Economic Offences at Kanpur, Patna and Bangalore, charging your Company and some of its Directors and employees who were employed with your Company during the period 1975 to 1983 with offences under the Central Excises & Salt Act, 1944, purportedly on the basis of the Order of the Director General dated 10th April, 1986. Your Directors are advised that no prosecution would lie on the basis of the aforesaid Order of the Director General dated 10th April, 1986. In fact, the Special Court in Kanpur, which initially took cognisance of the complaints, subsequently, on applications filed by the individuals concerned, discharged them. Similar applications were filed by the individuals in the Special Court in Patna, which are pending. On applications moved by the individuals concerned, the Karnataka High Court, by its Order dated 31st August, 2001 quashed the complaint in so far as the said individuals are concerned. Following the Order passed by the Karnataka High Court, the Magistrate has quashed the Complaint by his Order dated 28th September, 2001.

In all the above instances, your Directors are of the view that your Company has a strong case and the Show Cause, the Demand Notices and the Complaints are not sustainable.

Since your Company is contesting the above cases and contending that the Show Cause, the Demand Notices and the Complaints are not sustainable, it does not accept any liability in this behalf. Your attention is drawn to the Note 19(v) in the Schedules to the Accounts and Note 19 (iii) in the Schedules to the Consolidated Financial Statements.

RECOVERY OF DUES FROM THE CHITALIAS AND ENQUIRY BY THE ENFORCEMENT DIRECTORATE

You are aware that your Company had secured from the District Court of New Jersey, U.S.A, a decree for US$12.19 million together with interest and costs against Suresh and Devang Chitalia of U.S.A and their companies, and that the Chitalias had filed Bankruptcy Petitions before the Bankruptcy Court, Orlando, Florida, which are being contested by your Company.

As detailed in the previous Reports of the Directors, the Chitalias made an Offer of Judgement proposing that they would submit to a judgment of the Bankruptcy Court disallowing their applications to be discharged as bankrupt provided your Company withdrew its objections to their claims for exemption in respect of some of their assets. Based on the advice of your Company's U.S. Counsel that the Chitalia's Offer be accepted, since under the U.S. law, they would be entitled to these exemptions, your Company accepted the Offer and the Bankruptcy Court ordered accordingly, thereby defeating the objective of the Chitalias to get themselves discharged as bankrupt.

However, considering the fact that the Trustees to the bankruptcy estate of the Chitalias have not been able to recover any significant assets of the Chitalias in the last 4 years, and considering that if and when a favourable decree is passed in the suit filed in India against the Chitalia associates recoveries on that decree will be in Indian rupees only (as detailed in the Report of the Directors last year), your Company sought and obtained the permission of the Reserve Bank of India to write off the export dues from the Chitalias totaling US$12.19 million. Your Company continues to pursue recovery in the Indian suit against the Chitalia associates. The suit is in progress.

Subsequent to the issue of the Opportunity Notices from the Enforcement Directorate, as stated in the Report of the Directors last year, your Company has been served with summons in four cases of prosecution launched by the Enforcement Directorate in Kolkata. In the proceedings initiated by the Enforcement Directorate, the process of inspection of the voluminous documents, relating to the Show Cause Memoranda are yet to be completed, since the Enforcement Directorate has suspended inspection. While your Company requested the Directorate to permit resumption of inspection and was awaiting the Directorate's response, in February 2003, your Company received Notices for Adjudication Proceedings in respect of 5 of the aforesaid Show Cause Memoranda. The Adjudication hearings are in progress.

TAXATION

As mentioned in the Report of the Directors for the last five years, the Company had obtained stay orders from the Hon'ble Calcutta High Court in respect of the notices served by the Income Tax Department for re-opening the past assessments for the period 1st July, 1983 to 30th June, 1986. This status remains unchanged.

As also stated in the Report of the Directors for the last five years, in respect of similar notices from the Income Tax Department for re-opening the past assessments for the period 1st April, 1990 to 31st March, 1993, the Hon'ble Calcutta High Court had admitted the Writ Petitions and ordered that no final assessment orders be passed without the leave of the Court. This status also remains unchanged.

PUBLIC DEPOSITS

As at March 31, 2003 your Company had Fixed Deposits of Rs. 114 lakhs. No fresh / renewal of deposits were accepted during the financial year. There was no failure to make repayments of fixed deposits on maturity and the interest due thereon in terms of the conditions of your Company's Schemes. Reminders have been sent to 569 persons who did not claim repayment of their deposits which had become due, amounting to Rs. 71.81 lakhs. The cases of fraudulent encashments as reported in previous years continue to be under investigation by the police authorities.

INVESTOR SERVICE CENTRE

The Investor Service Centre of your Company, the in-house Registrar, benchmarked for its best-in-class investor servicing, continues to provide efficient and prompt service to investors through a trained and dedicated team of professionals backed by state-of-the-art infrastructure and systems.

The section on 'Investor Relations' in your Company's website continues to serve as a user-friendly online guide to investors.

DELISTING OF ORDINARY SHARES FROM SOME STOCK EXCHANGES

The Ordinary Shares of your Company are presently listed on eleven Indian Stock Exchanges viz. National Stock Exchange (NSE), Stock Exchange - Mumbai (BSE) and the Stock Exchanges at Ahmedabad, Bangalore, Chennai, Cochin, Delhi, Hyderabad, Kanpur, Kolkata and Pune.

Data on trading volumes indicates that the Company's shares are not traded in material volumes at Stock Exchanges other than NSE and BSE. NSE and BSE account for more than 95% of the traded volumes of the Company's shares and have extensive networking of trading terminals, which facilitates trading by Members / Investors across the country.

The Board of Directors of your Company at its meeting held on 23rd May, 2003 accordingly recommended for the approval of the Members, the proposal to voluntarily delist the Company's shares from the eight Stock Exchanges at Ahmedabad, Bangalore, Chennai, Cochin, Delhi, Hyderabad, Kanpur and Pune. The Company's shares will however continue to remain listed on the NSE, BSE and the regional Calcutta Stock Exchange.

A Special Resolution seeking your approval to such delisting is appearing in the Notice convening the 92nd Annual General Meeting of the Company.

DIRECTORS

Shri Mudambai V. Muthu ceased to be a Non-Executive Director of your Company with effect from 29th July, 2002, consequent upon withdrawal of his nomination by IFCI Limited. Shri Rangarajan Vasudevan also ceased to be a Non-Executive Director of your Company with effect from 14th August, 2002, as a consequence of Industrial Development Bank of India advising your Company of a fresh nomination.

Your Directors would like to record their appreciation of the services rendered by Sarvashri Muthu and Vasudevan.

Industrial Development Bank of India appointed Shri Thirukkurugavoor Muthiah Nagarajan as its nominee on the Board of Directors of your Company with effect from 14th August, 2002.

Dr. Basudeb Sen, Shri Balakrishnan Vijayaraghavan and Dr. Ram S. Tarneja were re-appointed as Non-Executive Directors of your Company with effect from 27th August, 2000 for a period of three years, and accordingly their present term of appointment will expire on 26th August, 2003. The Board of Directors of your Company at its meeting held on 23rd May, 2003, recommended for the approval of the Members, their re-appointment as Non-Executive Directors of your Company, liable to retire by rotation, for a further period not exceeding five years with effect from 27th August, 2003.

Shri Anup Singh was re-appointed as Director and also Wholetime Director of your Company for a period of three years with effect from 21st November, 2000, and his present term of appointment will expire on 20th November, 2003. The Board of Directors of your Company at its meeting held on 23rd May, 2003 also recommended for the approval of the Members, the re-appointment of Shri Singh as Director, liable to retire by rotation, and also as Wholetime Director of the Company for a further period not exceeding five years from 21st November, 2003.

Notices have been received from Members of the Company under Section 257 of the Companies Act, 1956 for the re-appointment of Dr. Sen, Shri Vijayaraghavan, Dr. Tarneja and Shri Singh as Directors. Appropriate resolutions seeking your approval to their re-appointment are appearing in the Notice convening the 92nd Annual General Meeting of the Company.

In accordance with the provisions of Article 91 of the Articles of Association of the Company, Dr. Ram S. Tarneja, Shri Anup Singh, Shri Krishnamoorthy Vaidyanath and Shri Yesh Pall Gupta will retire by rotation at the ensuing Annual General Meeting of your Company and, being eligible, offer themselves for re-election. Your Board of Directors has also recommended their re-appointment.

AUDITORS

The Auditors, Messrs. A. F. Ferguson & Co., retire at the ensuing Annual General Meeting and, being eligible, offer themselves for re-appointment. Since not less than 25% of the subscribed share capital of your Company is held collectively by Public Financial Institutions, the re-appointment of Auditors is being proposed as a Special Resolution in accordance with Section 224A of the Companies Act, 1956.

EMPLOYEE STOCK OPTION SCHEME

It may be recalled that the Members, at the Extraordinary General Meeting held on 17th January, 2001, approved formulation of the 'Employee Stock Option Scheme' ('Scheme') for the eligible employees of your Company and its Directors, and also for the eligible employees including Managing/ Wholetime Directors of subsidiary companies of your Company. In terms of the resolution passed by the Members, the Ordinary Shares to be issued and allotted upon exercise of Options by the eligible employees should rank pari passu in all respects with the existing Ordinary Shares of the Company, except that such Ordinary Shares would be entitled to dividend on pro rata basis from the date of allotment thereof. However, National Securities Depository Limited in a letter dated 20th March, 2003 has advised your Company that, in terms of a directive of the Securities and Exchange Board of India, companies, whose shares are required to be traded in the dematerialised form, are to issue shares that are pari passu in all respects. No Options have yet been exercised, and accordingly no Ordinary Shares have so far been allotted under the Scheme.

In view of the above, the Board of Directors of your Company decided, on the recommendation of the Compensation Committee, which is authorised by the Members under the Scheme, that the Ordinary Shares to be issued and allotted upon exercise of Options have to rank pari passu in all respects with the existing Ordinary Shares, including entitlement to dividend. The Scheme was accordingly amended by your Board of Directors.

Pursuant to the Scheme, 6,27,070 Options were granted for the financial year 2001-02 to the eligible employees of your Company and those of the Company's subsidiary companies. The Company's

Auditors, Messrs. A. F. Ferguson & Co., have certified that the Scheme has been implemented in accordance with the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 and the resolution passed by the Members at the aforesaid General Meeting.

Details of the Options granted up to 31st March, 2003, as required under Clause 12 of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, are set out in the Annexure to this Report.

DIRECTORS' RESPONSIBILITY STATEMENT

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

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

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

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

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

CONSOLIDATED FINANCIAL STATEMENTS

In accordance with Accounting Standard 21- Consolidated Financial Statements, ITC Group Accounts form part of this Report & Accounts. These Group Accounts also incorporate the Accounting Standard 23- Accounting for Investments in Associates in Consolidated Financial Statements and also Accounting Standard 27-Financial Reporting of Interests in Joint Ventures issued by the Institute of Chartered Accountants of India and applicable from the financial year 2002-03. These Group accounts have been prepared on the basis of audited financial statements received from Subsidiary, Associate and Joint Venture Companies, as approved by their respective Boards.

OTHER INFORMATION

The certificate of the Auditors, Messrs. A. F. Ferguson & Co. confirming compliance of conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreement with the Stock Exchanges in India, is annexed. Particulars as required under Section 217(1)(e) of the Companies Act, 1956 relating to Conservation of Energy and Technology Absorption are also provided in the Annexure to this Report together with particulars of Employees as required under Section 217(2A) of the Companies Act, 1956.

FORWARD-LOOKING STATEMENTS

This Report contains forward-looking statements that involve risks and uncertainties. When used in this Report, the words "anticipate", "believe", "estimate", "expect", "intend", "will" and other similar expressions as they relate to your Company and/or its businesses are intended to identify such forward-looking statements. Your Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Actual results, performances or achievements could differ materially from those expressed or implied in such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements that speak only as of their dates. This Report should be read in conjunction with the financial statements included herein and the notes thereto.

CONCLUSION

Your Company continues its relentless focus on strengthening competitiveness in all its businesses. It is the endeavour of your Company to deploy resources in a balanced manner so as to secure the interest of the shareholders in the short, medium and long terms.

Your Directors look forward to the future with confidence.

23rd May, 2003
Virginia House
37 J L Nehru Road
Kolkata 700 071
India

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, 2003

Statement as at 31st March, 2003, 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	:	9,66,189 Options granted till 31st March, 2003, as follows: • 3,39,119 Options granted in 2001, for the financial year 2000-01, at an Exercise Price of Rs.779.95 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.
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	:	94,253
d)	Options exercised	:	Nil
e)	The total number of Ordinary Shares arising as a result of exercise of Options	:	Nil
f)	Options lapsed	:	71,001*
g)	Variation of terms of Options	:	The Ordinary Shares to be issued and allotted upon exercise of Options will rank pari passu in all respects with the existing Ordinary Shares of the Company.
h)	Money realised by exercise of Options	:	Nil
i)	Total number of Options in force	:	8,95,188
j)	i. Details of Options granted to senior managerial personnel	:	As provided below

	Name	Designation	No. of Options granted (cumulative) as on 31st March, 2003
1	Y. C. Deveshwar	Chairman & Wholetime Director	62,651
2	S. S. H. Rehman	Wholetime Director	26,104
3	A. Singh	Wholetime Director	26,104
4	K. Vaidyanath	Wholetime Director	20,883
5	C. R. Green	Non-Executive Director	7,692
6	Y. P. Gupta	Non-Executive Director	17,402
7	Ajeet Prasad	Non-Executive Director	9,710
8	P. B. Ramanujam	Non-Executive Director	17,402
9	B. Sen	Non-Executive Director	17,402
10	Ram S. Tarneja	Non-Executive Director	17,402
11	B. Vijayaraghavan	Non-Executive Director	17,402
12	K. S. Vaidyanathan	Senior Vice President, Corporate Affairs	15,662
13	A. Nayak	Executive Vice President, Corporate Human Resources	15,662
14	R. Srinivasan	Divisional Chief Executive, PPD	15,662
15	B. B. Chatterjee	Executive Vice President & Company Secretary	9,216
16	S. M. Ahmad	Executive Vice President - Marketing, ITD	8,049
17	O. Ahmed	Chief of Product Development, ITD	8,159
18	P. Banerjea	Executive Vice President - Finance & MIS, ITD	8,131
19	S. Basu	Executive Vice President, Internal Audit	7,866
20	K. C. Biddappa	Vice President - Marketing & R&D, ILTD	2,697
21	A. Chand	General Manager - Marketing & Retail Operations, LRBD	3,278
22	P. Chatterjee	Executive Vice President & Corporate Financial Controller	8,475
23	C. Dar	Divisional Chief Executive, LRBD	7,633
24	H. M. Dar	General Manager - Trade Marketing & Distribution, ITD	2,920
25	C. S. Das	SBU Chief Executive, GCB	5,996

	Name	Designation	No. of Options granted (cumulative) as on 31st March, 2003
26	P. Dhobale	Divisional Chief Executive, PSPD	8,798
27	D. Ganesh	Chief Engineer, ITD	7,162
28	K. N. Grant	Divisional Chief Executive, ITD	15,662
29	P. Gupta	General Manager, Taxation	6,592
30	R. G. Jacob	Head of Corporate Quality & Product Development	15,662
31	S. Keshava	General Manager - New Business Development, ITD	6,758
32	N. Lakshminarayanan	Divisional Risk Officer, IBD	6,107
33	U. Lall	Executive Vice President - Tobacco & Regulatory Affairs, ITD	8,379
34	B. N. Malhotra	Executive Vice President, Projects	8,928
35	H. Malik	General Manager - Marketing, Foods Division	2,718
36	K. T. R. Nambiar	Vice President - Finance, PSPD	4,462
37	R. S. Naware	Divisional Chief Executive, Foods Division	8,740
38	R. Parasuram	Vice President - Finance, ITD	6,462
39	A. Pathak	General Manager - Finance, Foods Division	6,856
40	N.V.S.S.V. Prasad	Vice President - Processing & Technology, ILTD	3,137
41	K. V. Raghavaiah	General Manager, Corporate Human Resources	6,938
42	T. V. Ramaswamy	Executive Vice President - Technical & HR, ITD	8,011
43	S. Rangrass	General Manager - Human Resources, ITD	7,102
44	A. K. Rao	General Manager - Technology Centre, ITD	6,631
45	S. Janardhana Reddy	Divisional Chief Executive, ILTD	7,177
46	S. C. Rustagi	Executive Vice President, Corporate EHS	7,292
47	P. Sengupta	Vice President - Finance & MIS, LRBD	5,230
48	S. K. Singh	Executive Vice President - Manufacturing, PSPD	7,633
49	S. Sivakumar	Divisional Chief Executive, IBD	7,610
50	R. Sridhar	Vice President - HRD & Public Affairs, ILTD	6,983
51	B. Sumant	General Manager - Operations, ITD	3,024
52	K. S. Suresh	Company Solicitor	7,622
53	P. K. Talwar	Executive Vice President - Finance, PSPD	8,215
54	R. Tandon	General Manager, Corporate Finance	7,483
55	S. Wanchoo	General Manager - Brands, ITD	5,800
56	S. H. Venkatramani	Head of Corporate Communications	5,513

ii. Any employee who received a grant in any one year of Options amounting to 5% or more of the Options granted during that year. : None

iii. Identified employees who were granted Options during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant. : None

k) Diluted Earnings per Share (EPS) pursuant to issue of shares on exercise of Options calculated in accordance with International Accounting Standard (IAS) 33. : NA

* Includes Options granted to Sarvashri R. Vasudevan and M. V. Muthu, Non-Executive Directors of the Company, which have lapsed during the financial year consequent upon cessation of their Directorship.

ITD	-	India Tobacco Division
ILTD	-	Indian Leaf Tobacco Development Division
IBD	-	International Business Division
PSPD	-	Paperboards & Specialty Papers Division
PPD	-	Packaging & Printing Division
LRBD	-	Lifestyle Retailing Business Division
GCB	-	Greeting Cards Business

ANNEXURE TO THE REPORT OF THE DIRECTORS

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

Name	Age	Designation/ Nature of Duties	Gross Remuneration (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 year and in receipt of remuneration aggregating Rs 24,00,000 /- or more per annum.								
Ahmad S.M.	49	Exec V.P. Marketing (ITD)	25,12,289	11,33,565	M.A.	26	06.03.1980	ANZ Grindlays Bank, Plc.
Chatterjee B.B.	50	Exec V.P. & Co. Secretary	28,31,572	12,88,551	B.Com.(Hons.), F.C.A., F.C.S.,LL.B.	25	16.05.1983	Wacsgen, Deputy Mgr.
Deveshwar Y.C.	56	Executive Chairman	1,73,37,527	70,36,613	B.Tech.(Mech.)	34	11.02.1994	Air India Ltd., Chairman & M.D.
Grant K.N.	45	Div. Chief Exec. (ITD)	38,77,873	16,17,826	B.A.(Hons.), M.B.A.	24	02.06.1980	DCM Ltd., Mgmt. Trainee
Jacob R.G.	57	Head of Corp. Quality & Product Devt.	38,98,648	16,12,156	B.Tech.	36	15.09.1967	—
Lall U.	52	Exec. V.P., Tobacco & Regulatory Affairs (ITD)	24,29,307	10,28,168	B.A.(Hons.)	31	03.01.1972	PARCO, Officer on Spl. Duty
Naware R.	53	Div. Chief Exec. (Foods)	31,43,645	12,32,594	B.Tech., M.M.S.	30	01.07.1974	Otis Elevator Co. (P) Ltd., Mgmt. Trainee
Nayak A.	51	Exec. V.P., Corporate Human Resources	42,75,555	18,05,505	B.Sc., P.G.D.I.R.	30	14.05.1973	—
Ramaswamy T.V.	51	Exec. V.P., Technical & H.R. (ITD)	25,27,797	10,76,978	B.E., M.M.S.	29	01.07.1974	—
Rehman S.S.H.	59	Executive Director	77,58,428	30,01,070	Graduate, Indian Army	39	21.11.1997	ITC Hotels Ltd., Managing Director
Sarkar A.C.	62	Exec. V.P., Industry Affairs	29,37,584	11,12,619	B.A.(Hons.)	43	01.12.1960	Hindustan Steel Ltd., Graduate Apprentice
Singh A.	58	Executive Director	77,72,417	30,55,326	B.Tech.(Hons.)	35	01.03.1968	—
Sivakumar S.	42	Div. Chief Exec. (ABD)	29,44,872	14,52,476	B.Sc., P.G. Dip. in Rural Mgmt.	20	18.09.1989	Gujarat Co-op Oil Seeds Growers' Federation Ltd., Mgr. Mktg.
Srinivasan R.	51	Div. Chief Exec. (PPD)	39,13,066	16,40,034	B.Tech.(Hons.)	29	10.09.1974	—
Suresh K.S.	43	Company Solicitor	24,93,684	11,35,690	B.A., B.L., P.G.D.P.M., I.R. & L.W.	20	01.09.1990	Chambers of Sri C.S. Venkata Subramaniam, Advocate
Vaidyanath K.	53	Executive Director	59,94,474	24,77,989	B.Com.(Hons.), M.B.A.	30	16.01.1976	Shriram Refrigeration Industries Ltd., Mgmt. Trainee
Vaidyanathan K.S.	63	Sr. V.P., Corp. Affairs	46,22,273	20,06,110	B.Com.(Hons.)	40	08.10.1982	TVS Southern Roadways Ltd., Resident Mgr.

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

Name	Age	Designation/ Nature of Duties	Gross Remuneration (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 year and in receipt of remuneration aggregating Rs 2,00,000 /- or more per month.								
Chakravarty D.N.	58	Asst. Materials (ITD)	2,01,464	1,92,980	B.Com.(Hons.), LL.B.	37	04.10.1985	Roadmaster Ind. (I), Asst. Sales Manager
Chalapathi Rao P.V.S.S.	50	Leaf Manager (ABD)	6,77,304	4,18,582	B.Sc.	25	01.03.1977	—
Gune N.V.	53	V.P. Tech., R. & D. (PSPD)	3,10,912	2,22,974	B.Tech., P.G.D. in Paper Tech., Ph.D. (Chem. Eng.)	25	07.03.1986	Univ. of British Columbia Research Asst.
Jhabak M.K.	46	V.P., Corp. Affairs	10,08,114	5,18,401	B.Com.	24	01.09.1987	ITC Classic Finance Ltd.
Malik R.	45	Services Loaned to Associate Co.	14,53,242	8,55,098	B.A.(Hons.)	22	01.07.1980	—
Ramakrishnan N.	49	V.P., Legal (PSPD)	8,37,071	4,72,112	M.Com., LL.M., A.C.S.	29	05.05.1982	Shree Padma Paper Mills Ltd., Co. Secretary
Ramana K.V.	56	Audit & Systems Mgr. (ABD)	2,99,034	2,97,781	B.Com.(Hons.)	31	11.01.1973	Associated Glass Industries Ltd., Accountant
Reddy M.D.	58	G.M. Exports (ABD)	8,74,127	5,69,752	B.Sc., LL.B., LL.M.	37	10.01.1972	Tungabhadra Industries, Processing I.C.
Satyanarayana M.	49	Exec. V.P., Finance (Spl. Projects)	21,87,658	12,49,525	B.Sc., F.C.A., A.I.C.W.A., A.C.S.	24	03.04.1979	Mysore Paper Mills, Financial Accountant
Sengupta R.	58	Exec. V.P., H.R. (ITD)	12,31,393	7,95,698	M.A.(Cantab.)	38	21.07.1969	ITC Hotels Ltd., V.P., H.R.D.

Abbreviations denote :

ABD	:	Agri Business Division
ITD	:	India Tobacco Division
PPD	:	Packaging & Printing Division
PSPD	:	Paperboards & Specialty Papers Division
Foods	:	Foods 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.
2. 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, May 23rd, 2003

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 :
   - i) Upgradation of power generation and distribution system for long term energy savings.
   - ii) Installation of higher efficiency air conditioning systems resulting in lower energy consumption.
   - iii) Renovation of pneumatic systems to reduce transmission losses and use of higher efficiency compressors.
   - iv) Utilization of waste heat from boiler flue gases through waste heat recovery boilers.
   - v) Use of energy efficient lighting and better use of natural lighting.

b) Additional Investment and Proposals, if any, being implemented for reduction of consumption of energy :
   - i) Continuing system of energy audits.
   - ii) Procurement of generator sets with better specific fuel consumption.
   - iii) Revamping of steam lines to reduce thermal losses and leakages.
   - iv) Auto conditioning systems in conditioning cylinders and improved lamina re-drier controls for optimizing steam consumption.

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

   Energy conservation measures have helped the Company in its drive towards improving efficiencies and reduction in costs.

A) POWER AND FUEL CONSUMPTION

	For the Year ended 31st March, 2003	For the Year ended 31st March, 2002
Relating to Paperboards & Paper		
1. Electricity (Excluding Consumption in Colony)		
a) Purchased		
Units (KWH in Lakhs)	**165**	307
Total Amount (Rs. in Lakhs)	**801**	1229
Rate / Unit	**4.86**	4.00
b) Own Generation		
i) Through Diesel Generation Unit	**27**	37
Unit per Litre of Diesel Oil	**2.96**	3.10
Cost / Unit (Rs.)	**6.80**	5.71
ii) Through Steam Turbine/Generator		
Units (KWH in Lakhs)	**2774**	2538
Units per Kg. of Coal	**1.63**	1.59
Cost / Unit (Rs.)	**1.20**	0.94

2. Coal (Specify Quantity & Where Used)
B/C/D/E/F Grade Coal Used.

	For the year ended 31st March, 2003			For the year ended 31st March, 2002		
	Process	**Power**	**Total**	Process	Power	Total
Quantity (M.T.)	**150692**	**170438**	**321130**	148665	159348	308013
Total Cost (Rs.in Lakhs)	**—**	**—**	**4887**	—	—	4602
Average Rate (Rs.per M.T.)	**—**	**—**	**1522**	—	—	1494

	2003	2002
3. Furnace Oil		
Quantity (KL)	**1705**	847
Total Amount (Rs. in Lakhs)	**184**	77
Average Rate (Rs. / KL)	**10763**	9060
4. Others / Internal		
Generation	**N.A**	N.A.
Quantity	**—**	—
Total	**—**	—
Rate/Unit	**—**	—

B) CONSUMPTION PER UNIT OF PRODUCTION

	For the Year ended 31st March, 2003	For the Year ended 31st March, 2002
Products (Paper in MT)	**233237**	229762
Electricity (KWH)	**1271**	1254
Coal B/C/D/E/F Grade (M.T.)	**0.65**	0.65

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 and Development

1. Specific areas in which R & D was carried out by the Company :
   - i) Development of high bulk folding box boards.
   - ii) Introduction of speciality dyes and optical whitening agent for improved light fastness in the very high brightness whiteness grades of paper and paperboards.
   - iii) Development of disease resistant clones of Eucalyptus.
   - iv) Development of high bright carborised match tissue. Development of gravure side friction for matches.

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

   i) Boards with superior surface flatness offering better graphic reproducibility.

   ii) Stability of the paperboards/paper, to light and environmental exposure is increased.

   iii) Higher productivity achieved in the eucalyptus plantations.

   iv) Speciality feature for new product line of matches.

3. **Future Plan of Action :**

   i) Development of ovenable boards for food packaging.

   ii) Continue research on genetic improvement of Eucalyptus, Subabul, bamboo and other plywood species.

   iii) Develop white tipping and yellow tipping base papers and printed paper for export market.

4. **Expenditure on R & D :**

		For the year ended 31st March, 2003 (Rs. in Lakhs)
i)	Capital	746
ii)	Recurring	1155
iii)	Total	1901
iv)	Total R & D Expenditure as a % of total turnover	0.17%

Technology Absorption, Adaptation and Innovation

i) Commissioning of the new fiber line enabled continuous production of elemental chlorine free hardwood pulp.

ii) Replacement of conical refiners by tri-disk refiners.

iii) Modification of dewatering system in paper machines.

iv) Adaptation of print registered film wrapping system.

Benefits Derived

i) New Fibre line pulp has helped in reducing the AOX to a level of 0.08 kg/T and also helped develop higher brightness papers.

ii) Has helped achieve higher energy savings.

iii) Has helped improve formation levels and increase productivity.

iv) Permits the establishment of communication through the pack medium.

On behalf of the Board

Y.C. DEVESHWAR *Chairman*

Kolkata, 23rd May, 2003 K. VAIDYANATH *Director*

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, 2003, 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 conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements 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, 2003, 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

A.K. MAHINDRA
Partner

Kolkata, 23rd May, 2003