

Report of the Board of Directors

&

Management Discussion and Analysis

For the Financial Year Ended 31st March, 2018

SOCIO-ECONOMIC ENVIRONMENT

The global cyclical upswing that began midway through 2016 gathered strength during 2017. As per latest IMF estimates, World GDP grew by 3.8% in 2017 representing a marked improvement over 2016, which at 3.2% was the weakest year of growth since the global financial crisis of 2009. The pick-up in growth was supported by synchronous growth in the Advanced Economies which grew by 2.3% in 2017 against 1.7% in 2016, and Emerging Markets & Developing Economies which recorded a growth of 4.8% in 2017 against 4.4% in 2016.

Within the Advanced Economies, the US posted a strong growth of 2.3% in 2017 against 1.5% in 2016, led by robust recovery in Private Investment and expansion in consumer spending. The Euro Area also expanded by 2.3% during the year compared to 1.8% in 2016. In the Emerging Markets & Developing Economies, acceleration in growth was mainly attributable to Brazil and Russia achieving positive growth after two successive years of decline. The Chinese economy also grew faster at 6.9% in 2017 compared to 6.7% in 2016.

The synchronised growth momentum in Advanced and Emerging Economies is likely to sustain going forward resulting in a further pick-up in global economic growth to 3.9% in 2018 and 2019. The US economy is projected to grow at 2.9% in 2018 aided by an expansionary fiscal policy, positive investment and private consumption outlook and 'full employment' of its workforce. At 4.9% growth in 2018, the strong growth

momentum in the Emerging Markets & Developing Economies is likely to sustain and improve marginally mainly due to robust performance of commodity exporting countries such as Brazil, South Africa, Saudi Arabia and an anticipated pick-up in growth in India. Growth in China, however, is projected to slow down to 6.6% in 2018, reflecting the ongoing rebalancing of the economy towards a more sustainable and broad-based consumption and services led growth.

However, the increasing trend of protectionist policies in the developed world, faster pace of increase in US interest rates and progressive tapering of quantitative easing in the EU could impact capital flows and weigh on the nascent recovery in commodity-exporting emerging economies.

The Indian economy witnessed another challenging year, with Real GDP growth slowing down sharply to 6.6% compared to 7.1% in 2016-17, reflecting the short-term disruptions caused by GST implementation, residual impact of cash crunch and deceleration in Net Exports. It is pertinent to note that Nominal GDP growth in 2017-18 stood at 9.8% - the lowest in six years.

The Industry sector decelerated further during the year, recording the slowest growth in four years.

The anticipated pick-up in Consumption remained elusive with Private Final Consumption Expenditure (PFCE) growing by only 6.1% during the year against 7.3% in 2016-17. Likewise, recovery of the capex cycle did not fructify with deceleration in Fixed Capital Formation growth to 7.6%. Data on new project announcements, new capacity commissioned and stalled/abandoned projects during the year point to the subdued investment

India remains the fastest growing major economy in the world. The pace of GDP growth is expected to gather momentum in the medium term on the back of favourable global economic tailwinds, pick-up in Private Investment and implementation of key policy reforms.

climate in the country. The 'twin deficits' came under pressure as well – higher expenditure and lower net tax collections resulted in Fiscal Deficit touching 3.5% of GDP against a target of 3.2% while the Current Account Deficit expanded to about 1.9% of GDP (Vs. 0.7% in 2016-17) due to pick-up in imports even as growth in exports remained subdued.

On the positive side, India remains the fastest growing major economy in the world. Inflation remained largely within the comfort zone of the RBI during the year with the Consumer Price Index (CPI) declining to 3.6% in 2017-18 against 4.5% in 2016-17, prompting the RBI to reduce policy interest rates by 25 bps during the year. However, with rising crude oil prices, anticipation of commodity prices firming up in the ensuing year and Core CPI steadily rising for the past several months, the scope for further reduction in interest rates seems limited. Foreign capital flows into the country remained robust leading to stability in the Indian Rupee and sustained buoyancy in the capital markets with the Sensex advancing by 11% in 2017-18 after a 17% rise in 2016-17.

As per median estimates, based on the Survey of Professional Forecasters conducted by RBI, GDP is likely to grow by 7.3% in 2018-19 on the back of improvement in the Net Exports position and normalisation of private consumption growth levels, partly aided by a favourable base effect. The green shoots of recovery in investments witnessed towards the end of the year especially in the infrastructure sector along with expectations of a normal monsoon augur well for the economy in the near term. Rising crude oil prices, revenue collections, external capital flows and rural demand recovery are the key monitorables in 2018-19. The pace of GDP growth is expected to gather momentum in the medium term on the back of favourable

global economic tailwinds, pick-up in Private Investment and implementation of key policy reforms.

While India remains one of the fastest growing major economies in the world, the pace of economic growth in recent years has remained below the desired levels and the country's potential. Stagnation in the manufacturing sector needs to be reversed at the earliest towards the creation of sustainable livelihoods and absorption of millions of Indians entering the job market every year.

The successful implementation of structural initiatives identified by the Government towards improving the ease of doing business in the country by enhancing transparency, speeding up the approvals process, resolving policy issues and fostering greater levels of value addition within the country would be crucial to boost the performance of the Indian economy and realise its true potential. Enhancing agricultural productivity and value addition to international standards while simultaneously improving market linkages remain critical for the growth of the agricultural sector. In this context, it is pertinent to note that anywhere between 5% and 40% of food is wasted along the chain in India, depending on the inherent perishability of the crop and the season. India processes only 8% of its total food production as compared to 23% in China, 65% in USA and 78% in Philippines. A big thrust on India's Food Processing sector can lead to significant job creation, enhance rural incomes and help manage food inflation. Similarly, supportive policies in the area of agro-forestry would go a long way in creating sustainable livelihoods while simultaneously augmenting the nation's environmental capital.

Over the last four years, your Company has implemented an integrated pilot programme towards doubling farmer incomes in four districts of Allahabad, Chandauli,

The successful implementation of structural initiatives identified by the Government towards improving the ease of doing business in the country would be crucial to boost the performance of the Indian economy and realise its true potential.

Report of the Board of Directors

Ghazipur and Varanasi, reaching out to nearly 2,00,000 farmers. The programme seeks to enhance productivity, crop quality and price realisation through specific interventions such as adoption of new high yielding varieties of wheat, introduction of short duration paddy to enable timely sowing of wheat in rabi season, promotion of value-added crops as well as educating farmers on best practices, knowledge and know-how transfer through the Choupal Pradarshan Khet initiative and, in particular, through practices like zero till sowing. Over 28,000 farmers, who have adopted all the initiatives under the integrated programme, have already reported doubling of incomes. Your Company is also engaged in enriching the potato value chain through its subsidiary, Technico Agri Sciences Ltd, which is a leading player in the production of early generation seed potato. The interventions in this area include introduction of better quality and improved variety of seed potato and supporting potato farmers in upgrading their produce to chip grade potato for enhanced value realisation.

With a view to scaling up your Company's contribution to the national goal of improving farmer incomes, your Company has recently entered into a partnership with the NITI Aayog to boost agricultural and allied activities in 25 districts under the Aspirational Districts programme launched to further the Honourable Prime Minister's vision to transform such areas. Under this initiative, your Company will collaborate with NITI Aayog and the district administration to train 2,00,000 lead farmers to enable them to reduce costs / enhance farm productivity across major crops in the identified districts.

The forward linkages to domestic agricultural value chains provided through your Company's Branded Packaged Foods Businesses stood further strengthened during the year with the recent foray into branded packaged potatoes & apples for the retail segment

under the 'Farmland' brand, and 'Super Safe' spices, frozen prawns and dehydrated onions under the 'ITC Master Chef' brand.

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

Your Company is a global exemplar in 'Triple Bottom Line' performance and is the only enterprise in the world of comparable dimensions to have achieved and sustained the three key global indices of environmental sustainability of being 'water positive' (for 16 years), 'carbon positive' (for 13 years), and 'solid waste recycling positive' (for 11 years). The focus on creating unique business models that generate substantial livelihoods across the value chains has led to your Company's Businesses supporting six million sustainable livelihoods, many of whom belong to the weakest in society. The following sections outline your Company's progress in pursuit of the 'Triple Bottom Line'.

With a view to scaling up your Company's contribution to the national goal of improving farmer incomes, your Company has recently entered into a partnership with the NITI Aayog to boost agricultural and allied activities in 25 districts under the Aspirational Districts programme launched to further the Honourable Prime Minister's vision to transform such areas.

FINANCIAL PERFORMANCE

Your Company delivered a resilient performance during the year which was a particularly challenging one due to a sharp slowdown in the economy, steep escalation in tax incidence on cigarettes under the GST regime, subdued demand conditions in the FMCG industry and supply chain disruptions caused during the transition to GST. The non-cigarette FMCG segment also had to contend with gestation costs relating to new products/categories and the ongoing restructuring of the retail footprint/trade terms in the Lifestyle Retailing Business. Shortage of leaf tobacco in Andhra Pradesh due to lower crop output on account of drought in 2016 and adverse crop quality, relative strength of the Indian Rupee vis-à-vis currencies of competing origins and limited trading opportunities in other agri-commodities weighed on the performance of the Agri Business. While there was an improvement in room rates, performance of the Hotels Business remained subdued during the year due to the overhang of excess room inventory in key cities and the impact of ban on sale of liquor at outlets in close proximity to highways in the first half of the year. The Paperboards, Paper and Packaging Business was also impacted by unabsorbed capacity in the value-added paperboards segment, cheap imports and slowdown in end user industries such as FMCG, liquor and pharmaceuticals.

Consequent to the introduction of Goods and Services Tax (GST) with effect from 1st July 2017, Central Excise [other than National Calamity Contingent Duty (NCCD) on cigarettes], Value Added Tax (VAT) etc. have been replaced by GST. In accordance with Indian Accounting Standard - 18 on Revenue and Schedule III of the Companies Act, 2013, GST, GST Compensation Cess, VAT etc. are excluded and NCCD is not excluded from Gross Revenue from sale of products and services for applicable periods. In view of the aforesaid restructuring of indirect taxes, Gross Revenue from sale of products and services and Excise Duty for the year ended 31st March, 2018 are not comparable with the previous periods.

On a comparable basis, Gross Sales Value (net of rebates/discounts)¹ for the year stood at ₹ 67081.92 crores, representing a growth of 4.5%

¹ Gross Sales Value includes GST, GST Compensation Cess, Service Tax, VAT, Luxury Tax etc., as applicable for the reported periods.

over 2016-17 driven mainly by the Branded Packaged Foods, Personal Care Products and the Education and Stationery Products Businesses offset by decline in Agri Business revenue due to the reasons as aforesaid. Profit Before Depreciation, Interest and Tax (excl. Exceptional items) at ₹ 15540.98 crores and Profit Before Tax (excl. Exceptional items) grew by 6.6% and 6.0% respectively.

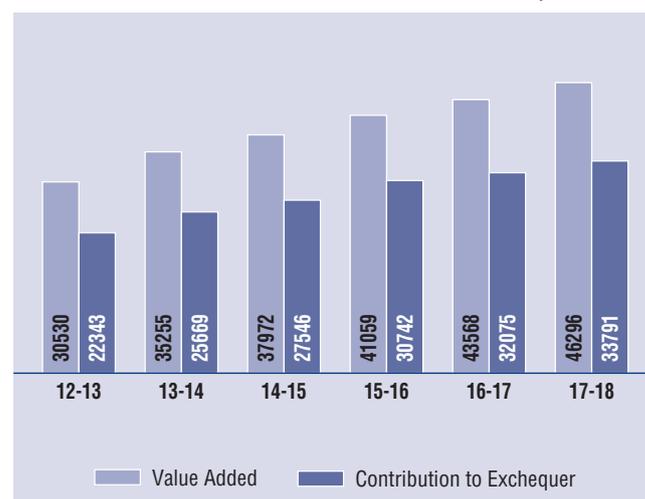
Exceptional items during the year represent provisions for earlier years of ₹ 412.90 crores (₹ 270.00 crores post tax) in respect of Tamil Nadu entry tax that have been written back, based on a favourable order of the Honourable Supreme Court.

Including Exceptional items, Profit Before Tax at ₹ 16851.70 crores and Profit After Tax at ₹ 11223.25 crores registered growth of 8.7% and 10.0% respectively during the year. Total Comprehensive Income for the year stood at ₹ 11605.59 crores (previous year ₹ 10277.90 crores). Earnings Per Share for the year stood at ₹ 9.22 (previous year ₹ 8.43). Cash generated from operations aggregated ₹ 18370.42 crores, compared to ₹ 15214.98 crores in the previous year.

The Directors are pleased to recommend an Ordinary Dividend of ₹ 5.15 per share (previous year Ordinary Dividend of ₹ 4.75 per share) for the year ended 31st March, 2018. Total cash outflow in this regard will be ₹ 7577.15 crores including Dividend Distribution Tax of ₹ 1291.94 crores.

VALUE-ADDED AND CONTRIBUTION TO EXCHEQUER

(₹ in Crores)



Report of the Board of Directors

Over the last five years, the Value-Added by your Company, i.e. the value created by the economic activities of your Company and its employees, aggregated over ₹ 200000 crores of which nearly ₹ 150000 crores accrued to the Exchequer.

Including the share of dividends paid and retained earnings attributable to government owned institutions, your Company's contribution to the Central and State Governments represents about 80% of its Value-Added during the year.

Your Company remains amongst the Top 3 Indian corporates in the private sector in terms of Contribution to Exchequer.

FOREIGN EXCHANGE EARNINGS

Your Company continues to view foreign exchange earnings as a priority. All Businesses in the ITC portfolio are mandated to engage with overseas markets with a view to testing and demonstrating international competitiveness and seeking profitable opportunities for growth. Foreign exchange earnings of the ITC Group over the last ten years aggregated nearly US\$ 7.1 billion, of which agri exports constituted 56%. Earnings from agri exports, which effectively link small farmers with international markets, are an indicator of your Company's contribution to the rural economy.

During the financial year 2017-18, your Company and its subsidiaries earned ₹ 4189 crores in foreign exchange. The direct foreign exchange earned by your Company amounted to ₹ 3480 crores, mainly on account of exports of agri-commodities. Your Company's expenditure in foreign currency amounted to ₹ 2038 crores, comprising purchase of raw materials, spares and other expenses of ₹ 1506 crores and import of capital goods at ₹ 532 crores.

PROFITS, DIVIDENDS AND RETAINED EARNINGS

(₹ in Crores)

PROFITS	2018	2017
a) Profit Before Tax	16851.70	15502.96
b) Tax Expense		
– Current Tax	5599.83	5285.65
– Deferred Tax	28.62	16.41
c) Profit for the year	11223.25	10200.90
d) Other Comprehensive Income	382.34	77.00
e) Total Comprehensive Income	11605.59	10277.90
STATEMENT OF RETAINED EARNINGS		
a) At the beginning of the year	17576.81	16589.89
b) Add: Profit for the year	11223.25	10200.90
c) Add: Other Comprehensive Income (net of tax)	52.78	(24.92)
d) Add: Transfer from share option on exercise and lapse	18.65	14.58
e) Less: Dividends		
– Ordinary Dividend of ₹ 4.75 (2017: ₹ 4.33) per share	5770.01	5230.68
– Special Dividend of ₹ Nil (2017: ₹ 1.33) per share	–	1609.44
– Income Tax on Dividend paid	1110.24	1333.52
f) Less: Transfer to General Reserve	–	1030.00
g) At the end of the year	21991.24	17576.81

Your Company delivered a resilient performance during the year which was a particularly challenging one due to a sharp slowdown in the economy, steep escalation in tax incidence on cigarettes under the GST regime, subdued demand conditions in the FMCG industry and supply chain disruptions caused during the transition to GST.

FMCG Cigarettes

A punitive and discriminatory taxation and regulatory regime continues to exert severe pressure on the domestic legal cigarette industry even as illegal cigarette trade grows unabated.

The legal cigarette industry, already reeling under the cumulative impact of steep increase in taxation over the last five years and intense regulatory pressures, was further impacted by the sharp upward revision in GST Compensation Cess announced in July 2017. Contrary to indications from the Government that the transition to GST would be based on the principle of maintaining revenue neutrality, tax incidence on cigarettes rose sharply by 13% with an even steeper increase of 19% for the king-size filter segment under the GST regime. Coupled with the increase in Excise Duty rates announced in the Union Budget 2017, this resulted in an incremental tax burden of over 20% on your Company's Cigarette Business post implementation of GST.

It is pertinent to note that the tax incidence on cigarettes, after cognising for the latest increase in Cess rates, has nearly trebled over the last six years, on a comparable basis.

The Cigarette Business also had to contend with additional costs associated with the transition to GST due to non-availability of Additional Duty Surcharge credit on transition stocks and the unanticipated revision of GST Compensation Cess w.e.f. 18th July, 2017 which impacted pipeline stocks.

In addition to being subjected to punitive taxation, cigarettes continue to be discriminated against in the GST regime. Even as a uniform GST rate of 28% has been made applicable to all tobacco products the discriminatory tax incidence continues on account

of differential rates of GST Compensation Cess. For example, a Specific GST Compensation Cess, at rates higher than the Central Excise Duty levied on cigarettes in the erstwhile regime, is levied on cigarettes in addition to an Ad-valorem GST Compensation Cess of 36% for king-size cigarettes and 5% for the other length segments. In comparison, no GST Compensation Cess is levied on bidis. Consequently, cigarette taxes remain, effectively, about 50 times higher than on other tobacco products.

The high rates of tax on cigarettes also provide attractive tax arbitrage opportunities to unscrupulous players, fanning the growth of illegal cigarette trade in the country. While the legitimate cigarette industry has declined steadily since 2010-11 at a compound annual rate of 4.8% p.a., illegal cigarette volumes in contrast have grown at about 5% p.a. during the same period, making India one of the fastest growing illegal cigarette markets in the world. It is pertinent to note that, according to Euromonitor International, India is now the 4th largest illegal cigarette market in the world.

Another factor that fuels the growth of smuggled international brands is that such cigarette packs do not carry the excessively large (85% of the surface area of both sides of the cigarette package) pictorial warnings with extremely gruesome and unreasonable images that are prescribed under Indian laws. While the legal cigarette industry scrupulously complies with the statutory provisions, smuggled international brands of cigarettes either do not bear any pictorial or other health warnings or bear warnings of much smaller dimensions, that too different from what is mandated under Indian law. Findings from research conducted by IMRB International, an independent organisation, indicate that the lack of warnings or their diminutive size creates a perception in the consumer's mind that the smuggled cigarettes

It is pertinent to note that the tax incidence on cigarettes, after cognising for the latest increase in Cess rates, has nearly trebled over the last six years, on a comparable basis.

Report of the Board of Directors

are 'safer' than domestic duty-paid cigarettes that carry the statutory warnings.

The attractive tax arbitrage opportunity for smuggled cigarettes allows unscrupulous players to make the products available to consumers at a fraction of the price of duty-paid domestic cigarettes. In fact, the affordability of illegal cigarettes and the other cheaper tobacco products (by reason of lower tax incidence as well as evasion of taxes) has been driving the consumption of tobacco from duty-paid cigarettes to the other forms. Consequently, India's per capita cigarette consumption is amongst the lowest in the world and is significantly lower in comparison to Russia, Japan, China, United States and even neighbouring countries such as Pakistan and Bangladesh.

While overall tobacco consumption in the country continues to grow, the share of duty-paid cigarettes has come down substantially over the years and is estimated to account for around 11% of current tobacco consumption in the country. Despite accounting for such a low share of overall tobacco consumption in the country, the legal cigarette industry contributes more than 87% of tax revenue from the tobacco sector. The other types of tobacco products contribute barely 13% of tax revenue from the tobacco sector despite accounting for 89% of total tobacco consumption. It is estimated that the exchequer is losing more than ₹ 13000 crores revenue annually on account of tax evasion on cigarettes alone. The loss to the exchequer is even higher when the evaded taxes on other tobacco products are also considered.

The growth of smuggled international brands has also adversely impacted the demand for domestic Flue Cured Virginia (FCV) tobacco that is used in cigarette manufacture. The absence of a strong domestic demand

base has not only resulted in loss of income but has also exposed the Indian tobacco farmer to the volatilities of the international market, thereby sub-optimising earnings from tobacco crop exports as well. These developments have had a devastating impact on the Indian tobacco farmer and the 46 million livelihoods dependent on the tobacco value chain. Soft demand for Indian FCV tobacco has prompted the Tobacco Board of India to reduce the authorised crop size for three successive years i.e. 2015-16, 2016-17, 2017-18. Further, the unprecedented drought in Andhra Pradesh in late 2016 played havoc on the actual crop output in 2017 besides adversely impacting its quality. This, in turn, has also led to lower exports of tobacco. It is estimated that the cumulative drop in farmer earnings is in excess of ₹ 3450 crores over the last three years, i.e., an average loss in earnings of over ₹ 1150 crores per year.

As reported last year, your Company and several other stakeholders had challenged the validity of the pictorial warnings. Based on a direction of the Honourable Supreme Court, all litigation on pictorial warnings were tagged together and heard by the Honourable High Court of Karnataka. The High Court, by its judgement in December 2017 held the 85% pictorial warnings with extremely gruesome imagery to be factually incorrect and unconstitutional. Upon a Special Leave Petition filed by the Government, the Honourable Supreme Court stayed the Order of the High Court. Pending the final hearing of this matter, the regime of the extremely repugnant 85% pictorial warnings continues.

It is pertinent to note that the global average size of pictorial warnings is only about 30% coverage of the principal display area. In fact, the three countries

While the legitimate cigarette industry has declined steadily since 2010-11, illegal cigarette volumes in contrast have grown at about 5% p.a. during the same period, making India one of the fastest growing illegal cigarette markets in the world.

that account for about 51% of the world's cigarette consumption, viz., USA, Japan and China have not adopted pictorial / graphical warnings and have prescribed only text-based warnings on cigarette packages.

Although India is the 3rd largest FCV tobacco grower in the world, it has put in place extremely stringent tobacco control laws. For instance, the statutorily prescribed pictorial warning occupying 85% of both sides of a cigarette pack ranks India in the 2nd position globally in terms of their stringency¹. Unfortunately, these laws have fuelled, albeit unintentionally, the growth of illegal cigarettes in the country and consequently, impacted adversely on farmer incomes. In contrast, several major tobacco producing countries, including the USA, have taken into consideration the interests of their tobacco farmers in deciding whether or not to adopt large or excessive pictorial warnings. The Indian tobacco control laws have, thus, had the inadvertent and unforeseen effect of causing losses to the Indian farmer with corresponding gains to tobacco farmers in the countries that have opted for moderate and equitable tobacco control laws.

Regardless of the steps taken by the Government towards tobacco control in the country, taking advantage of the country's large porous international borders as well as by exploiting loopholes in the policies that are in place, the smuggling of international brands of cigarettes into the country continues to grow at an alarming rate. This is confirmed by the fact that detection and seizure of smuggled cigarettes by the enforcement agencies² has gone up from 1312 cases

¹ *Cigarette Package Health Warnings – International Status Report, 5th Edition, October 2016, Canadian Cancer Society.*

² *Replies to Unstarred Question No. 1153 dated 22.12.2017 (Lok Sabha) and Starred Question No. 305 dated 08.08.2016 (Lok Sabha) by the Ministers of State, Ministry of Finance and Ministry of Commerce & Industry, respectively.*

in 2014-15 to 3108 cases in 2016-17 – an increase of more than 136%.

Unfortunately, the taxation and regulatory policies of the country are largely cigarette-centric and based on tobacco consumption patterns prevalent in developed countries. Such policies are not suitable for India since duty-paid cigarettes account for only about 11% of tobacco consumption in the country as compared to the global average of more than 90%. The unintended consequences of the extant tobacco taxation and regulatory framework may be summarised as follows:

- Continuing decline in legal cigarette volumes in favour of lightly taxed and tax-evaded tobacco products, due to extremely attractive tax arbitrage, resulting in sub-optimisation of the revenue potential of the tobacco sector and significant loss to the Exchequer.
- Further fillip to the growth of illegal cigarettes in the absence of statutory pictorial warnings on smuggled international brands.
- The greater portion of tobacco consumption in the country (estimated at about 68%³) remaining outside the tax net.
- Widespread availability of illegal cigarettes and other tobacco products of dubious quality and hygiene to consumers at extremely affordable prices.
- Persistent negative impact on the livelihood of tobacco farmers and others dependent on tobacco for their livelihood.

As always, your Company complies with all regulations and laws in letter and spirit whilst remaining engaged

³ *Report on the impact of current tax framework on the tobacco sector in India and suggestions for its improvement - 2014, by ASSOCHAM and KPMG.*

The smuggling of international brands of cigarettes into the country continues to grow at an alarming rate. Detection and seizure of smuggled cigarettes by the enforcement agencies has gone up from 1312 cases in 2014-15 to 3108 cases in 2016-17 – an increase of more than 136%.

Report of the Board of Directors

with policy makers for reasonable, pragmatic and evidence based regulation and taxation policies that balance the health, employment and economic imperatives of the country.

Your Company's strong product portfolio along with superior consumer insights and a strategy of continuous innovation and value creation has, once again, helped deliver superior competitive performance during the year, notwithstanding the extremely challenging operating environment. It is a matter of deep satisfaction that your Company consolidated its leadership position in the industry during the year and continues to improve its standing in key competitive markets across the country. Some of the key interventions during the year include the launch of innovative variants viz., Classic Double Burst, Gold Flake Mint Switch, Flake Mint Switch, Bristol Magnum, Navy Cut Century and a new brand, Wave. Additionally, two brands, American Club and Players, which were launched towards the end of 2016-17 were strengthened significantly during the year.

During the year, the Electronic Vaping Devices portfolio was augmented with the launch of EON Myx, a disposable variant which is offered in adult flavours like coffee in addition to menthol and full flavour. The consumer response to this offering has been encouraging. The rechargeable variant, EON Charge, further strengthened its performance during the year. Given the nascent state of the market and the evolving regulatory oversight globally, your Company remains engaged with the policy makers for adoption of an appropriate and equitable regulatory framework in India for this category. The research and development initiatives of your Company continue to add to the country's bank of Intellectual Property Rights (IPR).

In addition to grant of several patents in previous years, your Company was granted three more patents during the year – two international and one national – in respect of cigarettes.

To secure increasingly higher levels of productivity and product excellence going forward, the Business continues to modernise its manufacturing facilities by inducting contemporary technologies. The Business leveraged its in-house design and development expertise and innovation capabilities to step up flexibility in manufacturing technologies and to further improve speed to market for differentiated products and pack formats. In line with its philosophy of manufacturing excellence, the Business has commenced several initiatives towards capability enhancement in the arena of Industry 4.0 including Advanced Analytics, Artificial Intelligence, Virtual Assist and Augmented Reality. These interventions are expected to bring about a digital transformation in the manufacturing process. Upgradation of on-line, real time quality assurance systems and induction of state-of-the-art technology for several product and packaging types were carried out during the year. These initiatives have further improved the speed to market for successful launches and augmented the innovation pipeline of the Business. Further, Long Term Agreements were concluded successfully with the unionised workforce at the Bengaluru and Ranjangaon cigarette factories.

It is extremely satisfying to report that the Business continues to be recognised for its leadership role and commitment towards excellence, sustainability and HR practices. The Bengaluru factory was conferred the 'Sustainable Factory of the Year' award by Frost & Sullivan and The Energy & Resource Institute (TERI).

The Indian tobacco control laws have, had the inadvertent and unforeseen effect of causing losses to the Indian farmer with corresponding gains to tobacco farmers in the countries that have opted for moderate and equitable tobacco control laws.

The factory has also been recertified as an IGBC Platinum Rated Green Factory Building with the highest score in India. The Saharanpur factory was awarded the First Prize under the 'FICCI Safety Systems Excellence Awards for Industry 2017'. The Munger factory was honoured with the 'Excellent Energy Efficient Unit' award at the 18th National Award for Excellence in Energy Management 2017. The Kidderpore cigarette factory was the recipient of the 'Safety Innovation Award' by The Institution of Engineers (India). Your Company was also conferred two awards by the Association for Talent Development (ATD) and another one by Employees Federation of India (EFI) for excellence in HR practices.

A punitive and discriminatory taxation regime along with ever increasing regulatory pressures and the unabated growth in illegal trade will continue to pose several challenges in the year ahead. Your Company will continue to engage with policy makers for a tobacco taxation and regulatory policy that is non-discriminatory, helps combat the menace of illegal cigarettes and addresses the issues of all stakeholders, particularly tobacco farmers, Exchequer and consumers. Such a policy will not only help maximisation of the revenue potential of tobacco even in a shrinking basket of tobacco consumption but also address the tobacco control and health objectives of the Government. Your Company remains confident that despite the severe pressures, the trust and faith reposed by the consumers coupled with the Company's robust product portfolio, world-class quality, innovation in processes, investments in cutting-edge technology and superior execution of competitive strategies will enable it to retain its pole position and reinforce its market standing in the years to come.

FMCG - Others

The FMCG industry faced another challenging year with demand conditions remaining sluggish for the fifth year in a row. The slowdown in the broader economy, as reflected by the marked deceleration in Nominal GDP and private consumption expenditure growth, headwinds in rural demand and supply chain disruptions during the transition to the GST regime was manifest in your Company's operating segments in the FMCG space. The year also witnessed commodity prices settling at an elevated level, exerting pressure on margins. While it is anticipated that the FMCG industry will take a few more quarters for demand revival to play out fully, the green shoots of economic recovery and expectations of normal monsoons augur well for the industry. The structural drivers of long-term growth such as increasing affluence and consumer awareness, a young and expanding workforce, increasing urbanisation, Government's thrust on infrastructure development and the rural sector, implementation of GST amongst others, remain firmly in place and the FMCG industry is poised for rapid growth in the ensuing years.

Despite the challenging conditions prevailing during the year, your Company's FMCG-Others Businesses' Segment Revenue at ₹ 11329 crores grew ahead of industry and recorded an increase of 11.3% (on a comparable basis) on a relatively firm base. It is pertinent to note that while the second half of 2016-17 witnessed reduced consumer offtake and trade pipelines in the wake of adverse liquidity conditions, your Company's FMCG-Others Businesses were relatively less impacted. Most major categories enhanced their market standing during the year. While 'Bingo!' snacks, 'Aashirvaad' atta and 'Dark Fantasy Choco Fills' premium cream biscuits were the key drivers of growth in the Branded Packaged

Despite the challenging conditions prevailing during the year, your Company's FMCG-Others Businesses' Segment Revenue at ₹ 11329 crores grew ahead of industry and recorded an increase of 11.3% (on a comparable basis) on a relatively firm base.

Report of the Board of Directors

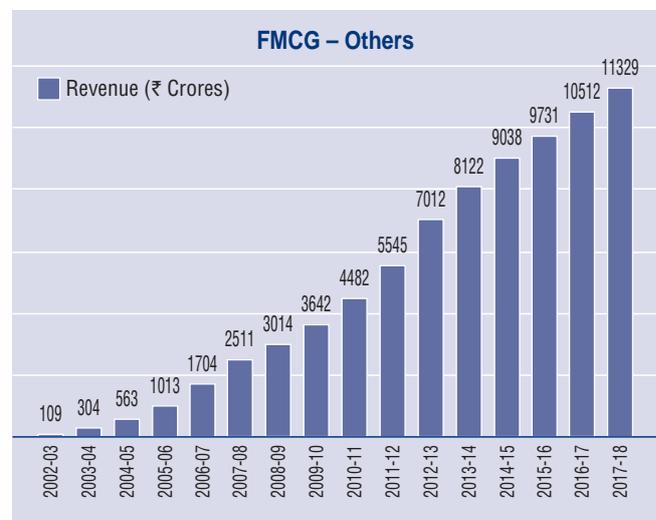
Foods Businesses, 'Engage' deodorants, 'Vivel'/'Fiama' soaps & shower gels and 'Savlon' handwash fuelled strong growth in the Personal Care Products Business. The Education and Stationery Products Business posted a robust performance during the year led by 'Classmate' notebooks, which consolidated its leadership position in the industry. However, the performance of the Lifestyle Retailing Business remained sluggish mainly on account of an early and prolonged 'end-of-season' sale in the wake of disruption to the trade during transition to GST and ongoing structural interventions to enhance operating efficiencies. Segment Results for the year improved to ₹ 164 crores from ₹ 28 crores in 2016-17 driven by enhanced scale, product mix enrichment and strategic cost management initiatives after absorbing the impact of sustained investment in brand building, gestation costs of new categories viz. Juices, Dairy, Chocolates and Coffee and costs associated with the ongoing structural interventions in the Lifestyle Retailing Business.

Your Company continued to make investments during the year towards enhancing brand salience and consumer connect while simultaneously implementing strategic cost management measures across the value chain. Several initiatives were also implemented during the year towards leveraging the rapidly growing e-commerce channel with a view to enhancing the reach of your Company's products and harnessing digital and social media platforms for deeper consumer engagement.

During the year, your Company commissioned two world-class Integrated Consumer Goods Manufacturing and Logistics Units (ICMLs) at Panchla, West Bengal and Kapurthala, Punjab. Significant progress was also made in constructing several other state-of-the-art owned ICMLs across regions to secure capacity and enable the FMCG Businesses to rapidly scale up in line

with long-term demand forecast. Currently, over 15 projects are underway and in various stages of development – from land acquisition/site development to construction of buildings and other infrastructure. The Businesses are focussing on deploying 'Industry 4.0' technologies including advanced analytics, big data and industrial Internet of Things (IoT) in areas such as overall equipment efficiency, energy management, maintenance, downtime analysis, quality and traceability.

The FMCG Businesses comprising Branded Packaged Foods, Personal Care Products, Education and Stationery Products, Lifestyle Retailing, Incense Sticks (Agarbattis) and Safety Matches have grown at an impressive pace over the past several years.



Today, your Company's vibrant portfolio of brands represents an annual consumer spend of nearly ₹ 16000 crores in aggregate. These brands have been built organically by your Company over a relatively short period of time - a feat unparalleled in the Indian FMCG industry. In terms of annual consumer spend, 'Aashirvaad' is today over ₹ 4000 crores; 'Sunfeast' over ₹ 3500 crores; 'Bingo!' over ₹ 2000 crores;

Today, your Company's vibrant portfolio of brands represents an annual consumer spend of nearly ₹ 16000 crores in aggregate. These brands have been built organically by your Company over a relatively short period of time.

‘Classmate’ and ‘YiPPee!’ over ₹ 1000 crores each and ‘Vivel’, ‘Mangaldeep’ and ‘Candyman’ over ₹ 500 crores each. These world-class Indian brands support the competitiveness of domestic value chains of which they are a part, ensuring creation and retention of value within the country.

Your Company’s FMCG brands have achieved impressive market standing in a relatively short span of time. Today, Aashirvaad is No. 1 in Branded Atta, Bingo! is No. 1 in Bridges segment of Snack Foods (No.2 overall), Sunfeast is No. 1 in the Premium Cream Biscuits segment, Classmate is No. 1 in Notebooks, YiPPee! is No. 2 in Noodles, Engage is No. 2 in Deodorants (No. 1 in women’s segment) and Mangaldeep is No. 2 in Agarbattis (No. 1 in Dhoop segment).

Your Company remains extremely agile and responsive to the emerging trends shaping the future of the industry. Some of the noteworthy consumer trends include the emergence of health and wellness products as a key consumer need; increasing preference for products rooted to ‘Indianness’ and with regional/cultural connects; increasing need for customised products and bespoke experiences; growth in demand for ‘on-the-go’ consumption formats and rising influence of social media and digitalisation on consumer preferences and shopping behaviour. Similarly, the FMCG market construct is likely to undergo rapid change driven by exponential growth in tier – II/III towns and rural India and the emergence of relatively new channels such as Modern Trade and e-commerce.

The Indian FMCG market is at an inflection point and your Company seeks to rapidly scale up the FMCG Businesses leveraging its institutional strengths viz. deep consumer insight, proven brand building capability, agri-commodity sourcing expertise, cuisine knowledge,

strong rural linkages, a deep and wide distribution network and packaging know-how. In addition, your Company continues to make significant investments in Research & Development, focus on consumer insight discovery and harness digital technology to develop and launch disruptive and breakthrough products in the market place.

Highlights of progress in each category are set out below.

Branded Packaged Foods

Demand conditions in the Branded Packaged Foods industry remained sluggish during the year due to slowdown in private consumption expenditure growth and supply chain disruptions during the transition to GST. The year was marked by heightened competitive intensity with industry players resorting to aggressive consumer promotions and trade schemes in a bid to garner volumes.

Against the backdrop of a challenging operating environment as aforesaid, your Company sustained its position as one of the fastest growing branded packaged foods businesses in the country leveraging a robust portfolio of brands, a range of distinctive products customised to address regional tastes and preferences along with an efficient supply chain and distribution network that ensures benchmark levels of visibility, availability and freshness of products in the market. The Business implemented several initiatives encompassing cost management, supply chain optimisation, smart procurement and recipe optimisation which helped in mitigating the escalation in input costs and enhancing profitability.

Your Company’s Branded Packaged Foods Businesses continued to make significant investments towards brand building and supporting the launch of new variants apart

Your Company sustained its position as one of the fastest growing branded packaged foods businesses in the country leveraging a robust portfolio of brands, a range of distinctive products customised to address regional tastes and preferences along with an efficient supply chain and distribution network that ensures benchmark levels of visibility, availability and freshness of products in the market.

Report of the Board of Directors

from absorbing the gestation costs of new categories viz. Dairy, Juices, Chocolates and Coffee.

Your Company's vibrant and successful food brands such as 'Aashirvaad', 'Sunfeast', 'Bingo!', 'YiPPee!' and 'B Natural' amongst others, enable strong forward linkages for domestic agri-value chains, thereby enhancing their competitiveness and making a meaningful contribution to boost farmer earnings.

Relentless focus on delivering superior quality products to consumers remains a key source of competitive advantage for the Branded Packaged Foods Businesses. In this context, the Businesses continue to leverage your Company's agri-commodity sourcing expertise to procure high quality raw materials thereby ensuring the highest level of quality and safety of its products. In addition, each of your Company's branded packaged food products is manufactured in HACCP/ISO-certified manufacturing locations ensuring compliance with all applicable laws and adherence to the highest quality norms.

The Business launched several innovative, distinctive and first-to-market products during the year leveraging robust product development processes, the capabilities of your Company's Life Sciences and Technology Centre and the cuisine expertise resident in your Company's Hotels Business.

Several manufacturing units of your Company's Branded Packaged Foods Businesses, competing with both the best within and outside the industry, received several awards and accolades during the year bearing testimony to your Company's focus on manufacturing excellence, safety and quality.

Your Company continues to make investments towards augmenting the manufacturing and sourcing footprint

across categories with a view to improving market responsiveness and reducing the cost of servicing proximal markets. During the year, two new owned manufacturing facilities – Kapurthala in Punjab and Panchla in West Bengal – were commissioned while capacity utilisation was progressively scaled up at the Uluberia, Mysuru and Guwahati units that commenced operations in the second half of FY17. Plans are on the anvil to commission new lines at the Kapurthala, Panchla and Guwahati facilities in the ensuing year. The manufacturing unit at Pudukkottai, Tamil Nadu is at an advanced stage of completion and is expected to be commissioned shortly.

- The Staples Business posted robust performance during the year, growing well ahead of the industry. In the Staples category, Aashirvaad atta posted healthy growth and fortified its leadership position while maintaining its pricing premium in the market. The value-added product portfolio, comprising Multigrains, Select and Sugar Release Control atta, continued to record robust growth.

This was achieved despite increasing competitive pressures triggered by the imposition of 5% GST on branded atta (compared to nil VAT in most States under the erstwhile tax regime) while non-branded atta (incl. branded atta on which actionable claim or enforceable right has been foregone voluntarily) remained at nil duty. During the year, the Business also had to contend with a concerted attack on Aashirvaad atta on social media with rumour mongers circulating malicious videos and falsely alleging that Aashirvaad atta contains plastic. The Business launched a 360 degree campaign to reassure consumers and dispel the baseless rumours surrounding Aashirvaad atta.

Your Company's vibrant and successful food brands such as 'Aashirvaad', 'Sunfeast', 'Bingo!', 'YiPPee!' and 'B Natural' amongst others, enable strong forward linkages for domestic agri-value chains, thereby enhancing their competitiveness and making a meaningful contribution to boost farmer earnings.

The communication clearly highlighted that as per FSSAI standards, atta must contain not less than 6% of wheat protein on a dry weight basis and that elasticity is a natural property of the protein without which it is not possible to bind the atta. Simultaneously, complaints were filed with the police authorities and injunction orders restraining circulation of such videos on social media were also obtained from the civil court. These interventions helped in effectively mitigating the short-term impact of the malicious videos on sales momentum, with the brand staging progressive recovery subsequently.

Your Company takes utmost care in manufacturing of its products at HACCP/ISO-certified manufacturing locations ensuring compliance with all applicable laws and adherence to the highest quality norms. Powered by the trust reposed by over 2.5 crore households, your Company is confident of sustaining Aashirvaad's position as India's No. 1 atta brand going forward.

Supported by its new positioning, 'Created by Sun and Sea - pure just like nature intended it to be' and new pack design, Aashirvaad Salt posted robust performance during the year. In the branded Spices category, the Aashirvaad range of spices registered steady volume growth. In line with its commitment to deliver products with the highest quality and safety standards to Indian consumers, the Business continued to reinforce the value proposition of the recently launched ITC Master Chef 'Super Safe Spices', which are tested for over 470 pesticide residues in accordance with European standards as compared to only nine required under Indian regulations.

- In the Snacks and Meals Business, the Bingo! range of snacks recorded robust growth during the year driven by Tedhe Medhe and potato chips. The Business achieved market leadership on an All-India basis in the Bridges segment driven by a robust portfolio of products under the Tedhe Medhe, Mad Angles and Tangles sub-brands. The potato chips portfolio recorded impressive market share gains and emerged as the leader in the South markets leveraging an optimised portfolio, revamped pack and fresh communication. During the year, the Business forayed into the extruded snacks segment with the launch of 'No Rulz' - a first-of-its-kind offer comprising four different shapes of the product in a single pack. The product has received excellent response and continues to gain traction with consumers. The Bingo! range was augmented during the year with the launch of several variants customised for regional taste palates, viz. Mad Angles Kolkata Kasundi, Tedhe Medhe Lime Chatpata, Tomato Masti and Pudina Twist.

In the Instant Noodles category, YiPPee! noodles sustained its robust growth momentum during the year despite increasing competitive intensity including from several regional discount players. The year also saw the launch of 'Mood Masala' – an innovative variant comprising two masala mix sachets in a pack providing the consumer the option to add masala to 'match his mood'. Mood Masala received encouraging consumer response, further strengthening the brand imagery of YiPPee! amongst tweens and young adults.

- The Confections Business scaled up operations and improved its market standing during the year. In the Biscuits category, the Business continued to

This year, your Company achieved market leadership on an All-India basis in the Bridges segment driven by a robust portfolio of products under the Tedhe Medhe, Mad Angles and Tangles sub-brands.

Report of the Board of Directors

focus on premiumising its product portfolio, enhancing brand affinity, strengthening the supply chain and expanding distribution reach. Consistent and impactful communication, coupled with focused marketing inputs helped improve penetration and brand health metrics. Dark Fantasy Choco Fills sustained its clear market leadership position in the Super-Premium Creams segment across the country. Brand architecture in the biscuits category was optimised with the migration of Delishus & Yumfills under the Mom's Magic and Dark Fantasy brands respectively. The Business augmented its product portfolio in the health segment with the launch of Protein Power, a unique variant based on roasted Bengal gram flour and Digestive five grains biscuits under the Farmlite brand. The Mom's Magic range was expanded with the addition of 'Fruit & Milk' variant. Your Company continues to leverage the biscuits manufacturing unit owned by North East Nutrients Private Limited, a joint venture company, to record impressive gains in market standing in the North East markets.

In the Confectionery category, in line with its strategy of premiumising the portfolio, the Business launched several unique offers in the 'Re. 1 & above' price points including Cola Josh, Crunchy and Clear Candy under the Candyman brand, Jelimals Sour Slides and two exciting variants under the 'mint-o' brand. These products have received encouraging consumer response.

- In the Dairy & Beverages Business, the 'B Natural' range of juices continues to gain traction amongst its target consumers aided by a clutter-breaking media campaign, on-ground trial generation initiatives and visibility & availability enhancement drives.

The journey towards making juices concentrate-free, which commenced last year with the launch of 'B Natural 100% Pomegranate Juice', continued during the year with the entire range of B Natural juices being migrated to the 'not from concentrate' platform. This first-of-its-kind initiative in India, was anchored on the twin resolve to provide consumers a more nutritive and natural tasting experience and promote the use of fruit pulp procured from Indian farmers, thereby supporting the Indian farm and food processing sector. The Business also introduced 'Bael' and 'Phalsa' variants during the year catering to regional tastes and preferences which were well received by consumers. In the Dairy segment, 'Aashirvaad Svasti' Ghee was extended to Delhi NCR markets during the year, gaining healthy consumer traction. During the year, the Business also forayed into the Pouch Milk segment with the launch of 'Aashirvaad Svasti' milk in select markets in Bihar in the vicinity of your Company's Munger dairy plant.

- In the Chocolates category, the 'Fabelle' range of luxury chocolates was scaled up during the year with a view to redefining the luxury chocolate segment in India. The range is available in eight Fabelle Chocolate Boutiques located within ITC hotels and several outlets in premium malls and food stores. Product portfolio was augmented with the launch of two delectable variants of centre-filled chocolate bars - 'Hazelnut Mousse', & 'Dark Choco Mousse' which have received excellent response from discerning consumers. Towards deepening engagement with consumers, the Business launched a unique experience platform during the year christened – 'Fabelle Société de Chocolat' - across

The journey towards making juices concentrate-free, which commenced last year, continued during the year with the entire range of B Natural juices being migrated to the 'not from concentrate' platform. This first-of-its-kind initiative in India, was anchored on the twin resolve to provide consumers a more nutritive and natural tasting experience and promote the use of fruit pulp procured from Indian farmers, thereby supporting the Indian farm and food processing sector.

Fabelle boutiques with Ms. Billie McKay, winner of MasterChef Australia 2015, as the mentor. 'Sunbean' gourmet coffee, launched across all ITC Hotels last year, continues to receive excellent response from discerning consumers and plans are on the anvil to scale up presence in the ensuing years.

Your Company remains focused on establishing itself as the 'most trusted provider of food products in the Indian market' driven by superior product quality, a differentiated product portfolio, deep understanding of consumer needs and preferences, R&D, innovation and operational excellence across the value chain. Your Company will continue to make investments towards establishing a distributed manufacturing footprint, driving cost efficiencies in a structural manner and focus on supply chain optimisation to support the rapid and profitable growth of the Branded Packaged Foods Businesses in the years ahead.

Personal Care Products

Your Company's Personal Care Products Business delivered a robust performance and enhanced its market standing during the year against a backdrop of significant disruption to trade and supply chain following the roll out of GST. This was driven largely by sustained focus on innovation, product mix enrichment, expansion of distribution reach, proactive cost management and enhancing supply chain responsiveness.

The Business continued to focus on innovation and to delight consumers by launching a range of exciting offerings during the year. In the Fragrance category, the recently launched innovative perfume variants under the brand 'Engage ON' and 'Engage ON+', designed to drive on-the-go consumption, garnered robust consumer traction. The Business also launched

a Sport range of deodorants with long lasting fragrance and a selection of premium Eau de Parfums for both men and women. In the Personal Wash category, the Business introduced a unique Gel Crème range under the 'Fiama' brand combining the best of gel and cream for both soap and liquid bathing products, and Vivel Lotus Oil - a unique offering enriched with Lotus Oil and Vitamin E for soft glowing skin. 'Savlon' handwash continued to gain ground, with the launch of a new small pack at an attractive price point. These new innovations received excellent response from consumers during the year and were supported with refreshing communication and engaging consumer activations.

Your Company's key brands, namely Vivel, Engage and Savlon continue to gain salience with target consumers and win industry recognition.

The Business continued to leverage innovative brand campaigns and social media platforms towards deepening consumer engagement. The recent interventions of restaging key brands anchored on Women Empowerment in the case of Vivel and Healthier Kids, Stronger India in the case of Savlon have received positive response from consumers resulting in a pick-up in sales momentum. Savlon won seven Cannes Lions Awards at the coveted Cannes Lions 2017. Considered to be the highest global accolade that recognises creative excellence in advertising and communications, Savlon won the prestigious awards for its unique and innovative 'Healthy Hands Chalk Sticks' initiative.

The 'Healthy Hands' initiative also received the Global PR SABRE as one of the Top 10 Best PR campaigns in the world. Vivel's proposition of empowerment of women through its 'Ab Samjhauta Nahin' message, won

In the Fragrance category, the recently launched innovative perfume variants under the brand 'Engage ON' and 'Engage ON+', designed to drive on-the-go consumption, garnered robust consumer traction.

Report of the Board of Directors

certificates of excellence at the South Asia PR SABRE awards for its integrated campaign thought and initiatives. 'Engage' won a Gold at Abby (India's biggest advertising and creative award) for its social and digital campaign christened 'Pocketful O' Stories'. The 'Engage' campaign designed to introduce the Engage ON pocket perfume on social media also won two Golds at the Content Marketing Awards, South Asia for Best Use of contextual content and Best Use of Digital (Content).

'Engage' recorded impressive gains in the Fragrance category, consolidating its leadership position in the women's segment and No. 2 position overall. The roll out of innovative pocket perfumes, Sport range of deodorants and the Eau de Parfums range have helped the brand grow its consumer equity significantly among both men and women besides premiumising the portfolio. 'Savlon' handwash recorded significant gains during the year across brand health metrics and emerged as the fastest growing brand in the market. In the bodywash segment, the 'Fiama' range of shower gels continued to garner increasing consumer franchise and is the fastest growing and the second largest brand nationally. The Business also launched moisturising skin creams under the recently acquired 'Charmis' brand and plans are afoot to strengthen your Company's skincare portfolio in the near to medium term.

During the year, your Company's manufacturing facility in the North East, which was commissioned in March last year, achieved 90% capacity utilisation within a short period of time. This has led to strengthening the supply chain and has enabled efficient servicing of proximal markets in the North East.

Input prices remained stable in the first half of the year, with an uptick in the latter half. The Business continued to pursue strategic cost management initiatives including

product cost optimisation through innovation, proactive sourcing, alternative vendor development and value capture through supply chain efficiencies which resulted not only in containing inflation but also in enhancing profitability.

Your Company continues to strengthen its presence in the Personal Care space in view of the robust long-term prospects of the industry given the low levels of per capita consumption currently, rising disposable incomes, increasing urbanisation and growing consumer preference for enhanced personal grooming. Your Company is well positioned to seize the emerging opportunities and continues to invest in creation of vibrant brands, innovative consumer-centric products and a robust supply chain to emerge as a significant player in this space.

Education and Stationery Products

The Stationery industry was impacted during the year with the roll out of GST coinciding with the school opening season and trade operating with lower inventory levels due to uncertainties around the new tax regime. Despite these challenging conditions, the Business sustained its leadership position in the Indian Education and Stationery Products industry anchored on a portfolio of world-class products and brands.

The Business continued to leverage its dedicated product development cell and your Company's Life Sciences & Technology Centre to develop & launch innovative and superior products in the market. During the year, the product portfolio was augmented with the launch of several new products including a spiral range of notebooks under Classmate, Classmate All Purpose Paper, 'Archimedes' premium geometry boxes with 'spur gear' divider and compass for higher precision and

Savlon won seven Cannes Lions Awards at the coveted Cannes Lions 2017. Considered to be the highest global accolade that recognises creative excellence in advertising and communications, Savlon won the prestigious awards for its unique and innovative 'Healthy Hands Chalk Sticks' initiative.

several offerings in the pens, mechanical pencils and scholastics categories. The Business also scaled up presence in the value segment of the notebook industry through its brand 'Saathi' with a view to consolidating its leadership position.

During the year, the Business launched 'Classmateshop.com' – a first-to-market initiative that offers consumers the option to personalise the images to be printed on notebook covers. The Business continued to focus on enhancing brand affinity by leveraging the 'Classmate Spellbee' and 'Classmate Handwriting Competition' platforms. These competitions collectively reach out to nearly a million children across 1000 schools in 30 cities.

The 'Be Better Than Yourself' campaign launched during the year under the Classmate brand across television, out-of-home, digital and social media platforms hit the right note with consumers, receiving positive reviews. The campaign seeks to drive tangible changes in society by encouraging children to realise their full potential by pursuing their personal goals and ambitions rather than comparing them with peers in terms of their marks and other achievements. The campaign has helped generate conversations amongst parents on this critical topic and garnered over seven million views across social media platforms.

In the area of supply chain, initiatives on quality and cost management through network optimisation yielded superior product quality and enhanced operational efficiency. The thrust on expanding distribution continued with specific focus on institutional channel and enhancing market penetration and outlet coverage. Sales and distribution systems were strengthened further through technology interventions such as sales force automation

and Customer Relationship Management system for the institutional channel.

Classmate and Paperkraft notebooks leverage your Company's world-class fibre line at Bhadrachalam - India's first ozone treated elemental chlorine free facility - and embody the environmental capital built by your Company in its paper business. During the year, the Business scaled up the Paperkraft range of notebooks using Forest Stewardship Council (FSC) certified paper, made at your Company's paper mill, matching the best quality paper in the world.

The Indian Education and Stationery Products industry is poised for exponential growth driven by growing literacy, increasing enrolment ratios, government's thrust on the education sector through various policy initiatives like Sarva Shiksha Abhiyan, Right to Education etc. and a favourable demographic profile of the country's population. Your Company, with its strong brands and robust product portfolio, and collaborative linkages with small & medium enterprises is well poised to strengthen its leadership position in the Indian stationery market.

Lifestyle Retailing Business

2017-18 was another challenging year for the Branded Apparel industry. Transition to GST regime triggered a premature end to the Spring Summer 2017 season with most players announcing an early 'end-of-season' sale period which was extended in a bid to liquidate pre-GST merchandise. On the other hand, e-commerce players continued with their aggressive push to capture market share amongst value seeking consumers by offering heavy discounts and launching exclusive labels and brands. The performance of your Company's Lifestyle Retailing Business was adversely impacted

During the year, the Business launched 'Classmateshop.com' – a first-to-market initiative that offers consumers the option to personalise the images to be printed on notebook covers. The 'Be Better Than Yourself' campaign launched during the year under the Classmate brand across television, out-of-home, digital and social media platforms hit the right note with consumers, receiving positive reviews.

Report of the Board of Directors

against the backdrop of the challenging environment as aforesaid.

The Business continued to execute the structural interventions initiated in the previous year across channels and processes including restructuring the retail foot print, rationalisation of stores, modifying the design language of its offerings, restructuring of terms of trade with business partners and sharpening working capital management. The Business refreshed the offers under Wills Lifestyle and John Players adopting a unique 'Story-based Looks creation' approach. This initiative entailed re-crafting the merchandise range architecture, channel specific offerings and special focus on enhancing the portfolio of core merchandise. Distinct and time bound colour stories were introduced aimed at providing freshness to consumers in the retail stores on a continual basis.

The 'Wills Lifestyle' range was augmented during the year with the launch of pure superfine linens and flat knits. The brand is available in 350 outlets across multiple channels including national and regional large format stores, exclusive and multi-brand outlets including six exclusive boutique stores across ITC Hotels.

The John Players brand is available at around 750 points-of-sale across leading national and regional department stores, exclusive stores and multi-brand outlets. During the year, the range was made more vibrant and distinct with the launch of outdoor smart casual products made of innovative fabrics. The John Players Jeans range was strengthened by using unique knitted structure fabrics in denims with differentiated washes, laser printing, travel jeans with mobile charger pockets, trendy joggers in camouflage prints, Indigo shirts in checks, prints & dobbies and

youthful trendy polo range in indigo, engineered designs & stretch fabrics.

During the year, the Business enhanced its core portfolio, augmented marketing activities including windows and visual merchandising, improved manufacturing productivity and efficacy of replenishment mechanisms. Analytics based on ERP and point-of-sale systems enabled enhancing consumer experience besides further strengthening inventory and receivables management.

The Business will continue to sharpen its design focus, market representation and supply chain responsiveness with a view to improving operating efficiency going forward.

Incense Sticks (Agarbattis) and Safety Matches

The Agarbatti category witnessed increase in competitive intensity during the year with industry players resorting to aggressive media and promotion spends in a bid to garner market share. The continued presence of counterfeit products and supply chain disruptions due to transition to GST also weighed on industry performance. Against the backdrop of these challenging conditions, Mangaldeep sustained its position as the leader in the Dhoop segment and the second largest brand in the Agarbatti segment. During the year, the Business augmented its product portfolio with the launch of new variants and enhanced its distribution reach. Investments in media coupled with on-ground activation activities were made during the year towards enhancing Mangaldeep's salience as the most preferred brand in the devotional space. Product mix enrichment and cost optimisation initiatives continued to be the other key focus areas for the Business.

During the year, the Business upgraded its unique and highly innovative Mangaldeep App in partnership with

Mangaldeep sustained its position as the leader in the Dhoop segment and the second largest brand in the Agarbatti segment. During the year, the Business augmented its product portfolio with the launch of new variants and enhanced its distribution reach.

several subject matter experts with the introduction of new features which were carefully curated to cater to regional nuances. Currently available in nine languages on both the Android & iOS platforms, the App's content caters to the everyday devotional needs of consumers by providing detailed information and steps to perform various pujas and has innovative features such as a collection of popular devotional songs, a panchang (Hindu calendar and almanac), an innovative chant counter and temple locator amongst others. The App has received excellent response with over 3,00,000 downloads and an average rating of 4.6 out of 5.0.

The Agarbatti industry continues to import raw battis primarily from Vietnam and China, although bamboo and charcoal – the principal raw materials – are available in India in plenty. This is resulting in loss of livelihood creation opportunities for women and tribals in rural areas, particularly in the North East. In this regard, the recently announced restructured National Bamboo Mission which seeks to bring more than 1,00,000 hectares under plantation and amendment in the Indian Forests Act excluding bamboo grown in non-forest areas from the definition of a 'tree', will inter alia encourage manufacture of raw battis from indigenous bamboo and facilitate creation of sustainable livelihood opportunities amongst small and marginal farmers.

In line with your Company's commitment to enhancing the competitiveness of Indian value chains linked to its operations, the Business has implemented several measures including facilitating the mechanisation of agarbatti manufacturing and backward integration into raw batti manufacturing using indigenous inputs at vendor locations.

While demand conditions remained sluggish during the year in the Safety Matches category, the Business sustained its leadership position by leveraging a robust

portfolio of offerings across market segments.

The Business focused on enriching its product mix by enhancing the share of value-added products in the portfolio. 'AIM' continues to be the largest selling brand in the industry.

Introduction of GST has led to the harmonisation of tax rates in the Safety Matches industry by eliminating the tax differential that existed under the erstwhile indirect tax regime between semi-mechanised and mechanised operations. This, coupled with the effective implementation of the recently introduced E-way bill, is expected to facilitate levelling the playing field and in triggering the required investments towards modernising and enhancing the long-term sustainability and competitiveness of the industry.

Trade Marketing & Distribution

Your Company's Trade Marketing & Distribution (TM&D) vertical has over the years developed critical insights into customer behaviour and channel-specific trends in the FMCG industry. Given the diverse needs of your Company's FMCG businesses, the TM&D vertical has crafted a differentiated and comprehensive market/outlet specific strategy to address the opportunities in the FMCG industry.

During the year, the TM&D vertical strengthened its formidable distribution network covering over one lakh markets and over six million retail outlets (directly and indirectly) across various trade channels. This further enhanced the reach and availability of your Company's large and diverse FMCG product portfolio comprising several world-class brands and hundreds of SKUs.

In urban markets, your Company continued its customised servicing / engagement programmes for the top outlets through dedicated infrastructure.

This resulted in enhancing trade relationships and

During the year, the Trade Marketing & Distribution vertical strengthened its formidable distribution network covering over one lakh markets and over six million retail outlets (directly and indirectly) across various trade channels.

Report of the Board of Directors

improving the market standing of your Company's FMCG products. In rural markets, your Company continued to roll out market specific interventions including augmentation of supervision structure and increase in direct coverage, to achieve growth rates higher than industry and support enhanced scale of operations going forward.

During the year, your Company sustained its leadership position in the convenience channel while consolidating its market standing in premium grocery outlets. TM&D's trade loyalty programmes – 'First Club' for retail outlets and 'Shubh Laabh' for the wholesale channel – continued to gain traction during the year. Sales of your Company's FMCG products in the Modern Trade channel continued to grow on the strength of extensive deployment of in-store merchandisers, consumer connect programmes coupled with joint business planning during large-scale customer activation drives, channel specific SKUs, extensive sampling initiatives etc. Your Company continued to make progress during the year in scaling up presence of your Company's FMCG portfolio in the chemist channel. Your Company worked closely with leading e-commerce companies towards enhancing the availability of its products on their online platforms, aiding sell-out through enhanced visibility and strengthening operational capabilities to service customer requirements. As a result of these initiatives, your Company's business in the e-commerce segment witnessed robust growth during the year.

The scale and diversity of your Company's distribution network continues to be a critical lever to enhance market presence, gain valuable consumer/trade insights and facilitate seamless execution of new product/category launches. During the year, TM&D executed more than 60 new launches across geographies apart from extending distribution reach

of several existing products in the portfolio. Technology enablement in the form of customised mobility solutions, data analytics comprising insightful visualisation tools & predictive analysis are being leveraged increasingly towards enabling quick and accurate data capture, informed decision making and scientifically designing trade promotion schemes.

TM&D's supply chain and logistics function continues to play a vital role in enabling superior market servicing while continuously reducing cost of market servicing. During the year, several initiatives were undertaken to enhance supply chain responsiveness and cost competitiveness. These include reducing distance to market, enhancing flexibility to cater to new launches and contingencies, and reconfiguring market servicing infrastructure. In addition, innovative distribution models were implemented to optimise inventory holding and improve distribution efficiency of trade channel partners, and reduce transit time by increasing direct market servicing. Your Company is also in the process of setting up several state-of-the-art warehouses co-located with the Integrated Consumer Goods Manufacturing facilities. These modern warehouses are expected to provide long-term benefits by improving operating efficiency and enhancing product freshness in the market.

During the year, the TM&D vertical proactively engaged with its trade partners to help them re-engineer their business processes to be compliant with GST requirements besides continuing to collaborate with them to improve the frequency of servicing, reduce inventory holding and the incidence of out-of-stock situations.

TM&D continues to invest in augmenting the depth and width of your Company's distribution network while adopting a differentiated approach to address the unique

Your Company's Trade Marketing & Distribution vertical executed more than 60 new launches across geographies apart from extending distribution reach of several existing products in the portfolio.

needs of your Company's diverse FMCG product portfolio, market segments and trade channels. With its best-in-class systems and processes, agile and responsive supply chain and synergistic relationship with trade, TM&D's distribution highway is a source of sustainable competitive advantage for your Company's FMCG Businesses and is well poised to support the rapid scale up of operations in the ensuing years.

HOTELS

The operating environment in the hospitality sector showed signs of improvement with foreign tourist arrivals crossing the ten million mark in 2017. While growth in Segment Revenue during the year was subdued at 5.6% reflecting inter alia the overhang of excess room inventory and the impact of highway liquor ban, performance during the second half was significantly better driven by increase in ARR and robust growth in Food & Beverage revenue. Improvement in room rates and operating leverage aided faster growth of 26% in Segment Results, notwithstanding the gestation costs of ITC Grand Bharat and the recently commissioned WelcomHotel Coimbatore.

Your Company's Hotels business remains amongst the fastest growing hospitality chains in the country with over 104 properties under four distinct brands – 'ITC Hotel' in the Luxury segment, 'WelcomHotel' in the Upper-Upscale segment, 'Fortune' in the Mid-market to Upscale segment and 'WelcomHeritage' in the Leisure & Heritage segment. The Business continues to focus on strengthening the equity and differentiation of the ITC Hotels brand anchored on unique and path-breaking 'Responsible Luxury' initiatives, culinary excellence and personalisation of guest services through hotels that are the truest representation of the region's culture and ethos.

'Club ITC', your Company's pan-ITC consumer loyalty programme, continues to gain franchise amongst the premium clientele of ITC hotels and Wills Lifestyle. The programme continues to leverage its strategic partnership with Starwood Preferred Guest (SPG) – the global loyalty programme of Marriott International. The dining loyalty programme, 'Club ITC Culinaire', has grown rapidly in popularity registering robust growth in membership base during the year.

During the year, the Business further strengthened its digital presence through targeted e-commerce activations for direct conversions, leading to increased reach and engagement with customers in both domestic and international markets. The Business also focused on social media marketing and online reputation management towards enhancing brand salience and market standing. During the year, the Business rolled out a chain-wide #soulofcity campaign, amplifying its brand proposition of 'Hotels that define the destination', generating appx. 4.4 million impressions. The Business received global accolades and recognition at The Global Social Hotel Awards for 'Best Use Of A Visual Network' and '2nd Best Online Reputation Management' for 2017.

The world-class ambience of your Company's luxury hotels continues to be leveraged for the gourmet luxury chocolates range under the 'Fabelle' brand with exclusive boutiques across eight ITC hotels. In addition to selling premium packaged chocolates from the Branded Packaged Foods Business, the Fabelle chocolate boutiques offer a range of exquisitely crafted desserts and cocoa beverages, created live by Fabelle Master Chocolatiers. The initiative has received encouraging response and will go a long way in establishing the Fabelle brand at the luxury end of the market. The Fabelle Société de Chocolat, an exclusive

Your Company's Hotels business remains amongst the fastest growing hospitality chains in the country with over 104 properties under four distinct brands – 'ITC Hotel' in the Luxury segment, 'WelcomHotel' in the Upper-Upscale segment, 'Fortune' in the Mid-market to Upscale segment and 'WelcomHeritage' in the Leisure & Heritage segment.

Report of the Board of Directors

chocolate-making programme designed by the master chocolatiers of Fabelle chocolates at ITC luxury hotels, provides chocolate lovers and budding chocolatiers an opportunity to foster the love for chocolate and appreciate the fine nuances of chocolate making. The initiative has received excellent response from discerning chocolate consumers and is planned to be scaled up in the ensuing year.

'Sunbean' gourmet coffee, launched last year, established itself as the beverage of choice in your Company's luxury hotels. The bespoke brand experience was brought alive for the guests through 'Sunbean Ambassadors' - specially trained master baristas who demonstrated the brand story, supported by delightful creations.

Your Company's Hotels Business sustained its pre-eminent position in the hospitality industry receiving several coveted accolades and recognitions during the year. ITC Hotels featured as the 'Sectoral Leader', for the fourth time in the Business World 'Most Respected Companies' listing. The Travel+Leisure magazine acknowledged the chain as the 'Best Luxury Hotel Chain' at the 'India's Best Awards'. The U.S. Green Building Council presented ITC Hotels with a 'Leadership Award' for its commitment to Green Building Design. The Responsible Luxury Fellowship enumerating ITC Hotels' guiding principles through video blogs won the brand the 'Best Digital Video' award by HOTELS magazine USA. Your Company's world-class properties continued to receive international and domestic accolades - ITC Grand Bharat was ranked amongst the Top 10 resorts in Asia by Conde Nast Traveler USA and the 'Best Luxury Hotel' by Travel+Leisure India & South Asia, while ITC Maurya was adjudged the 'Most Eco Friendly Hotel' by the Ministry of Tourism at the National Tourism Awards.

The Food & Beverage segment continues to be a major strength of your Company's Hotels Business with some of the most iconic brands in the country. Your Company's culinary brands retained their leadership position with 'Bukhara', 'Dum Pukht', 'Royal Vega', 'Dakshin', 'Avartana', 'K&K', 'Ottimo', 'EDO', 'Pan Asian' and 'West View' receiving the coveted Times Food Awards. 'Avartana', a Southern Indian mosaic brand at the ITC Grand Chola was recognised as the 'Best Restaurant' in Chennai at the Times Food Awards, within the first year of its opening. 'Fabelle' swept the Times Food Awards as the 'Best Confectionery Destination in the Fine Dining category' in Mumbai, New Delhi, Bengaluru and Chennai & the 'Best Chocolatier' in Kolkata. Your Company's internationally acclaimed spa brand, 'Kaya Kalp' was recognised at the GEOSPA Asia Spa India Awards with the 'Most Luxurious Spa Resort' award for ITC Grand Bharat and 'Best Hotel Spa' award for ITC Grand Chola.

Your Company's Hotels Business continuously strives to reduce water and energy consumption and enhance the usage of renewable energy to meet its overall energy requirements. Such commitment to the Triple Bottom Line is manifest in the Business's 'Responsible Luxury' ethos making it a trailblazer in green hoteliering globally. Over 60% of the total electrical energy consumption of the Business is currently met through renewable sources.

In view of the long-term potential of the Indian hospitality sector, your Company remains committed to enhancing the scale of the Business by adopting an 'asset-right' strategy that envisages building world-class tourism assets for the nation and growing the footprint of managed properties by leveraging its hotel management expertise. The Business made steady progress during the year in the construction of luxury hotels at Hyderabad, Kolkata and Ahmedabad. Construction of ITC Kohenu

In view of the long-term potential of the Indian hospitality sector, your Company remains committed to enhancing the scale of the Business by adopting an 'asset-right' strategy that envisages building world-class tourism assets for the nation and growing the footprint of managed properties by leveraging its hotel management expertise.

in Hyderabad is nearing completion and is expected to be commissioned in the first quarter of 2018-19. In addition, your Company's wholly-owned subsidiary in Sri Lanka made steady progress towards setting up a luxury hotel christened 'ITC One' and a super-premium residential apartment complex, 'Sapphire Residences – Colombo 1', situated at a strategic location in Colombo.

In the Upper-Upscale segment, the 'WelcomHotel' brand continues to build on its 'asset-right' strategy with its distinctive 'charmingly local' positioning. During the year, the Business commissioned the 103-room WelcomHotel Coimbatore and expanded presence in business and leisure destinations adding managed properties in Chennai, Bengaluru, Pahalgam and Mussoorie. The Business seeks to scale up the brand going forward with the addition of new hotels under construction at Amritsar, Guntur and Bhubaneswar along with a robust pipeline of managed properties.

The 'Fortune' brand sustained its pre-eminent position in the Mid-market to Upscale segment, with a sharpened brand positioning of 'First class, full service hotels – an affordable alternative'. The Fortune brand presently comprises 45 hotels across 37 cities. The 'WelcomHeritage' brand remains the country's most successful and largest chain of heritage hotels with 34 operational hotels.

As reported earlier, your Company was declared the successful bidder for a 250-room luxury beach resort located in South Goa operating under the name Park Hyatt Goa Resort and Spa, following an auction held by IFCI Limited in February 2015 in terms of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002. Subsequent to your Company making full payment of the bid amount, IFCI issued the requisite Sale Certificates in favour of your Company on 25th February, 2015.

However, based on an appeal by the erstwhile owners, the sale had been struck down by the Honourable Bombay High Court. Your Company and IFCI had contested the said order before the Honourable Supreme Court. On 19th March, 2018, the Honourable Supreme Court upheld the sale of the property by IFCI Limited to your Company and directed that the hotel property be handed over within six months. Accordingly, the property is expected to be handed over to your Company in the coming months.

Your Company's Hotels Business, with its world-class properties, iconic cuisine brands, globally benchmarked levels of service excellence and customer centricity, is well positioned to sustain its leadership status in the Indian Hospitality industry.

PAPERBOARDS, PAPER AND PACKAGING

The domestic Paperboards, Paper and Packaging industry remained impacted by sluggish demand conditions prevailing in the FMCG, liquor and legal Cigarette industry. The transition to GST also caused short-term disruptions especially during the first half of the year. This, coupled with zero duty imports under ASEAN Free Trade Agreement, cheap imports from China and unabsorbed capacity in the industry weighed on the performance of the Business. On the positive side, relatively benign input costs, higher substitution of imported pulp with in-house pulp and continued focus on product mix enrichment resulted in margin expansion. Consequently, while Segment Revenue de-grew by 2.1%, Segment Results grew at a faster pace of 7.9% during the year.

Paperboards & Specialty Papers

Global demand for Paper & Paperboard in 2017 grew by 1% appx. to 410 million tonnes, with the paperboard segment growing by 2%. Going forward, global demand

Your Company remains the clear leader in the Value-Added Paperboards segment and continues to consolidate its preferred supplier status amongst leading end-use customers and brands.

Report of the Board of Directors

for Paper & Paperboard is projected to grow at 0.5% to 1.0% CAGR driven by Asia, Africa and North America. The Writing & Printing and Newsprint segments, on the other hand, are expected to remain under pressure largely due to increasing adoption of digital media and proliferation of smartphone usage.

Domestic demand for Paperboard remained subdued due to sluggish offtake by end-user industries besides being temporarily impacted in the first half of the year due to the transition to GST. Writing & Printing paper demand remained firm due to steady offtake from the education segment, while prices witnessed an uptrend largely on account of supply disruptions due to operational discontinuities at certain mills.

Over the next five years, the domestic industry is projected to grow at 6% to 7% CAGR to reach 20 million tonnes by 2022 with the Paperboard (48% of the market) and Writing & Printing paper (30% of the market) segments estimated to grow at around 7.5% CAGR and 6.0% CAGR respectively. Within Paperboards, demand for Value-Added Paperboards (VAP) in India is projected to grow at a healthy rate of around 10.5% CAGR driven by growth in demand from the FMCG, Pharma, Publishing, and Food & Beverage industries. In the Writing & Printing paper segment, cut-size paper is projected to register the fastest growth at 9.5% CAGR, driven by the education and office stationery segments.

During the year, import of paper and paperboard from China, ASEAN and South Korea grew by 57% while overall paper imports increased by 38%. As highlighted in previous years' reports, imports from ASEAN countries have been growing at a rapid pace since the implementation of zero duty on such imports with effect from 1st January, 2014, under various trade agreements. The trade agreement with South Korea also allows import at zero duty from January 2017. Disruption in

domestic supplies during the year due to operational discontinuities at certain mills owned by competitors provided further impetus to imports.

The current import policy and extant regulations governing commercial and social forestry in the country have put the Indian Paper and Paperboard industry at a disadvantage vis-à-vis imports. The economic viability of domestic manufacturers has been severely impacted leading to the closure of several paper mills in the recent past. There is clearly a need to review the current import duty structure and re-examine the existing Free Trade Agreements (FTAs) and the new ones under formulation towards providing a level playing field to the domestic industry and encourage commercial farming of wood in India. Legislative changes along with appropriate environmental safeguards need to be implemented to enable private sector participation in commercial forestry on drylands and wastelands.

Your Company remains the clear leader in the VAP segment and continues to consolidate its preferred supplier status amongst leading end-use customers and brands. Further, your Company's expansion project in the VAP segment at Bhadrachalam unit is nearing completion. The Specialty Papers portfolio was also expanded with the launch of new grades to service the needs of customers. The Business sustained its leadership position in the sale of eco-labelled products, volumes of which grew by appx. 12% during the year. Your Company has been recognised for its environmental transparency and improvement across parameters such as responsible fibre sourcing, clean manufacturing etc. in the WWF Environmental Paper Company Index 2017, which is considered to be the benchmark in the area of responsible pulp and paper manufacturing.

The Business continues to be a leading quality player in the Writing & Printing paper segment, leveraging strong forward linkages with your Company's Education

Your Company has been recognised for its environmental transparency and improvement across parameters such as responsible fibre sourcing, clean manufacturing etc. in the WWF Environmental Paper Company Index 2017, which is considered to be the benchmark in the area of responsible pulp and paper manufacturing.

and Stationery Products Business. In the Specialty Papers segment, your Company sustained its leadership position in the pharma leaflets and thin printing segments. In order to meet the growing demand of quality decor papers, the decor machine at the Tribeni unit has been completely refurbished incorporating latest technology features including superior profile control and smoothness for high print resolution along with capacity expansion. The Business has recently launched an exciting range of decor papers, becoming a one-stop solution for all decor paper needs.

Your Company continues to source its wood requirements from sustainable sources. Your Company's research on clonal development has resulted in the introduction of high yielding and disease resistant clones that are adaptable to a wide variety of agro-climatic conditions. In this context, your Company's Life Sciences & Technology Centre is engaged in developing higher yielding second generation clones with enhanced pest & disease resistance attributes.

The Ministry of Road Transport and Highways, Government of India has promulgated the Green Highways (Plantation, Transplantation, Beautification and Maintenance) Policy, 2015, to develop green corridors along national highways through plantation and allied activity on medians, avenues and other available nearby land patches. During the year, your Company worked closely as the knowledge and technical partner of National Green Highways Mission under National Highway Authority of India (NHAI) to develop new models of plantations to expand this commendable initiative which would go a long way in enhancing the green cover of the nation and generate employment opportunities for rural communities.

Your Company has the distinction of being the first in India to have obtained the Forest Stewardship

Council-Forest Management (FSC-FM) certification, which confirms compliance with the highest international benchmarks of plantation management across the dimensions of environmental responsibility, social benefit and economic viability. Till date, your Company has received FSC-FM certification for 33,500 hectares of plantations involving over 30,000 farmers. During the year, nearly 60,000 tonnes of FSC-certified wood were procured from these certified plantations. All four manufacturing units of the Business have obtained the FSC Chain of Custody certification and have complied with all requirements during the year, thereby sustaining your Company's position as the leading supplier of FSC-certified paper and paperboard in India.

All manufacturing units of the Business continue to recycle nearly 100% of the solid waste generated during operations by converting the same into lime, fly ash bricks, grey boards, egg trays etc. In addition, the Business procured and recycled 1,31,000 tonnes of waste paper during the year, thereby sustaining your Company's overall positive solid waste recycling footprint.

The manufacturing facilities at Bhadrachalam and Kovai continue to receive industry recognition for their green credentials and safety standards in line with your Company's focus on sustainable business practices. The Bhadrachalam unit won the prestigious award for being the best performer in the 'Pulp & Paper Sector' under PAT Cycle 1 of the Perform Achieve and Trade (PAT) Scheme, a component of the National Mission for Enhanced Energy Efficiency (NMEEE). Organised by the Bureau of Energy Efficiency (BEE), the award was presented by the Director General of BEE for the outstanding efforts made by the unit under PAT Cycle 1. The plant has been identified as the highest achiever in energy savings above the stipulated target as set by BEE in the Pulp & Paper sector. The Kovai unit received

All four manufacturing units of the Business have obtained the FSC Chain of Custody certification and have complied with all requirements during the year, thereby sustaining your Company's position as the leading supplier of FSC-certified paper and paperboard in India.

Report of the Board of Directors

the National Award for Excellence in Energy Management 2017 from CII GBC (Green Business Centre) and the 1st prize in State level safety from Director of Industrial Safety, Government of Tamil Nadu. The Bollaram unit received 4 Star rating in EHS Excellence by CII Southern region.

The Business had commissioned a 46 MW wind energy project in Andhra Pradesh in July 2014, which has been generating wind power since then. As reported in previous years, permission for inter-state wheeling of power was not granted by the authorities post bifurcation of the State of Andhra Pradesh. After several representations and discussions with the concerned authorities on the matter, your Company received permission last year for wheeling of power from Andhra Pradesh to Telangana, thereby enabling the Bhadrachalam mill to utilise wind energy to meet its energy requirements. During the year, inter-state wheeling was extended to the Bollaram unit in Telangana and also your Company's units in Karnataka. Usage of wind energy has led to a reduction of carbon foot print by lowering consumption of coal by 33000 tonnes during the year. While considerable progress has been made in streamlining the deviation settlement process for multiple inter-state transactions, the regulatory framework for levy of charges and banking of power is still evolving. Consequently, your Company continues to bear charges/levies at multiple points which have adversely impacted the expected returns on this large investment. Your Company continues to engage with State and Central regulatory authorities towards seeking relief from such additional levies/charges and remains hopeful of a favourable resolution of the matter.

In line with the objective of enhancing the share of renewable energy in its operations, the Business has implemented several initiatives including investments

in a green boiler, soda recovery boilers, high pressure & efficiency circulating fluidised bed boiler, solar & wind energy and increased usage of bio-fuel. With these initiatives, renewable sources presently account for nearly 45% of total energy consumed at the Bhadrachalam, Bollaram, Tribeni and Kovai units.

The Business continues to make structural interventions in the areas of strategic cost management and import substitution. These include augmentation of in-house pulp manufacturing capacity, efficiency improvements of existing equipment and developing alternative sources of supply for key inputs on an ongoing basis. Operations of the Bleached Chemical Thermo Mechanical Pulp mill (BCTMP) at the Bhadrachalam unit stabilised during the year with progressive improvement in capacity utilisation leading to reduced dependence on imported pulp and cost savings. During the year, technology interventions made in the pulp mill resulted in higher pulp production, improvement in pulp quality and reduction in chemical consumption.

Your Company has been practising principles of TPM, Lean and Six Sigma for almost a decade now and has reaped substantial benefits through its Business Excellence initiative. During the year, the Business embarked on an 'Industry 4.0' journey, focusing on areas such as Internet of Things (IoT), Advanced Analytics and Artificial Intelligence. Interventions planned in this area have significant potential to enhance product quality and deliver structural cost savings going forward.

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

Operations of the Bleached Chemical Thermo Mechanical Pulp mill (BCTMP) at the Bhadrachalam unit stabilised during the year with progressive improvement in capacity utilisation leading to reduced dependence on imported pulp and cost savings.

to further consolidate and enhance its leadership status in the Indian Paperboard and Paper industry.

Packaging and Printing

Your Company's Packaging and Printing Business is a leading provider of superior value-added packaging for the consumer packaged goods industry. The Business also provides strategic support to your Company's FMCG Businesses by facilitating faster turnaround for new launches, design changes, ensuring security of supplies and delivering benchmarked international quality at competitive cost.

The Business caters to the packaging requirements of leading players across several industry segments viz. Food & Beverage, Personal Care, Home care, Footwear, Consumer Electronics, Pharma, Liquor and Tobacco. With its comprehensive capability-set across multiple platforms, coupled with in-house cylinder making and blown film manufacturing lines, the Business continues to provide innovative solutions to several key customers in India and overseas. With recent investments in rigid boxes and flexo corrugated packaging, the Business has consolidated its position as a 'one-stop shop for packaging solutions'.

As in previous years, the Business won several awards for operational excellence and creative packaging solutions. The Business continues to be acknowledged as a key associate by several large FMCG companies in the country for providing superior packaging solutions. The manufacturing facilities at Tiruvottiyur, Haridwar and Munger maintained the highest standards in Quality and Environment, Health & Safety (EHS). All the three units are certified as per the Integrated Management System, consisting of ISO 9001:2008, ISO 14001:2004, OHSAS 18001:2007 and have also received Social Accountability Certification (SA 8000:2008). Both the

Tiruvottiyur and Haridwar units received the highest 'Grade A' BRC/IOP certification (British Retail Consortium/ Institute of Packaging), for global standards in packaging and packaging materials - a key enabler for supplies to the packaged foods industry. During the year, Haridwar Unit was adjudged first runners up in National Safety Competition organised by CII IQ (Institute of Quality). The Risk Management Framework of the Business was re-certified under ISO 31000:2009 during the year. The 14 MW wind energy farm in Tamil Nadu, set up in 2008, continues to provide clean energy to the Tiruvottiyur facility, contributing towards reducing your Company's carbon footprint.

The Packaging and Printing Business has established itself as a one-stop shop offering a wide range of superior and innovative packaging solutions. With world-class technology across a diverse range of packaging platforms, best-in-class quality management systems and a distributed manufacturing footprint, the Business is well positioned to rapidly grow its external business while continuing to service the requirements of your Company's FMCG Businesses.

AGRI BUSINESS

Leaf Tobacco

Global production (excluding China) of Flue Cured Virginia (FCV) tobacco increased by 195 Million kgs. in 2017 representing an increase of 12.3% over the previous year, primarily led by recovery in Brazil crop output which was impacted by adverse weather conditions in 2016. However, the Indian crop output was lower at 212 million kgs., mainly on account of the Tobacco Board's decision to reduce the authorised crop size and unprecedented drought in Andhra Pradesh in 2016. This marks the third successive year of

The Packaging and Printing Business has established itself as a one-stop shop offering a wide range of superior and innovative packaging solutions.

Report of the Board of Directors

decline representing a cumulative drop of 19% over 2015. Crop output in Andhra Pradesh reduced to 106 million kgs. – the lowest level in a decade, while quality was also adversely impacted.

Reduction in crop size over the years, shortage & poor quality of Andhra 2017 crop, lower export incentives and availability of Chinese inventory at discounted prices led to significant pressure on Indian tobacco exports. Global tobacco demand remained subdued with the global legal cigarette (excluding China) sales estimated to have de-grown by 2% during 2017, with significant declines witnessed by the international majors. Sustained pressure on cigarette sales volumes, both in India and globally, coupled with relative strength of the Indian Rupee compared to competing global currencies also resulted in reduced demand for Indian tobaccos. The combination of the factors as aforesaid led to the fourth successive year of decline in Indian tobacco exports to 178 million kgs. – a ten-year low.

Despite such challenging market conditions, your Company consolidated its leadership position as the largest Indian exporter of unmanufactured tobacco with further improvement in market standing. This was achieved through new business development and enhanced value delivery to existing customers by leveraging the Business's expertise in crop development, superior leaf procurement processes and world-class processing facilities. The Business continued to provide strategic sourcing support to your Company's Cigarette Business meeting all requirements at competitive prices.

Your Company's leadership in sustainability was reinforced with the Business securing the status of 'carbon positive' in the tobacco farm value chain – as independently assured by DNV GL Business Assurance India Private Limited as per ISO 14064-1. Your Company

is the first in India and amongst a select few in the world to have secured this status. The Business also inaugurated a state-of-the-art office and residential campus, designed with green features, at the Agri Business headquarters in Guntur.

Cost management across the value chain continues to be a key focus area for the Business. The Business implemented several initiatives during the year including improvement in processing yields and manufacturing efficiencies, reduction in specific consumption of power and logistics optimisation to drive down costs. Several Lean and Six Sigma projects covering various facets of business operations – from processing, waste reduction, manpower rationalisation to data analytics – were successfully concluded resulting in improved process efficiencies and cost savings.

The Business continues to set benchmarks in leaf threshing operations through focused initiatives and innovative technological solutions. Investments continue to be made in your Company's Green Leaf Threshing plants (GLT) at Anaparti, Chirala and Mysuru towards delivering world-class quality and upgrading processing technology. In line with your Company's strategy to adopt a low-carbon growth path, all three units at Chirala, Anaparti and Mysuru are meeting a significant portion of their energy needs from renewable sources.

The Business remains committed to the highest standards of EHS and quality and continues to win recognition in these areas. During the year, the Chirala and Anaparti GLTs received the 'Best Management Award' from Andhra Pradesh Labour Department while the Mysuru GLT received the 'Excellent Energy Efficient Unit' award from CII, Hyderabad.

A secular decline in crop output and exports as aforesaid along with sustained pressure on domestic

Despite challenging market conditions, your Company consolidated its leadership position as the largest Indian exporter of unmanufactured tobacco with further improvement in market standing.

legal cigarette volumes due to steep escalation in tax incidence and stringent regulations, have led to severe stress on farmer earnings which have declined by over ₹ 3450 crores over the last three years. Accordingly, a more balanced regulatory and taxation regime that cognises for the unique tobacco consumption pattern prevalent in India and the economic realities of the country is the need of the hour to support the Indian tobacco farmer and the 46 million livelihoods dependent on tobacco. Restoring export incentives to earlier levels would also go a long way in enhancing the competitiveness on Indian tobacco exports and contribute to increasing farmer earnings.

The Business will continue to provide strategic sourcing support to your Company's Cigarette Business even as it sustains its leadership position as a major exporter of quality Indian tobacco thereby catalysing the multiplier impact of increased farmer incomes to benefit the rural economy. With its strong R&D capability, modern processing facilities, crop development and extension expertise, and deep understanding of customer and farmer needs, your Company is well poised to sustain its position as a world-class leaf tobacco organisation.

Other Agri Commodities

Domestic food grain production for 2017 crop year stood at 275 million tonnes, representing a growth of 9% over the previous year. Production of wheat grew by 6.5% to 98.5 million tonnes, rice production increased by 5% to 109.7 million tonnes and coarse cereals production increased by 13% to 43.7 million tonnes. Oilseed production decreased by 4.5% to 29.9 million tonnes mainly due to lower soybean output, which decreased by 13.4% to 11.4 million tonnes due to prolonged dry spell at the time of flowering. Based on current

expectations of a normal monsoon in 2018 crop year, food grain production is estimated at around 277 million tonnes.

During 2017-18, world wheat output increased by eight million tonnes to about 758 million tonnes mainly due to higher production in Russia. Exports from India were negligible due to uncompetitive prices compared to competing origins such as Russia and Ukraine. India also witnessed higher production by six million tonnes which led to increase in government procurement by eight million tonnes thereby reducing the surplus available for domestic trade. These circumstances resulted in lack of trading opportunities in wheat during the year both in the export and domestic markets.

Your Company's deep rural linkages and expertise in agri-commodity sourcing, coupled with differentiation through value-added services of identity preservation, traceability and certification is a critical source of competitive advantage for the Branded Packaged Foods Businesses. Given the volatile market conditions caused by climatic variations, changes in Government policies and global demand-supply dynamics, your Company has invested significantly in building competitively superior agri-commodity sourcing expertise comprising multiple business models, wide geographical spread and customised infrastructure. These capabilities and infrastructure have created structural advantages that facilitate competitive sourcing of agri raw materials for your Company's Branded Packaged Foods Businesses. The Business continues to focus on developing capabilities and vectors of differentiation for potential foray into branded consumer and institutional segments while increasing the overall efficiency of procurement and logistics operations by consistently pursuing cost optimisation initiatives and eliminating non value-adding activities.

Your Company's deep rural linkages and expertise in agri-commodity sourcing, coupled with differentiation through value-added services of identity preservation, traceability and certification is a critical source of competitive advantage for the Branded Packaged Foods Businesses.

Report of the Board of Directors

With regard to Aashirvaad atta, the Business leveraged its wide geographical sourcing network and multiple sourcing models to secure supplies of critical grades with benchmark quality towards meeting the growing requirements of the brand. The Business delivered substantial savings to your Company through efficient logistics management and other cost optimisation initiatives.

The Business continues to collaborate with reputed research organisations such as Indian Agricultural Research Institute, Directorate of Wheat Research, Punjab Agricultural University and Agharkar Research Institute towards scaling up wheat sourcing from areas that are in close proximity of atta manufacturing plants and increasing crop production in non-traditional areas. As part of its wheat crop development programme, the Business has facilitated the introduction of location-specific new and improved seed varieties along with appropriate package of practices in over 1,14,000 acres across Rajasthan, Uttar Pradesh, Bihar, West Bengal, Madhya Pradesh, Maharashtra and Karnataka. With a view to supporting the future requirements of your Company, the Business continues to focus on deepening capabilities in proprietary crop intelligence, scaling up the sourcing & delivery network and developing blends based on customer requirements.

The Business leveraged its extensive sourcing network and associated infrastructure in key growing areas coupled with deep-rooted farmer linkages to source high quality fruit pulp for your Company's 'B Natural' brand. The key interventions in this area include strategic plantation development for key fruits, varietal segregation at source for improved colour and taste, customised fruit collection systems for identified fruits, establishing suitable processing protocols and product standardisation. The Business tailored its sourcing and

supply chain network to align with the requirements of the packaged juices business and enabling migration of the entire B Natural juices portfolio to the 'Not from Concentrate' proposition – a first in the industry, benefitting both consumers through higher retention of natural nutrients as well as the Indian farmers. In the processed fruits category, the Business sustained its leadership position in 'Fairtrade' mango pulp exports from India anchored on a comprehensive portfolio of organic and certified mango products. The Business is working closely with small and marginal farmers across four states in building scale and sourcing options.

During the year, the Business also strengthened its milk procurement network for 'Aashirvaad Svasti' ghee with significant increase in daily milk collection. In this regard, the Business provided farmers with the required infrastructure such as milking machines, automatic milk testing equipment and chilling units to improve operational efficiency and maintain quality with identity preservation and traceability.

Your Company's Spices Business continued to expand in Food Safe Markets viz. US, EU and Japan, leveraging its strong backward integration and customer focused strategies. Export of spices grew at a healthy pace, well ahead of industry trends, driven by the addition of new customers and foray into new markets such as Australia, Germany, Turkey and Ukraine. During the year, the Business scaled up its Integrated Crop Management (ICM) programme for chilli and cumin, thereby enhancing its ability to produce food safe spices in a sustainable manner. The Business continues to partner with the Governments of Andhra Pradesh and Karnataka for food safe chilli production and has also developed backward integration programme for food safe celery and fennel in Punjab and Rajasthan. Your Company's

As part of its wheat crop development programme, the Business has facilitated the introduction of location-specific new and improved seed varieties along with appropriate package of practices in over 1,14,000 acres across Rajasthan, Uttar Pradesh, Bihar, West Bengal, Madhya Pradesh, Maharashtra and Karnataka.

Spices Business has maintained an unblemished track record on food safety parameters leveraging its superior processes and custody of supply chain, thereby consolidating its position as a preferred supplier for food safe customers.

In the domestic market, the Business continued to provide strategic sourcing support to the Branded Packaged Foods Business for the ITC Master Chef range of blended and 'Super Safe' Spices. Your Company's range of 'Super Safe' Spices adhere to stringent EU standards, which require the products to be tested for over 470 pesticide residues as compared to nine under Indian regulations.

In the Aqua business, the Business remains focused on enhancing its presence in the high value-added segment and expanding its processing base. During the year, the Business launched the 'ITC Master Chef' range of 'Super Safe' frozen prawns which adhere to stringent international standards prevalent in USA, Europe and Japan. These products go through rigorous testing (240+ tests) and are 'individually quick frozen' to ensure freshness. Launched in six cities, leveraging ITC's experience of catering to customers in international markets, the range has been well appreciated for its taste and quality.

The year also marked your Company's foray into branded packaged potatoes and apples under the 'Farmland' brand in select cities for the retail segment. The product portfolio comprises a range of differentiated offerings such as low sugar, antioxidant, french fry and baby potatoes, and apples sourced from Jammu & Kashmir and Himachal Pradesh. The Business also launched 'ITC Master Chef - Smart Onions', a dehydrated onion product, in select markets for the domestic food service segment. The product is anchored on

delivering the benefits of convenient and faster cooking with less oil and adheres to global standards in safety. The aforesaid initiatives have met with encouraging response and are planned to be scaled up going forward.

Your Company believes that it is imperative to take an integrated and holistic view of the agricultural value chain. This requires a joint participatory approach from all the stakeholders such as farmers, input vendors, traders, processors and government agencies. In this regard, the Government's initiative to develop a uniform and suitable legal framework to undertake reforms in marketing of agricultural produce through a Central Agricultural Produce Market Committee (APMC) Act as well as introduction of e-auctions to facilitate transparency of transactions and superior price discovery at the mandis are welcome steps towards stimulating agricultural growth in the country.

More than a decade ago, your Company conceptualised and rolled out the e-Choupal network as a platform towards empowering the farming community by dis-intermediating the value chain, making available accurate weather related information, enabling price discovery in a transparent manner and disseminating best practices relating to farming. Your Company continues to focus on providing a range of value-added services in rural areas towards enhancing the competitiveness of Indian agriculture and playing a critical enabling role in integrating farmers, input vendors and government agencies besides facilitating the necessary market linkages.

The unique 'Choupal Haat' platform seeks to create awareness and improve access of the rural community to a wide range of areas - ranging from financial services and pharmaceuticals to commercial vehicles and white

During the year, the Business launched the 'ITC Master Chef' range of 'Super Safe' frozen prawns which adhere to stringent international standards prevalent in USA, Europe and Japan. These products go through rigorous testing (240+ tests) and are 'individually quick frozen' to ensure freshness.

Report of the Board of Directors

goods. Along with Choupal Saagars (integrated rural services hubs), this platform fosters round-the-year and large scale engagement with the rural community thereby enhancing the vitality of your Company's e-Choupal network.

Your Company will continue to leverage the unique e-Choupal platform to serve as a unique delivery mechanism towards enhancing agricultural growth and productivity, and fostering sustainable rural development. The Agri-Business, with its deep rural linkages and agri-commodity sourcing expertise, is well positioned to rapidly scale up in identified areas that lend to higher value addition while meeting the increasing requirements for high quality agricultural produce thereby creating a unique source of sustainable competitive advantage for your Company's Branded Packaged Foods Businesses.

NOTES ON SUBSIDIARIES

The following may be read in conjunction with the Consolidated Financial Statements prepared in accordance with Indian Accounting Standard 110. Shareholders desirous of obtaining the report and accounts of your Company's subsidiaries may obtain the same upon request. Further, the report and accounts of the subsidiary companies will also be available under the 'Shareholder Value' section of your Company's website, www.itcportal.com, in a downloadable format.

During the year, no company became or ceased to be your Company's subsidiary, joint venture or associate company.

ITC Global Holdings Pte. Limited, Singapore ('Global'), a subsidiary of your Company, is under winding up in terms of the Order of the High Court of the Republic of Singapore dated 30th November, 2007. Consequently, your Company is not in a position to consolidate the accounts of Global for the financial year ended 31st December, 2017.

The Policy for determining Material Subsidiaries, adopted by your Board, in conformity with Regulation 16, Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations 2015, can be accessed on your Company's corporate website at <http://www.itcportal.com/aboutitc/policies/>

[policy-on-material-subsidiaries.aspx](#). Presently, your Company does not have any material subsidiary.

Surya Nepal Private Limited

The fiscal year ended July 2017 witnessed normalisation of economic activity with GDP growth of 6.9% (previous year 0.01%) aided by low base effect, good monsoons and improved energy output leading to higher industrial activity. However, severe floods in August 2017 have since impacted the agriculture sector and growth estimates for the fiscal year ending July 2018 remain subdued at appx. 6%. On the external front, widening trade deficit, muted growth in remittances from overseas and weak balance of payments position continue to weigh on macroeconomic stability.

During the year under review, Nepal completed its transition to a federal structure with successful completion of elections for all three levels of government i.e. local level, provincial assemblies and federal parliament. Significant reforms such as legislation of the new Labour Act and Social Security Act were implemented during the year. These measures, in conjunction with other enabling policies across all the three levels of government, are expected to enhance the ease of doing business in the country and provide a fillip to economic growth in the near term.

The legal cigarette industry contributes 84% of Government's revenue from the tobacco sector and 10% of the total excise revenue collected by the Government. Further, the industry provides livelihoods, directly and indirectly, to more than four lakh farmers, farm workers and others engaged in the cultivation of tobacco and the tobacco trade. However, the legal cigarette industry in Nepal continues to be adversely impacted by a harsh regulatory regime and discriminatory tobacco taxation policy which is fueling the growth of illegal cigarettes and smokeless tobacco products. This in turn is not only adversely impacting Government revenues but also compromising the tobacco related health objectives of the Government.

During the year, the company's Revenue from Operations at Nepalese Rupees (NRs.) 3181 crores (previous year NRs. 2873 crores) and Profit After Tax at NRs. 857 crores (previous year NRs. 741 crores) recorded a growth of

11% and 16% respectively. The company continues to be one of the largest contributors to the exchequer, accounting for about 3% of the total revenues of the Government of Nepal.

The company's Cigarette business continued to consolidate its leadership position by leveraging a portfolio of world-class products anchored on innovation and benchmarked quality backed by a robust distribution network. Adoption of best-in-class manufacturing technologies and benchmarked practices ensured delivery of products of international quality. The manufacturing systems of the company continued to maintain the targeted benchmarks in the areas of quality, productivity and sustainability. During the year, the company strengthened its quality processes, protocols and hygiene standards and introduced new metrics to facilitate ongoing monitoring in these areas.

In the Branded Apparel business, 'John Players' has established itself as a leading brand at the premium end of the branded menswear segment in Nepal, with a significant presence across markets through exclusive branded outlets, departmental chains and multi-brand outlets. In the Safety Matches business, the company strengthened its market leadership by leveraging its superior trade marketing & distribution reach. The company is now the largest player in both wax and wooden matches segments. In the Agarbatti business, the company scaled up operations and enhanced its market standing by offering a wide portfolio across consumer segments and improving product availability and visibility across markets.

With the objective of creating new drivers of growth, the company commenced import of confectionery products under the 'Toffichoo' and 'mint-o' brands on a test basis with the approval of the Department of Industry, Nepal. Launched in June 2017, the products have received encouraging consumer response. The company is in the process of setting up a manufacturing facility towards scaling up the business.

The company continues to support and invest in initiatives aimed at enhancing the social and economic capital of the nation. All the initiatives are woven around and are in alignment with the sustainable development

goals of the Government of Nepal. Accordingly, the company continues to:

- assist farmers, proximate to the Simara factory, in agro forestry through (a) high quality Poplar plantation promoting 'Grow Wood Grow Food' concept through inter cropping and (b) providing vegetable seeds and constructing vermi-compost pits to increase productivity and provide alternative sources of income generation;
- support animal husbandry extension services covering animal breeding, health and nutrition towards driving milk yield improvement and generating higher returns for underprivileged farmers;
- focus on providing community health services through various 'Suswasthya' programmes such as periodic health camps and awareness programmes in the vicinity of the manufacturing units.

The company declared a dividend of NRs. 351.50/- per equity share of NRs. 100/- each for the year ended 15th July, 2017 (31st Ashadh, 2074) amounting to NRs. 708.62 crores.

ITC Infotech India Limited and its subsidiaries

The IT services industry continues to witness rapid transformation driven by increasing adoption of digital technologies, emergence of new models of customer value delivery, enhanced focus on experience journeys and client demands for efficiency, especially in traditional service lines through automation.

The Indian IT Services and Business Process Management (BPM) industry remained under significant pressure in 2017-18 which was marked by increasing headwinds in the form of continued rhetoric on protectionism, labour mobility issues, Brexit related uncertainty and subdued traction in the US Banking and Financial Services Industry. The challenging operating environment for the Indian IT industry is manifest in the continued deceleration in growth rates reported during the year by most of the Indian IT majors, with margins coming under increasing pressure.

Technology spending is witnessing a clear shift in favour of digital technologies, which are estimated to account

Report of the Board of Directors

for 80% of incremental IT spends. With traditional lines of businesses and business models coming under increasing pressure, the fragmented IT Services market is gearing up to meet these challenges by strengthening alternative delivery models and accelerating investments in digital capabilities.

In this context, ITC Infotech remains focused on providing specialised services led by business and technology consulting. During the year, revenue from emergent technologies (Data & Digital) saw robust growth. The company has sharply defined its Digital strategy and is on course to consolidate and drive the Digital line of business.

During the year, the company's strategic collaboration with PTC Inc. was strengthened with the launch of the 'Digital Solutions Innovation Center' and 'ThingWorx® Co-Innovation Lab'. This intervention will facilitate the creation of Augmented Reality solutions across industries such as manufacturing, automotive, industrial, retail, consumer goods, healthcare and hospitality.

During the year, the company's consolidated Total Income was ₹ 1652.10 crores (previous year ₹ 1554.38 crores), with Profit Before Tax of ₹ 81.69 crores (previous year ₹ 62.44 crores). Net Profit stood at ₹ 40.42 crores (previous year ₹ 37.95 crores). Revenue growth was driven by new client additions and increasing traction with existing customers especially in Europe, Asia-Pacific, Africa, Middle East and India markets. However, INR appreciation vis-à-vis the US Dollar and a subdued demand environment in the USA impacted overall revenue. Consolidation of sales focus in the Asia-Pacific, India, Middle East and Africa markets enabled synergies and led to strong growth in these regions. For the year under review:

- a) ITC Infotech India Limited recorded Revenue from Operations of ₹ 1002.93 crores (previous year ₹ 911.99 crores) and Net Profit of ₹ 27.68 crores (previous year ₹ 17.89 crores). For the year under review, the company paid a dividend of ₹ 6/- per Equity Share of ₹ 10/- each aggregating ₹ 51.12 crores (previous year: Nil).
- b) ITC Infotech Limited, UK, (ITC Infotech UK), a wholly-owned subsidiary of the company, recorded

Revenue of GBP 42.44 million (previous year GBP 37.00 million) and Net Profit of GBP 1.27 million (previous year GBP 1.17 million).

- c) ITC Infotech (USA), Inc., (ITC Infotech USA), a wholly-owned subsidiary of the company, together with its wholly-owned subsidiary Indivate Inc., recorded Revenue of US\$ 88.11 million (previous year US\$ 91.44 million) and Net Profit of US\$ 1.97 million (previous year US\$ 1.21 million). For the year under review, ITC Infotech USA paid a maiden dividend of US\$ 8 per share on 1,82,000 Common Shares (without par value) aggregating US\$ 1.46 million.

The company's superior service delivery capability continues to earn global recognition. During the year, the company was featured in the leader's category of '2018 Global Outsourcing 100' by the International Association of Outsourcing Professionals (IAOP) for the twelfth consecutive year. The company was also recognised by Information Service Group (ISG) in its Provider Lens: ADM Quadrant Report US 2017 and Provider Lens: Managed Digital Workplace Services Quadrant Report US 2017 as a 'Product Challenger' in the categories of End-to-End Application Development & Maintenance, Application Support & Maintenance, Application Testing and Managed Digital Workplace Services.

During the year, the company successfully organised i-Tech 2017, the third edition of its annual technology event with 'Experience Intelligence' as the theme, focusing on emerging technologies around Artificial Intelligence. The event generated strong interest among students, start-ups as well as professional developers to create solutions for complex business applications as part of a programming 'Codeathon'.

The outlook for the Indian IT Industry in the near term continues to remain subdued with NASSCOM projecting a growth rate between 7% and 9% for 2018-19. This is mainly attributable to global protectionist measures in major markets on the one hand and increasing complexities in rebuilding new age skill sets required to cater to the fast changing technology landscape on

the other. The company remains committed to its transformation journey with a sharper focus on select industry verticals and technology areas. The company will continue to focus on building domain specific digital solutions across identified areas and driving efficiencies through automation in delivery and other internal processes.

Technico Pty Limited and its subsidiaries

The company continues to focus on upgradation and commercialisation of its TECHNITUBER® seed technology and customising its application across various geographies. Besides, the company is engaged in the marketing of TECHNITUBER® seed to global customers produced at the facilities of its subsidiaries in China and Canada and Technico Agri Sciences Limited, India, a wholly-owned subsidiary of your Company. The Canadian subsidiary of the company is also engaged in field multiplication of seeds.

For the year under review:

- a. Technico Pty Limited, Australia registered a turnover of Australian Dollar (A\$) 2.52 million (previous year A\$ 2.46 million) and a Net Profit of A\$ 1.45 million (previous year A\$ 1.36 million).
- b. Technico Asia Holdings Pty Limited, Australia, Technico Technologies Inc., Canada and Technico Horticultural (Kunming) Co. Limited, China – There were no significant events to report with respect to these companies.

Technico Agri Sciences Limited

The company's leadership in production of early generation seed potatoes and strength in agronomy continues to support the Bingo! range of potato chips of your Company and in servicing the seed potato requirements of the farmer base of your Company's Agri Business.

The year under review was an extremely challenging one for potato farmers and the seed potato industry. Potato production for the year stood at about 50 million tonnes representing a significant growth of 11% over the previous year. This excess production

resulted in a sharp fall in potato prices compelling most farmers/producers to sell their inventory below cost, especially in November/December 2017 as the fresh potato crop reached markets. The situation was exacerbated by farmers not buying new seeds and using leftover potatoes / cheap seeds mainly due to tight liquidity conditions in the market. Consequently, the seed potato industry came under significant pressure during the year.

The company's Revenue from Operations for the year stood at ₹ 76.89 crores (previous year ₹ 108.35 crores) with a Net Loss of ₹ 14.07 crores (previous year Net Profit ₹ 14.52 crores). Total Comprehensive Income for the year stood at (-) ₹ 14.02 crores (previous year ₹ 14.48 crores).

During the year, the company declared a dividend of ₹ 41.12 crores (including Dividend Distribution Tax of ₹ 6.95 crores).

WelcomHotels Lanka (Private) Limited

WelcomHotels Lanka (Private) Limited (WLPL), a wholly-owned subsidiary of your Company was incorporated in Sri Lanka with the objective of developing and operating a mixed-use development project ('Project') comprising a luxury hotel and a super-premium residential apartment complex situated on 5.86 acres of prime sea-facing land in Colombo.

The Project has been accorded 'Strategic Development Project' status entitling the company to various fiscal benefits in Sri Lanka. Further, the Project is also exempt from Sri Lankan foreign exchange regulations.

During the year, the company made steady progress on construction of the project. Construction work is in full swing in both the hotel and residential towers. The Experience Centre, showcasing the features of the super-premium residential apartments, is nearing completion. The company also appointed internationally renowned interior designers and consultants for marketing the super-premium residential apartments internationally.

Your Company's investment in WLPL stood at US\$ 147 million as at 31st March, 2018.

Report of the Board of Directors

Landbase India Limited

The company owns 'ITC Grand Bharat' – a 104-key all-suite luxury Retreat at Gurugram, which has been licensed to your Company. The Retreat, an oasis of unhurried luxury, is co-located with the company's prestigious Classic Golf & Country Club, a 27-hole Jack Nicklaus Signature Golf Course.

ITC Grand Bharat has received several accolades, establishing itself amongst the top luxury resort destination hotels in the world. During the year, the Retreat was ranked # 10 amongst the 'Top 50 Resorts in Asia' by Conde Nast Traveler, USA, and also adjudged the best Luxury Hotel at the 'India's Best' Awards by Travel + Leisure India & South Asia.

During the year, the Classic Golf & Country Club hosted various prestigious tournaments and sustained its leadership position in the corporate tournament segment. The Club enjoys strong brand equity with its members, guests and the golfing fraternity and continues to receive the patronage of professional and amateur golfers in the country.

During the year ended 31st March 2018, the company recorded Total Income of ₹ 30.54 crores (previous year ₹ 21.75 crores) and Net Profit of ₹ 9.84 crores (previous year ₹ 2.10 crores). Total Comprehensive Income for the year stood at ₹ 9.89 crores (previous year ₹ 2.10 crores).

Srinivasa Resorts Limited

The company's hotel 'ITC Kakatiya' in Hyderabad improved its performance during the year on the back of higher room occupancy rates and robust growth in Food and Beverages revenue. However, overall room rates remained under pressure.

The company recorded Total Income of ₹ 58.37 crores (previous year ₹ 54.43 crores) for the year ended 31st March, 2018 with Net Profit of ₹ 0.48 crore (previous year Net Loss of ₹ 1.52 crores). Total Comprehensive Income for the year stood at ₹ 0.40 crore (previous year (-) ₹ 1.50 crores).

During the year, ITC Kakatiya received the Times Food Guide awards for 'Dakshin' (Best South Indian Fine

Dining) and 'Marco Polo' (Best Resto Bar).

Trip Advisor, a renowned hotel review website, rated 'Kebabs & Kurries' and 'Dakshin' as the best restaurants in Hyderabad, ranking them No.1 and No.3 respectively.

The company's 101-key full service hotel in Amritsar, located on a land parcel assigned to the company by ITC Limited, is under development. Civil works are nearing completion and interior work is underway.

Fortune Park Hotels Limited

The company, which caters to the 'Mid-market to Upscale' segment through a chain of Fortune hotels, continues to forge new alliances and expand its footprint. Currently, the company has an aggregate inventory of nearly 4,200 rooms spread over 54 properties of which 45 are operating hotels. Of the balance nine properties, five are slated to be commissioned in the ensuing year while four are in various stages of development. Three hotels were migrated to the WelcomHotel brand during the year.

The company has established 'Fortune' as the premier 'value' brand in the Indian hospitality sector. The brand remains a frontrunner in its operating segment and is well positioned to sustain its leadership position in the industry.

During the year, the company bagged the 'Today's Traveller Award 2017' as well as the 'Hospitality India & Explore The World Annual International Travel Award 2017' in the 'Best First Class Business Hotel Chain' category. It was also awarded the 'Versatile Excellence Travel Award (VETA) 2018' in the 'Best Business Hotel Chain' category by Travelscapes.

During the year ended 31st March, 2018, the company recorded Total Income of ₹ 27.59 crores (previous year ₹ 29.53 crores) and Net Profit of ₹ 1.93 crores (previous year ₹ 2.44 crores). Total Comprehensive Income for the year stood at ₹ 2.05 crores (previous year ₹ 2.39 crores).

The Board of Directors of the company has recommended a dividend of ₹ 12.50 per Equity Share of ₹ 10/- each for the year ended 31st March, 2018.

Bay Islands Hotels Limited

Fortune Resort Bay Island, the company's hotel in Port Blair, with its strategic location, excellent architectural design and superior service quality, continues to offer a unique gateway to the Andamans. A comprehensive renovation and expansion programme towards enhancing the market standing of the hotel is currently underway with the first phase (24 rooms) expected to be commissioned shortly.

During the year ended 31st March, 2018, the company recorded Total Income of ₹ 1.33 crores (previous year ₹ 1.98 crores) and Net Profit of ₹ 0.97 crore (previous year ₹ 0.76 crore). Total Comprehensive Income for the year stood at ₹ 0.97 crore (previous year ₹ 0.76 crore).

The Board of Directors of the company has recommended a dividend of ₹ 70/- per Equity Share of ₹ 100/- each for the year ended 31st March, 2018.

Wimco Limited

The company's business activities comprise fabrication and assembly of machinery for tube filling, cartoning, wrapping, material handling and conveyor solutions for the FMCG and Pharmaceutical industries.

The company's order book was impacted during the year due to sluggish demand conditions prevailing in the FMCG and Pharmaceutical industries. Consequently, the company's Revenue from Operations for the year declined to ₹ 8.77 crores (previous year ₹ 16.15 crores) with a Net Loss of ₹ 3.03 crores (previous year ₹ 0.07 crore). Total Comprehensive Income for the year stood at (-) ₹ 3.01 crores (previous year (-) ₹ 0.09 crore).

The company is focusing on strengthening its business model, widening its customer base and developing superior solutions towards addressing customer requirements.

North East Nutrients Private Limited

Your Company holds 76% equity stake in North East Nutrients Private Limited (NENPL), a company formed with the objective of setting up a food processing facility in Mangaldoi, Assam to cater to the fast-growing biscuits market in Assam and other north-eastern States.

In August 2015, the company commissioned a state-of-the-art facility comprising three biscuit manufacturing lines in Mangaldoi, Assam.

During the year, the company implemented several initiatives which resulted in improvement in operational efficiency, processing yield and productivity. The company was awarded the 'Trophy for Outstanding performance in Food Safety Excellence' by the Confederation of Indian Industry.

Revenue from Operations for the year stood at ₹ 150.30 crores (previous year ₹ 138.05 crores). The company recorded a Net Profit of ₹ 3.15 crores (previous year Net Loss ₹ 1.81 crores) while Total Comprehensive Income for the year stood at ₹ 3.30 crores (previous year (-) ₹ 1.83 crores).

Russell Credit Limited

During the year, the company registered Total Revenue of ₹ 82.48 crores (previous year ₹ 59.67 crores) and Net Profit of ₹ 63.82 crores (previous year ₹ 34.22 crores). Total Revenue and Net Profit during the year includes ₹ 33.78 crores and ₹ 18.28 crores respectively attributable to the sale of Non-Convertible Preference Shares of ICICI Bank. Temporary surplus liquidity of the company is mainly deployed in bonds, debt mutual funds and bank fixed deposits. The company continues to explore opportunities to make strategic investments for the ITC Group.

Gold Flake Corporation Limited

During the year, the company registered Total Income of ₹ 3.44 crores (previous year ₹ 3.46 crores) and Net Profit of ₹ 2.37 crores (previous year ₹ 2.55 crores). The company holds 50% equity stake in ITC Essentra Limited – a joint venture with Essentra Group, UK.

Greenacre Holdings Limited

During the year, the company recorded Total Income of ₹ 5.45 crores (previous year ₹ 6.34 crores) and Net Profit of ₹ 1.87 crores (previous year ₹ 2.25 crores). The company continues to provide maintenance services for commercial office buildings.

Report of the Board of Directors

ITC Investments & Holdings Limited

The company, a Core Investment Company within the meaning of the Core Investment Companies (Reserve Bank) Directions, 2011, recorded Total Revenue of ₹ 0.06 crore during the year (previous year ₹ 0.07 crore) and Net Profit of ₹ 0.03 crore (previous year ₹ 0.05 crore).

MRR Trading & Investment Company Limited

The company, a wholly-owned subsidiary of ITC Investments & Holdings Limited, holds tenancy rights in a commercial building located in Mumbai and also provides estate maintenance services. During the year, the company recorded Total Income of ₹ 0.07 crore (previous year ₹ 0.07 crore).

Pavan Poplar Limited

The operations of the company continue to be adversely impacted pursuant to the Order of the Honourable High Court of Uttarakhand at Nainital in February 2014 dismissing the writ petition filed by the company against the Order of the District Magistrate authorising the State authorities to take possession of the land leased to the company. The appeal filed by the company against the aforesaid Order was admitted in April 2014 and the matter is pending before the Honourable High Court.

During the year, the company recorded Total Revenue of ₹ 0.16 crore (previous year ₹ 0.20 crore) and Net Loss of ₹ 0.29 crore (previous year ₹ 0.32 crore).

Prag Agro Farm Limited

The operations of the company continue to be adversely impacted pursuant to the Order of the Honourable High Court of Uttarakhand at Nainital in February 2014 dismissing the writ petition filed by the company against the Order of the District Magistrate authorising the State authorities to take possession of the land leased to the company. The appeal filed by the company against the aforesaid Order was admitted in April 2014 and the matter is pending before the Honourable High Court.

During the year, the company recorded Total Revenue of ₹ 0.07 crore (previous year ₹ 0.05 crore) and Net Loss of ₹ 0.004 crore (previous year ₹ 0.06 crore).

ITC Global Holdings Pte. Limited

ITC Global Holdings Pte. Ltd (under Judicial Management, hereinafter "Global") has withdrawn its suit filed in 2002 claiming US\$ 18.10 million from the Company.

After protracted litigation of over 15 years, the Company was approached by the Liquidator of Global with an offer to settle the said suit upon payment of US\$ 2 million.

Subsequently, the Liquidator agreed to receive a sum of US\$ 200,000, discontinue the suit, unconditionally withdraw all claims and take all steps to complete dissolution of Global expeditiously. Your Company, without admission of any liability, remitted the sum of US\$ 200,000 to Global after receiving RBI's approval for the same.

NOTES ON JOINT VENTURES

ITC Essentra Limited

The relentless pressure on volumes of the legal cigarette industry on account of the steep increase in taxes and intense regulatory burden continues to adversely impact the demand for cigarette filters. Despite such adverse business conditions, the company retained its leadership position of being the preferred supply chain partner for several well-known national and international brands leveraging its core strengths – strong customer relationships, access to world-class innovation, superior execution, consistent delivery and best-in-class quality.

During the year ended 31st March, 2018, on a comparable basis, the company's Gross Sales Value (net of rebates/discounts) stood at ₹ 272.16 crores (previous year ₹ 277.79 crores). Net Profit during the year stood at ₹ 16.45 crores (previous year ₹ 9.94 crores).

During the year, in line with its philosophy of developing internal capabilities on an ongoing basis, the company established capability for manufacturing capsule filters to cater to the anticipated growth in this segment.

Investments continue to be made in technology induction and capability building towards sustaining the company's position as the innovation and quality benchmark in the

Indian cigarette filter industry. The company continues to focus on scaling up exports by leveraging a portfolio of high quality products. The Board of Directors of the company has recommended a dividend of ₹ 12.00 per Ordinary Share of ₹10/- each for the year ended 31st March, 2018.

Maharaja Heritage Resorts Limited

Maharaja Heritage Resorts Limited, a joint venture of your Company with Jodhana Heritage Resorts Private Limited, currently operates 34 heritage properties across 13 States in India. The company, with its WelcomHeritage brand portfolio comprising 'Legend Hotels', 'Heritage Hotels' and 'Nature Resorts', provides uniquely differentiated offerings to guests in the cultural, heritage and adventure tourism segments respectively.

During the year ended 31st March, 2018, the company recorded Total Income of ₹ 4.06 crores (previous year ₹ 3.49 crores) and Net Loss of ₹ 0.33 crore (previous year Net Loss ₹ 0.77 crore). Total Comprehensive Income for the year was a Loss of ₹ 0.33 crore (previous year Loss at Total Comprehensive Income level was ₹ 0.78 crore).

The 'WelcomHeritage Hotels' brand was awarded the 'Best Heritage Hotel Chain' by Today's Traveller Awards 2017.

Espirit Hotels Private Limited

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

As reported in the previous year, the Ambience Group has expressed its desire to review the timing of further investments in EHPL, citing concerns about the viability of the project in view of the challenging economic environment and the sluggish demand conditions currently prevailing in Hyderabad.

Your Company continues to explore its options in this regard.

Your Company's investment in EHPL stood at ₹ 46.51 crores as at 31st March, 2018.

Logix Developers Private Limited

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

As reported in the previous year, your Company reiterated its position with the JV partner that it was committed to developing a luxury hotel-cum-service apartment complex as envisaged under the JV Agreement and that it was not interested in progressing with any alternative project plans proposed by the JV partner. However, the JV partner refused to progress the project and instead expressed its intent to exit from the JV by selling its stake to your Company.

Subsequently, the JV partner proposed that both parties should find a third party to sell the entire shareholding in LDPL. In view of these developments, your Company had filed a petition before the Company Law Board (CLB) submitting that the affairs of the JV entity were being conducted in a manner that was prejudicial to the interest of your Company and the JV entity. The matter is currently before the National Company Law Tribunal (NCLT) which replaced the erstwhile CLB. The JV partner had also filed a petition before the Honourable Delhi High Court for winding up the JV company, which was transferred to the NCLT during the year by the Honourable Delhi High Court. The matters were heard before the NCLT on several occasions during the year and hearing for final arguments for both the matters have been scheduled on 23rd May, 2018.

During the year ended 31st March, 2018, the company recorded a Net Loss of ₹ 24.87 crores (previous year ₹ 22.75 crores). The Net Worth of the company stood at (-) ₹ 1.89 crores as at 31st March, 2018 (previous year ₹ 22.98 crores). Your Company's total investment in LDPL was ₹ 41.95 crores and it currently owns

Report of the Board of Directors

27.90% of the equity capital of the company. During the year, in view of the aforesaid developments, your Company made a provision of ₹ 23.45 crores towards diminution in the carrying value of investment in LDPL.

The financial statements of LDPL for the year ended 31st March, 2018 are yet to be approved by its Board of Directors. In the absence of audited financial statements of LDPL, the Consolidated Financial Statements of your Company for the year ended 31st March, 2018 have been prepared based on financial statements prepared by the management of LDPL.

NOTES ON ASSOCIATES

International Travel House Limited

The company offers a full range of travel services including air ticketing, car rentals, inbound and outbound tourism, domestic holidays, conferences, events and exhibition management and foreign exchange services to travellers.

During the year ended 31st March, 2018, the company recorded Total Income of ₹ 207.69 crores (previous year ₹ 205.74 crores) and Net Profit of ₹ 6.95 crores (previous year ₹ 11.17 crores). Total Comprehensive Income for the year stood at ₹ 6.02 crores (previous year ₹ 10.46 crores).

The Board of Directors of the company has recommended a dividend of ₹ 4.25 per Equity Share of ₹ 10/- each for the year ended 31st March, 2018.

Gujarat Hotels Limited

The company's hotel, 'WelcomHotel Vadodara', at Vadodara is operated by your Company under an Operating License Agreement.

During the financial year ended 31st March, 2018, the company recorded Total Income of ₹ 5.02 crores (previous year ₹ 5.12 crores), Net Profit and Total Comprehensive Income of ₹ 3.37 crores (previous year ₹ 3.86 crores).

The Board of Directors of the company has recommended a dividend of ₹ 3.50 per Equity Share of ₹ 10/- each for the year ended 31st March, 2018.

ATC Limited (an associate of Gold Flake Corporation Limited)

The company is a contract manufacturer of cigarettes. During the year, the company recorded Total Revenue of ₹ 23.13 crores (previous year ₹ 21.03 crores) and Net Profit of ₹ 0.66 crore (previous year ₹ 0.22 crore).

The company continued to maintain high levels of operational responsiveness, benchmark quality and cost efficiency during the year. The company was conferred the 'Suraksha Puraskar' by the National Safety Council of India and the 'Long Term Nil Lost Time Accident Award' by the Tamil Nadu State Government.

Associates of Russell Credit Limited

Russell Investments Limited

During the year, the company recorded Total Revenue of ₹ 7.59 crores (previous year ₹ 3.72 crores) and Net Profit of ₹ 6.75 crores (previous year ₹ 2.78 crores). The company continues to explore opportunities to make investments.

Divya Management Limited

During the year, the company recorded Total Revenue of ₹ 0.49 crore (previous year ₹ 0.52 crore) and Net Profit of ₹ 0.21 crore (previous year ₹ 0.20 crore). The company continues to explore opportunities to make investments.

Anrang Finance Limited

During the year, the company recorded Total Revenue of ₹ 0.28 crore (previous year ₹ 0.30 crore) and Net Profit of ₹ 0.10 crore (previous year ₹ 0.09 crore). The company continues to explore opportunities to make investments.

INTERNAL FINANCIAL CONTROLS

The Corporate Governance Policy guides the conduct of affairs of your Company and clearly delineates the roles, responsibilities and authorities at each level of its three-tiered governance structure and key functionaries involved in governance. The ITC Code of Conduct commits management to financial and accounting policies, systems and processes.

The Corporate Governance Policy and the ITC Code of Conduct stand widely communicated across the enterprise at all times, and, together with the 'Strategy of Organisation', Planning & Review Processes and the Risk Management Framework provide the foundation for Internal Financial Controls with reference to your Company's Financial Statements.

Such Financial Statements are prepared on the basis of the Significant Accounting Policies that are carefully selected by management and approved by the Audit Committee and the Board. These Policies are supported by the Corporate Accounting and Systems Policies that apply to the entity as a whole to implement the tenets of Corporate Governance and the Significant Accounting Policies uniformly across the Company. The Accounting Policies are reviewed and updated from time to time. These, in turn, are supported by a set of divisional policies and Standard Operating Procedures (SOPs) that have been established for individual businesses.

Your Company uses ERP Systems as a business enabler and also to maintain its Books of Account. The SOPs in tandem with transactional controls built into the ERP Systems ensure appropriate segregation of duties, tiered approval mechanisms and maintenance of supporting records. The Information Management Policy reinforces the control environment. The systems, SOPs and controls are reviewed by divisional management and audited by Internal Audit whose findings and recommendations are reviewed by the Audit Committee and tracked through to implementation.

Your Company has in place adequate internal financial controls with reference to the Financial Statements. Such controls have been assessed during the year taking into consideration the essential components of internal controls stated in the Guidance Note on Audit of Internal Financial Controls over Financial Reporting issued by The Institute of Chartered Accountants of India. Based on the results of such assessment carried out by management, no reportable material weakness or significant deficiencies in the design or operation of internal financial controls was observed. Nonetheless your Company recognises that any internal control framework, no matter how well designed, has inherent

limitations and accordingly, regular audit and review processes ensure that such systems are reinforced on an ongoing basis.

RISK MANAGEMENT

As a diversified enterprise, your Company continues to focus on a system-based approach to business risk management. The management of risk is embedded in the corporate strategies of developing a portfolio of world-class businesses that best match organisational capability with market opportunities, focusing on building distributed leadership and succession planning processes, nurturing specialism and enhancing organisational capabilities through timely developmental inputs. Accordingly, management of risk has always been an integral part of the Company's 'Strategy of Organisation' and straddles its planning, execution and reporting processes and systems. Backed by strong internal control systems, the current Risk Management Framework consists of the following key elements:

- The Corporate Governance Policy approved by the Board, clearly lays down the roles and responsibilities of the various entities in relation to risk management covering a range of responsibilities, from the strategic to the operational. These role definitions, inter alia, provide the foundation for appropriate risk management procedures, their effective implementation across your Company and independent monitoring and reporting by Internal Audit.
- The Risk Management Committee, constituted by the Board, monitors and reviews the strategic risk management plans of the Company as a whole and provides necessary directions on the same.
- The Corporate Risk Management Cell, through focused interactions with businesses, facilitates the identification and prioritisation of strategic and operational risks, development of appropriate mitigation strategies and conducts periodic reviews of the progress on the management of identified risks.
- A combination of centrally issued policies and divisionally-evolved procedures brings robustness

Report of the Board of Directors

to the process of ensuring that business risks are effectively addressed.

- Appropriate structures are in place to proactively monitor and manage the inherent risks in businesses with unique / relatively high risk profiles.
- A strong and independent Internal Audit function at the Corporate level carries out risk focused audits across all businesses, enabling identification of areas where risk management processes may need to be strengthened. The Audit Committee of the Board reviews Internal Audit findings, and provides strategic guidance on internal controls. The Audit Compliance Review Committee closely monitors the internal control environment within your Company including implementation of the action plans emerging out of internal audit findings.
- At the Business level, Divisional Auditors continuously verify compliance with laid down policies and procedures, and help plug control gaps by assisting operating management in the formulation of control procedures for new areas of operation.
- A robust and comprehensive framework of strategic planning and performance management ensures realisation of business objectives based on effective strategy implementation. The annual planning exercise requires all businesses to clearly identify their top risks and set out a mitigation plan with agreed timelines and accountabilities. Businesses are required to confirm periodically that all relevant risks have been identified, assessed, evaluated and that appropriate mitigation systems have been implemented.

Your Company endeavours to continually sharpen its Risk Management systems and processes in line with a rapidly changing business environment. In this regard, it is pertinent to note that some of the key businesses of your Company have adopted the ISO 31000 Standard and the Risk Management systems and processes prevalent in these businesses have been independently assessed to be compliant with the said global Standard on risk management. This intervention provides further assurance on the robust nature of risk management practices prevalent in your Company.

During the year, the Risk Management Committee was updated on the status and effectiveness of the risk management plans. The Audit Committee was also updated on the effectiveness of your Company's risk management systems and policies.

Your Company sources several commodities for use as inputs in its businesses and also engages in agri-commodity trading as part of its Agri Business. Your Company has a comprehensive risk assessment framework and well laid out policy to manage the risks arising out of the inherent price volatility associated with such commodities. This includes robust mechanisms for monitoring market dynamics on an ongoing basis towards making informed sourcing decisions, continuous tracking of net open positions & 'value at risk' against approved limits, use of futures contracts to hedge commodity price risk as applicable, hedging associated foreign exchange risk through appropriate instruments, assessment of country risk and counter-party exposure for suitable mitigation plans. Additionally, your Company's strategy of backward integration in areas such as sourcing of agri-commodities e.g. wheat, potato, fruit pulp and leaf tobacco, in-house manufacturing of paperboards, paper and packaging (including pulp production and print cylinder making facilities) facilitates access to critical inputs at benchmark quality and competitive cost besides ensuring security of supplies. Further, each of your Company's businesses continuously focuses on product mix enrichment towards protecting margins and insulating operations from spikes in input price. The combination of policies and processes as outlined above adequately addresses the various risks associated with your Company's businesses.

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 inter alia provides assurance on orderly and efficient conduct of operations, security of assets, prevention and detection of frauds / errors, accuracy and completeness of

accounting records and the timely preparation of reliable financial information.

Your Company's independent and robust Internal Audit processes, both at the Business and Corporate levels, provide assurance on the adequacy and effectiveness of internal controls, compliance with operating systems, internal policies and regulatory requirements.

Independent consultants have confirmed compliance of Internal Audit systems and processes with the Standards on Internal Audit (SIA) issued by the Institute of Chartered Accountants of India (ICAI). Although the Standards are recommendatory in nature, such validation evidences the contemporariness of the Internal Audit function.

The Internal Audit function consisting of professionally qualified accountants, engineers and IT Specialists is adequately skilled and resourced to deliver audit assurances at highest levels. In the context of the IT environment of your Company, systems and policies relating to Information Management are periodically reviewed and benchmarked for contemporariness. Compliance with the Information Management policies receive focused attention of the Internal Audit team. Qualified engineers in the Internal Audit function review the quality of design, planning and execution of all ongoing projects involving significant expenditure to ensure that project management controls are adequate and yield 'value for money'.

Processes in the Internal Audit function have been continuously strengthened for enhanced effectiveness and productivity including the deployment of best-in-class tools for analytics in the Audit domain, certification as complying with ISO 9001:2015 Quality Standards in its processes, ongoing knowledge improvement programmes for staff, etc. The Audit methodology is also designed to validate effectiveness of critical IT controls that are embedded in the business systems, leading to greater alignment with the business process environment.

The Audit Committee of your Board met eight times during the year. The Terms of Reference of the Audit Committee inter alia included reviewing the effectiveness of the internal control environment, evaluation of the Company's

internal financial control and risk management systems, monitoring implementation of the action plans emerging out of Internal Audit findings including those relating to strengthening of your Company's risk management systems and discharging of statutory mandates.

HUMAN RESOURCE DEVELOPMENT

Your Company firmly believes that it is its people who energise and make the organisation exceptional, both in driving world-class performance as well as in fostering and enhancing its reputational capital. Your Company's unique talent brand – 'Building Winning Businesses. Building Business Leaders. Creating Value for India.' – backed by its strong corporate equity has been crucial in attracting and retaining high quality talent. This talent pool and its strong alignment with your Company's Vision has contributed substantially to enhancing your Company's standing as one of India's most valuable corporations.

Integral to your Company's approach to human resource development is its distinctive Strategy of Organisation. This strategy ensures that while each business is equipped to focus on its own product market, it can also fully leverage your Company's institutional strengths and the synergies arising out of its multi-business portfolio. At the same time, it focuses on developing and nurturing distributed leadership so that each of your Company's businesses is managed by a team of competent, passionate and inspiring leaders, capable of building a future-ready organisation through continuous learning, innovation and world-class execution.

Your Company's innovative engagement initiatives with premier campuses across India and use of social media have effectively showcased the career and leadership opportunities thereby attracting high quality talent at both the entry level as well as for middle and senior level positions. Management students across leading institutes in India ranked your Company amongst the Top 5 most preferred employers in 'Campustrack', a survey carried out by Nielsen in 2017. Your Company also featured among India's most attractive employers in Universum's 2017 survey of Indian B-schools. Over the years, your Company's

Report of the Board of Directors

unique 'Assistants Under Training' programme has played a vital role in developing a robust talent and leadership pipeline that has fuelled both growth in existing businesses as well as entry into new ones.

Your Company's human resource management systems and processes aim to enhance organisational capability and vitality, so that each business operates to world-class standards and is equipped to seize market opportunities. At the same time, its steadfast commitment to investing in talent management practices ensures that these are relevant, effective and drive performance and achievement of the highest order. Given the intensely competitive business landscape and your Company's ambitious growth agenda, your Company's human resources team has further strengthened the Talent Acquisition process by sharpening the understanding and assessment of 'organisation fit'. As a recognition of its unique employee-centric policies and practices, the latest Randstad Brand Research Survey findings have ranked your Company amongst the Top 10 employers in India.

Your Company believes that the achievement of its growth objectives will depend largely on the ability to innovate continuously, connect closely with the customer, as well as create and deliver superior and unmatched customer value. Towards this end, your Company has assiduously built a culture of continuous learning, innovation and collaboration across the organisation by providing cutting-edge learning and development inputs to employees which focus on the five capability platforms that have been identified as relevant to making businesses future-ready – Strategic, Value Chain, Leadership, Innovation and Human Resources Development, along with a judicious blend of coaching, mentoring and on-the-job training.

It is a matter of pride that during the year your Company won global recognition at the 2017 ATD Excellence in Practice Awards in the Learning and Development category, for entries titled 'Integrated Talent Management: Talent Development from Internal Resources Opportunity for Career Growth – ITC Gurukul' and 'Learning and Development: Integrated Technical Talent Development Process – Munger Unit'.

During the year, your Company completed the second edition of its Employee Engagement Survey - iEngage

2018, which captures the perceptions and views of employees, on various workplace dimensions such as Employee Engagement, Performance Enablement, Managerial Effectiveness, Trust, Growth and Development, Compensation and Benefits and Work Life Balance. The employee participation rate in the survey was over 95% which is amongst the highest for organisations of comparable size. Based on aggregated scores, it is reported that 'Pride of Association' remains extremely high and there is progressive improvement on key indices of overall Employee Engagement, Performance Enablement and Managerial Effectiveness.

Your Company believes that alignment of all employees to a shared vision and purpose is vital for winning in the marketplace. It also recognises the mutuality of interests with key stakeholders and is committed to building harmonious employee relations. This aspect of human resources has never been more relevant or important than today when, driven by an ambitious growth agenda, your Company is in the process of commissioning several world-class Integrated Consumer Goods Manufacturing and Logistics facilities across the country. Your Company's best-in-class 'Good' ER practices have fostered a collaborative spirit across all sections of employees. Bolstered by continuous investment in contemporary management practices and manufacturing systems, this has supported significant enhancement in quality and productivity. During the year under review, your Company successfully concluded long-term agreements at several of its manufacturing units and hotel properties and also ensured smooth commencement of operations at greenfield locations. Your Company was also conferred the coveted 'National Award for Excellence in Employee Relations 2017 – Significant Achievement in Employee Relations' in the pan-India category by the Employers Federation of India (EFI).

Your Company believes that the drive for progress is in never being satisfied with the status quo. We are confident that every one of your Company's 26,000 plus employees will relentlessly strive to meet the bold growth agenda, deliver world-class performance, innovate newer and better ways of doing things, uphold human dignity, foster team spirit and discharge their role as 'trustees' of all stakeholders with true faith and allegiance.

Your Company is committed to perpetuate this vitality of ITC – its growth in physical terms and also as a great institution – so that it continues to grow and succeed in its relentless pursuit of creating enduring value.

WHISTLEBLOWER POLICY

Your Company's Whistleblower Policy encourages Directors and employees to bring to the Company's attention, instances of unethical behaviour, actual or suspected incidents of fraud or violation of the ITC Code of Conduct that could adversely impact your Company's operations, business performance and / or reputation. The Policy provides that your Company investigates such incidents, when reported, in an impartial manner and takes appropriate action to ensure that requisite standards of professional and ethical conduct are always upheld. It is your Company's Policy to ensure that no employee is victimised or harassed for bringing such incidents to the attention of the Company. The practice of the Whistleblower Policy is overseen by the Audit Committee and no employee has been denied access to the Committee. The Whistleblower Policy is available on your Company's corporate website 'www.itcportal.com'.

SUSTAINABILITY – CONTRIBUTION TO THE 'TRIPLE BOTTOM LINE'

Inspired by the opportunity to sub-serve larger national priorities, your Company redefined its Vision to not only reposition the organisation for extreme competitiveness but also make societal value creation the bedrock of its corporate strategy. This superordinate Vision spurred innovative strategies to address some of the most challenging societal issues including widespread poverty, unemployment and environmental degradation. Your Company's sustainability strategy aims at creating significant value for the nation through superior 'Triple Bottom Line' performance that builds and enriches the country's economic, environmental and social capital. The sustainability strategy is premised on the belief that the transformational capacity of business can be very effectively leveraged to create significant societal value through a spirit of innovation and enterprise.

Your Company is today a global exemplar in sustainability. It is a matter of immense satisfaction that your

Company's models of sustainable development have led to the creation of sustainable livelihoods for around six million people, many of whom belong to the marginalised sections of society. Your Company has also sustained its position of being the only Company in the world of comparable dimensions to have achieved the global environmental distinction of being carbon positive (for 13 consecutive years), water positive (for 16 years in a row) and solid waste recycling positive (for 11 years in succession).

To contribute to the nation's efforts in combating climate change, your Company's strategy of adopting a low-carbon growth path is manifest in its growing renewable energy portfolio, establishment of green buildings, large-scale afforestation programme and achievement of international benchmarks in energy and water consumption. During the year, over 43% of your Company's total energy requirements were met from renewable energy sources - a creditable performance given its expanding manufacturing base. In addition, the practice of ensuring that premium luxury hotels, office complexes and factories of your Company are certified at the highest level by the US Green Building Council / Indian Green Building Council and the Bureau of Energy Efficiency (BEE) continues.

Your Company has adopted a comprehensive set of sustainability policies that are being implemented across the organisation in pursuit of its 'Triple Bottom Line' agenda. These policies are aimed at strengthening the mechanisms of engagement with key stakeholders, identification of material sustainability issues and progressively monitoring and mitigating the impacts along the value chain of each Business.

Your Company's 14th Sustainability Report, published during the year detailed the progress made across all dimensions of the 'Triple Bottom Line' for the year 2016-17. This report is in conformance with the Global Reporting Initiative (GRI) Guidelines - G4 under 'In Accordance – Comprehensive' category and is third-party assured at the highest criteria of 'reasonable assurance' as per International Standard on Assurance Engagements (ISAE) 3000. The 15th Sustainability Report, covering the sustainability performance of your Company for the year 2017-18, is being prepared in

Report of the Board of Directors

accordance with the GRI Standards and will be made available shortly.

In addition, the Business Responsibility Report (BRR), as mandated by the Securities & Exchange Board of India (SEBI), was brought out as an annexure to the Report and Accounts 2017, mapping the sustainability performance of your Company against the reporting framework suggested by SEBI. The BRR for the year under review is annexed to this Report and Accounts.

Corporate Social Responsibility (CSR)

Your Company's overarching commitment to create significant and sustainable societal value is manifest in its CSR initiatives that embrace the most disadvantaged sections of society, especially in rural India, through economic empowerment based on grassroots capacity building. Towards this end, your Company adopted a comprehensive CSR policy in 2014-15 outlining programmes, projects and activities that your Company plans to undertake to create a significant positive impact on identified stakeholders. All these programmes fall within the purview of Schedule VII of the provisions of Section 135 of the Companies Act, 2013 and the Companies (Corporate Social Responsibility Policy) Rules, 2014.

The key elements of your Company's CSR interventions are to:

- Deepen engagement in identified core operational geographies to promote holistic development, design interventions in order to respond to the most significant development challenges of your Company's stakeholder groups.
- Strengthen capabilities of Non-Government Organisations (NGOs) / Community Based Organisations (CBOs) in all the project catchments for participatory planning, ownership and sustainability of interventions.
- Drive the Development agenda in a manner that benefits the poor and marginalised communities in your Company's factory and agri-catchments thereby significantly improving Human Development Indices (HDI).
- Ensuring behavioural change through focus on demand generation for all interventions thereby

enabling participation, contribution and asset creation for the community.

- Continue to strive for scale by leveraging government partnerships and accessing the most contemporary knowledge / technical know-how.

Your Company's stakeholders are confronted with multi-dimensional and inter-related concerns, at the core of which is the challenge of securing sustainable livelihoods. Accordingly, interventions under your Company's Social Investments Programme (SIP) are appropriately designed to build their capacities and promote sustainable livelihoods.

The footprint of your Company's projects is spread over 25 States/Union Territories covering 188 districts.

Social Forestry

Your Company's pioneering afforestation initiative through the Social Forestry programme is currently spread across 17 districts in six States covering 2.95 lakh acres in 4,900 villages, impacting over 1,09,000 poor households. Together with your Company's Farm Forestry programme, this initiative has greened over 6.83 lakh acres till date, and generated about 124 million person days of employment for rural households, including poor tribal and marginal farmers. Integral to the Social Forestry programme is the Agro-Forestry initiative, which currently extends to over 101,900 acres and ensures food, fodder and wood security.

Besides enhancing farm level employment, generating incomes and increasing green cover, this large scale initiative is also contributing meaningfully towards the nation's endeavour in creating additional carbon sinks for tackling climate change.

In addition to the above, the Social and Farm Forestry initiative of your Company, through a multiplier effect, has led to improvement in pulpwood and fuelwood availability in Andhra Pradesh and Telangana. This initiative is also contributing meaningfully towards the nation's endeavour in creating additional carbon sinks for tackling climate change.

During the year, your Company's Social Forestry programme was scaled up in West Tripura district,

Malkangiri district (Odisha) and Sukma district (Chhattisgarh). In Tripura, your Company plans to promote bamboo plantations covering an area of 5,000 acres over the next five years. In addition, your Company aims to promote 20,000 acres under Agro-Forestry in Malkangiri and Sukma districts in order to provide livelihood opportunities to small and marginal farmers.

Soil and Moisture Conservation

The Soil and Moisture Conservation programme promotes the development and management of local water resources in moisture-stressed areas by facilitating village-based participation in planning and implementing such measures as well as building, reviving and maintaining water harvesting structures. The coverage of this programme currently extends to 42 districts across 14 States. During the year, the area under watershed increased by 98,180 acres taking the cumulative coverage area till 2017-18 to over 8.74 lakh acres. 2,341 water harvesting structures were built during the year, taking the total number of water harvesting structures to 12,440.

Biodiversity

The focus of the programme is on reviving ecosystem services provided to agriculture by nature, comprising natural regulation of pests, pollination, nutrient cycling, soil retention and genetic diversity, which have witnessed considerable erosion over the past few decades. During the year, your Company's biodiversity conservation initiative covered 4,290 acres, in seven States and 14 districts, taking the cumulative area under biodiversity conservation to 16,093 acres. While the conservation work is being carried out in select plots of village commons, this intervention significantly benefits agricultural activity in the vicinity of these plots through soil moisture retention, carbon sequestration and by acting as hosts to insects and birds.

Sustainable Agriculture

The Sustainable Agriculture programme attempts to de-risk farmers from erratic weather events through the promotion of climate smart agriculture premised on dissemination of relevant package of practices, adoption

of appropriate mechanisation and provision of institutional services. Currently, 4.15 lakh acres are covered under the Sustainable Agriculture programme which has a significant multiplier effect in terms of adoption by the farming community. Of this, 1.14 lakh acres, were covered through Choupal Pradarshan Khets, demonstration farms to disseminate scientific and technological best practices, directly benefitting more than 64,000 farmers. 2,084 Farmer Field Schools disseminated advanced agri-practices to farmers and 381 Agri Business Centres delivered extension services, arranged agri-credit linkages and established collective input procurement and agricultural equipment on hire. In pursuit of your Company's long-term sustainability objective of increasing soil organic carbon, a total of 2,731 compost units were constructed during the year taking the total number till date to over 37,500 units.

The 'Village Adoption Programme' pioneered by your Company's Agri Business presently covers 190 model villages in the states of Andhra Pradesh, Karnataka, Telangana and Rajasthan. This initiative is aligned to the Prime Minister's Sansad Adarsh Gram Yojana (SAGY), an initiative to promote holistic rural development. An assessment of the impact created by this programme by an independent agency showed that it has generated significant economic surplus for the farming community including creating sustainable rural livelihoods and improved standards of living.

Livestock Development

The programme provides an opportunity for farmers to convert an existing asset into a source of additional income with the potential of developing into a sustainable source of livelihood. The programme provided extension services, including breeding, fodder propagation and training of farmers in order to increase their incomes through enhanced productivity of milch animals in seven States and 25 districts. During the year, 2.02 lakh Artificial Inseminations (AIs) were carried out which led to the birth of 0.79 lakh cross-bred progeny. Cumulatively, the figures for AIs and calving stand at 22.21 lakh and 7.51 lakh respectively.

Your Company is also working with dairy farmers in Bihar and Punjab to improve farm productivity through several extension services and to facilitate higher milk

Report of the Board of Directors

production. Qualified teams comprising veterinarians and para-veterinarians have been deployed to facilitate animal breeding, animal nutrition and animal health services towards improving farm productivity and promoting commercial dairy farming among farmers.

Women Empowerment

This initiative has provided a range of gainful employment opportunities to over 61,000 poor women so far, who have been supported with capacity building and financial assistance by way of loans and grants. To date, 20,100 ultra-poor women in the core catchments had access to sustainable sources of income through non-farm livelihood opportunities. In addition, the programme provided a source of livelihood to 325 women in Uttar Pradesh engaged in making agarbattis using pedal machines. This is a home based activity for most women, providing supplementary income to them.

Education

The Primary Education Programme aims to provide children from weaker sections of society in your Company's factory catchment areas, access to education with focus on learning outcomes and retention. Operational in 22 districts of 12 States, the programme covered 46,891 children during the year, thus taking the total coverage to nearly 5.60 lakh children. In addition, 162 government primary schools were provided infrastructure support comprising boundary walls, additional classrooms, sanitation units, and furniture, taking the total number of government primary schools covered till date to 1,644. To ensure sustainable operations and maintenance of infrastructure provided, 351 School Management Committees were strengthened and 397 Child Cabinets and Water and Sanitation (WATSAN) Committees were formed in various schools with the active involvement of students and teachers.

Skilling & Vocational Training

The Skilling & Vocational Training programme provides training in market linked skills to youth to enable them to compete in the job market. 11,619 youth were enrolled under different courses during the year of which 40% were female and 37% belonged to the SC/ST communities. The programme is operational in

28 districts of 17 States and has so far covered over 55,000 youth. In addition, the programme covered 1,500 youth who were trained with requisite skills and provided increased opportunities for entrepreneurial development.

The Company continues to work with the Welcomgroup Graduate School of Hotel Administration (WGSHA) together with Dr TMA Pai Foundation to cater to the ever growing need for professionally trained human resources in the hospitality industry. WGSHA has been recently rated by CEO World Magazine amongst the Top 50 hospitality schools in the world. In addition, since the inception of ITC Culinary Skills Training Centre, Chhindwara in 2014, 77 trainee chefs in seven batches have successfully completed the six months programme wherein cooking skills are imparted to youth from economically marginalised communities.

Health & Sanitation

Your Company continues to adopt a multi-pronged approach towards improving public health and hygiene. To promote a hygienic environment through prevention of open defecation and reduce incidence of water-borne diseases, 7,494 Individual Household Toilets (IHHT) were constructed in 24 districts of 16 States in collaboration with the respective State Governments/District sanitation departments. With this, a total of 31,473 IHHTs have been constructed so far in your Company's catchment areas. In addition, 23 community toilets were constructed/renovated in Bihar, West Bengal and New Delhi. Along with sanitation infrastructure development, special focus was given to awareness campaigns to create demand and drive behavioural change.

To make potable water available to local communities in four districts of Andhra Pradesh and Telangana, Reverse Osmosis (RO) water purification plants were set up in villages with poor quality water. 15 new RO plants were established in 2017-18 taking the total to 101, which provided safe drinking water to over 120,000 rural people.

The Company continued to enhance awareness on various health related issues through a network of 348 women Village Health Champions (VHCs) who

covered nearly three lakh women, adolescent girls and school children during the year. The programme is operational in seven districts of Uttar Pradesh and four districts of Madhya Pradesh. The VHCs conducted over 7,000 village meetings and participated in over 4,000 group events, apart from making door-to-door visits focusing on aspects like sanitation, menstrual and personal hygiene, family planning, diarrhoea prevention and nutrition. Through your Company's 'Savlon Swasth India Mission', a combination of audio-visual aids, games and practical training was leveraged to encourage healthy hygiene habits. Nearly 14 lakh children from around 3,300 schools in 18 towns were covered during the year. Additionally, access to handwashing was enabled through the unique 'ID Guard' initiative to over 3.5 lakh children in 1,000 schools. Nearly 1.36 lakh beneficiaries were covered under Mother and Child Health initiative aimed at improving the health-nutrition status of women, adolescents and children. This was achieved by strengthening institutional capacity, promoting greater convergence with existing government schemes and increasing access to basic services on maternal, child, and adolescent health, nutrition and child protection.

Solid Waste Management

Your Company's waste recycling programme, 'WOW – Well-Being Out of Waste', enables the creation of a clean and green environment and promotes sustainable livelihoods for waste collectors. During the year, the programme continued to be executed in Hyderabad, Coimbatore, Chennai, Bengaluru, Delhi, Muzaffarpur and major districts of Andhra Pradesh. The quantum of dry waste collected during the year was 50,196 tonnes from 562 wards. The programme has covered 77 lakh citizens, 33 lakh school children and 2000 corporates since its inception. The Programme creates sustainable livelihoods for 14,500 waste collectors by facilitating an effective collection system in collaboration with municipal corporations. Besides, the intervention has also created over 80 social entrepreneurs who are involved in maximising value capture from dry waste collected.

In addition, another programme on solid waste management under the Mission Sunehra Kal initiative

has spread to 13 districts of eight States covering 98,000 households and collected 7,603 tonnes of waste during the year. This programme focuses on minimising waste to landfill by managing waste at source. Home composting was practiced by 2,516 households. Under this programme, in 2017-18, 5,711 tonnes wet waste was composted and 616 tonnes of dry waste recycled, and only 17% of the total waste was sent to landfills.

ITC Sangeet Research Academy

The ITC Sangeet Research Academy (ITC SRA) which was established in 1977, is an embodiment of your Company's sustained commitment to a priceless national heritage. The Company's pledge towards ensuring enduring excellence in Classical Music education continues to drive ITC SRA in furthering its objective of propagating classical music on the age-old principle of the 'Guru-Shishya Parampara'. The Academy through its eminent Gurus imparts quality education in Hindustani Classical Music to its Scholars. Padma Shri Pt.Ulhas Kashalkar, Padma Shri Pt.Ajoy Chakrabarty, Pt.Arun Bhaduri, Pt.Partha Chatterjee, Pt.Uday Bhawalkar, Vidushi Subhra Guha and Shri Omkar Dadarkar are the present Gurus of the Academy. The focus of the Academy remains on nurturing exceptionally gifted students, carefully hand-picked from across India, who receive full scholarship to reside and pursue music education in the Academy's campus under the tutelage of the country's most distinguished stalwarts. The objective is to create the next generation of masters of Hindustani Classical Music for the continued propagation of a precious legacy.

Forging Partnerships with NGOs

The meaningful contribution made by your Company's Social Investments Programme to address some of the country's key development challenges, has been possible in significant measure, due to your Company's partnerships with globally renowned NGOs such as BAIF, DB Tech, DSC, FES, MYRADA, Pratham, SEWA Bharat, Outreach, WASH Institute and Water for People amongst others. These partnerships, which bring together the best-in-class management practices of your Company and the development experience and mobilisation skills of NGOs, will continue to provide

Report of the Board of Directors

innovative grassroots solutions to some of India's most challenging problems of development in the years to come.

CSR Expenditure

The annual report on Corporate Social Responsibility activities as required under Sections 134 and 135 of the Companies Act, 2013 read with Rule 8 of the Companies (Corporate Social Responsibility Policy) Rules, 2014 and Rule 9 of the Companies (Accounts) Rules, 2014 is provided in the Annexure forming part of this Report.

Environment, Health & Safety

Your Company's Environment, Health & Safety (EHS) strategies are directed towards achieving the greenest and safest operations across all your Company's units by optimising natural resource usage and providing a safe and healthy workplace. Systemic efforts continue to be made towards natural resource conservation by continuously improving resource-use efficiencies and enhancing the positive environmental footprint following a life-cycle based approach.

Your Company's focus on inculcating a green and safe culture is supported through the adoption of EHS standards that incorporate best international standards, codes and practices which are verified through regular audits.

Your Company is addressing the critical area of climate change mitigation through several innovative and pioneering initiatives. These include continuous improvement in energy efficiency, enhancing the renewable energy portfolio, integrating green attributes into the built environment, better efficiency in material utilisation, maximising water use efficiencies and rain water harvesting, maximising reuse and recycling of waste and utilising post-consumer waste as raw material.

Energy Conservation and Renewable Energy

Your Company is well positioned to benefit from India – specific energy conservation and renewable energy promotion schemes such as Perform, Achieve and Trade (PAT) and Renewable Energy Certificates (RECs) promoted by the Government of India. As a responsible corporate citizen, your Company has made

a commitment to reduce dependence on energy from fossil fuels. All the factories, hotels and offices recently commissioned by your Company have been designed with green features to minimise their carbon footprint. Despite the addition of several ICMLs, Hotels and a BCTMP pulp mill and lower generation of black liquor due to health restoration of one of the Soda Recovery Boilers at the Bhadrachalam unit during the year, more than 43% of your Company's total energy requirements were met from carbon neutral fuels such as biomass, wind and solar.

Your Company has drawn up action plans based on a mix of energy conservation and renewable energy investments to progressively scale up the share of renewable energy in the total energy consumption to 50% notwithstanding the significant enhancement in its scale of operations planned going forward.

Water Security

With water scarcity increasingly becoming an area of serious concern, your Company continues to focus on an integrated water management approach that includes water conservation and harvesting initiatives at its units – while at the same time working towards meeting the water security needs of all stakeholders at the local watershed level. Interventions have been spearheaded to improve water use efficiencies by adopting latest technologies and increasing reuse and recycling practices within the fence while also working with farmers and other community members towards improving their water use efficiencies. The supply side interventions include enhanced capture and storage of rainwater (in soil and storage ponds) and recharging aquifers. These initiatives have resulted in the creation of rainwater harvesting potential that is over three times the net water consumption of your Company's operations.

Greenhouse Gases and Carbon Sequestration

The greenhouse gas (GHG) inventory of your Company for the year 2017-18 compiled as per the ISO 14064 Standard has been assured, as in the earlier years, at the highest 'Reasonable Level' by an independent third party. During the year, your Company achieved the 'Leadership' position in the Climate Change and Water disclosures of CDP.

Reaffirming your Company's commitment to the ethos of 'Responsible Luxury', all luxury hotels of your Company are Leadership in Energy & Environmental Design (LEED®) Platinum certified, making it a trailblazer in green hoteliering globally. Your Company is a pioneer in the green buildings movement. In 2004, the ITC Green Centre at Gurugram was certified as the largest platinum rated building in the world by the US Green Building Council (USGBC-LEED). ITC Grand Chola, the 600-key super-premium luxury hotel complex in Chennai, is amongst the world's largest LEED® Platinum certified green hotels, besides holding a 5-Star rating from the Green Rating for Integrated Habitat Assessment (GRIHA) Council. The data centre at Bengaluru, ITC Sankhya, is the first data centre in the world to receive the LEED® Platinum certification by USGBC.

Several of your Company's factories and office complexes have also received the Green Building certification from Indian Green Building Council (IGBC), the LEED® certification from USGBC and star ratings from the Bureau of Energy Efficiency (BEE). Large infrastructure investments, such as the ITC Green Centre at Manesar (LEED® Platinum certified) and the upcoming ITC Green Centre at Bengaluru (pre-certified for LEED® Platinum) continue to demonstrate your Company's commitment to green buildings. To date, 23 buildings of your Company have achieved Platinum certification by USGBC/IGBC. In order to continually reduce your Company's energy footprint, green features are integrated in all new constructions and also incorporated in existing hotels, manufacturing units, warehouses and office complexes.

Over twice the amount of Carbon Dioxide emissions from your Company's operations, are being sequestered through its Social and Farm Forestry initiatives. Besides mitigating the impact of increasing levels of GHG emissions in the atmosphere, these initiatives help greening of degraded wasteland, prevent soil erosion, enhance organic matter content in soil and enhance ground water recharge.

Waste Recycling

Your Company continues to make significant progress in reducing specific waste generation through constant monitoring and improvement of efficiencies in material

utilisation and also in achieving almost total recycling of waste generated in operations. In this way, your Company has prevented waste reaching landfills and the associated problems of soil and groundwater contamination and GHG emissions, all of which can adversely impact public health. In the current year, your Company has achieved over 99% waste recycling, with the Paperboards and Specialty Papers Business, which accounts for 90% of the total waste generated in your Company, recycling 99.9% of the total waste generated by its operations. During the year, this Business also recycled over 1,12,000 tonnes of externally sourced post-consumer waste paper, thereby creating yet another positive environmental footprint.

Safety

Your Company's commitment to provide a safe and healthy workplace to all has been reaffirmed by several national and international awards and certifications received by various units. Your Company's approach has been to institutionalise safety as a value-led concept with focus on inculcating a sense of ownership at all levels in order to drive behavioural change. In line with this approach, several of your Company's operating units are progressively implementing behavioural-based safety initiatives and customised risk assessment programmes to strengthen their safety culture.

Your Company continuously strives to improve on safety performance by incorporating best-in-class engineering standards in the design and project execution phase itself for all investments in the built environment, besides optimising costs. Environment, Health & Safety audits before commissioning and during the operation of units continued to be carried out to verify compliance with standards.

Promoting Thought Leadership in Sustainability

The 'CII-ITC Centre of Excellence for Sustainable Development', established by your Company in 2006 in collaboration with the Confederation of Indian Industry (CII), continues to focus on its endeavour to promote sustainable business practices amongst Indian enterprises. The major highlights during the year include the following:

- The 12th edition of the Centre's flagship event, the Sustainability Summit, was held on

Report of the Board of Directors

6th-7th September 2017 in New Delhi with focus on achieving Sustainable Development Goals by the year 2030. Key dignitaries included Dr Mahesh Sharma, Minister of State for Culture (I/C) and Minister of State for Environment, Forest & Climate Change, Shri Nitin Jairam Gadkari, Union Minister of Road Transport and Highways, Shipping, Water Resources, River Development and Ganga Rejuvenation, Mr. Sanjiv Puri, Managing Director, ITC Limited, and H.E. Mr Tomasz Kozlowski, Ambassador of European Union to India and Bhutan.

- The 12th CII-ITC Sustainability Awards 2017 took place in December 2017. Since 2006, 696 businesses have applied for the Awards, of which 212 have been recognised so far. In 2017, out of 105 applicants, 24 companies were declared winners in various categories.
- The CII-NITI Aayog 'Cleaner Air Better Life' initiative was launched in November 2017 to address the concerns of air pollution in Delhi NCR.
- The Centre promoted capacity building in sustainability through a range of training and consulting assignments. In 2017, almost 2,000 participants were covered through 75 programmes, conducted both in India and abroad. Topics included Value Innovation, CSR Rules and Impact Measurement, Sustainability Reporting, Integrated Reporting, Cluster Platform for Transformative Solutions, Human Rights, and Biodiversity.
- In November 2017, the Centre participated in the 23rd Conference of Parties under United Nations Framework Convention on Climate Change held at Bonn, Germany. The Centre organised the first session from the India Pavilion, which was inaugurated by Dr. Harsh Vardhan, Minister of Environment, Forests and Climate Change (MoEFCC) along with a keynote address by Mr. A.K. Mehta, Additional Secretary, MoEFCC.

R&D, QUALITY AND PRODUCT DEVELOPMENT

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

ITC's Life Sciences & Technology Centre (LSTC), Bengaluru, continues to focus on its mandate to develop unique sources of competitive advantage and build future readiness. LSTC seeks to achieve this by harnessing contemporary advances in several relevant areas of science and technology, and blending the same with classical concepts of product development and leveraging cross-business synergies. This challenging task of driving science-led product innovation is being carefully addressed by identifying the required set of core competency areas of science. LSTC has evolved over the years and is presently resourced with nearly 350 highly qualified scientists, world-class measurement systems and state-of-the-art facilities to conduct experimental research, rapid prototyping and process development. Several Centres of Excellence have been established over the past few years in these areas in LSTC. In addition, a number of areas centred around these capabilities have secured global quality certifications.

The Agrisciences R&D team continues to engage in evaluating and introducing several germplasm lines of identified crops including Casuarina and Eucalyptus to increase the genetic and trait diversities in these species. This intervention would facilitate the development of new varieties with higher yields, better quality and other traits relevant for your Company's Businesses. These new lines are being introduced commercially and will enable farmers increase their revenues and earnings significantly on account of productivity gains and improved disease resistance. Besides pulpwood species, the Agrisciences team continues to focus on delivering world-class solutions using contemporary technologies in crops such as wheat, soya, potato and rice. This includes evaluating and building research collaborations with globally recognised centres of excellence with a view to accelerating the journey towards demonstrating multiple 'proofs of concept'. These collaborations, covering identified crops and species, are designed in a manner that enables your Company in gaining fundamental insights into several technical aspects of plant breeding and genetics and the influence of agro-climatic conditions on the growth of these species. Such interventions will accelerate LSTC's efforts in creating future generations of crops that are more adaptable to varied agro-climatic conditions thereby

providing farmers relatively safer and more profitable alternatives, whilst helping secure your Company's supply chain and contributing to the vitality and competitiveness of your Company's Branded Packaged Foods Businesses. Further, these outcomes have a strong potential to contribute towards augmenting the nation's ecological capital and biodiversity as well.

Recognising the unique construct of your Company in terms of its strong presence in Agri, Branded Packaged Foods and Personal Care Products Businesses, a convergence of R&D capabilities is being leveraged to deliver future products aimed at nutrition, health and well-being. In keeping with the above, during the year, your Company launched a variety of potatoes which are low in sugar content and rich in antioxidants. LSTC has created a Biosciences R&D team to design and develop several long-term research platforms evolving multi-generation product concepts and associated claims that are fully backed by scientific evidence for the Branded Packaged Foods and Personal Care Products Businesses. Multiple value propositions have been identified in the area of functional foods which are being progressed to products of the future with strong scientifically validated claims via clinical trials. Several of these initiatives have completed clinical assessment of safety and efficacy of products in line with global standards and specifically for the Indian population. These interventions will go a long way in enabling your Company to become a world-class producer of nutritionally superior food products in the near term. Similar advances have been made in the skin care, hair care and health/hygiene arena. Intellectual property arising from these efforts have also been secured as appropriate and as of 31st March, 2018, your Company has filed 756 patents.

LSTC has a clear vision and road map for long-term R&D, backed by a well-crafted Intellectual Property strategy. With scale, speed, science and sustainability considerations, LSTC is poised to deliver long-term competitive advantage for your Company.

In line with your Company's relentless focus on operational excellence and quality, each Business is mandated to continuously innovate on processes and systems to enhance their competitive position.

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

All manufacturing units of your Company have ISO quality certification. All manufacturing units of the Branded Packaged Foods Businesses (including contract manufacturing units) and hotels operate in compliance with stringent food safety and quality standards. Almost all Company owned units / hotels and contract manufacturing units of the Branded Packaged Foods Businesses are certified by an accredited third party in accordance with 'Hazard Analysis Critical Control Points' (HACCP) / ISO 22000 standards. Additionally, the quality of all FMCG products of your Company is regularly monitored through 'Product Quality Ratings Systems' (PQRS).

PROCEEDINGS INITIATED BY THE ENFORCEMENT DIRECTORATE

In the proceedings initiated by the Enforcement Directorate in 1997, in respect of some of the show cause memoranda issued by the Directorate, after hearing arguments on behalf of your Company, the appropriate authority has passed orders in favour of your Company, and dropped those memoranda.

Your Company, in respect of some of the remaining memoranda, has filed writ petitions, challenging their validity, before the Honourable Calcutta High Court. These petitions are pending. Meanwhile, some of the prosecutions launched by the Enforcement Directorate have been quashed by the Honourable Calcutta High Court while others are pending.

TREASURY OPERATIONS

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

Report of the Board of Directors

Market interest rates during the first half of the year were stable on the back of declining inflation, low credit offtake and a 25 bps reduction in policy rates by RBI. However, market interest rates witnessed a steep and unanticipated rise from November 2017 mainly due to shrinking liquidity in the banking system, deterioration of macro-economic variables such as inflation, fiscal and current account deficit, lower debt market investments by domestic as well as Foreign Portfolio Investors, and higher Government borrowing.

All investment decisions relating to deployment of surplus liquidity continued to be guided by the tenets of Safety, Liquidity and Return. Treasury operations focused on proactive rebalancing of portfolio duration and mix in line with the evolving interest rate environment. Further, allocation to debentures, bank fixed deposits and money market instruments was increased taking advantage of the year-end seasonal spike in interest rates.

Your Company's risk management processes ensured that all deployments were made with proper evaluation of underlying risk while remaining focused on capturing market opportunities.

During the year, the Indian Rupee (INR) traded largely within a band of ₹ 64 to ₹ 65 per US\$. The stability of INR against the US\$ was aided mainly by robust foreign investment inflows and depreciation of US\$ against Euro and Yen. However, bouts of INR depreciation were witnessed on account of rise in crude oil prices, geo-political tensions and in the run-up to US Federal Reserve meetings. Likewise, INR appreciation was seen on the back of positive macro-economic developments such as upgrade of India's Sovereign rating by Moody's, roll out of GST and implementation of Insolvency and Bankruptcy Code. In this scenario, your Company adopted a proactive forex exposure management strategy, which included the use of foreign exchange forward contracts and plain vanilla options, to protect business margins and reduce risks / costs.

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

DEPOSITS

Your Company's erstwhile Public Deposit Scheme closed in the year 2000. As at 31st March, 2018, there were no deposits due for repayment except in respect of two deposit holders totalling to ₹ 20,000/- which have been withheld on the directives received from the government agencies.

There was no failure to make repayments of Fixed Deposits on maturity and the interest due thereon in terms of the conditions of your Company's erstwhile Schemes.

Your Company has not accepted any deposit from the public / members under Section 73 of the Companies Act, 2013 read with the Companies (Acceptance of Deposits) Rules, 2014 during the year.

DIRECTORS

Changes in Directors

Mr. Ashok Malik (representing the Specified Undertaking of the Unit Trust of India) resigned from the Board of Directors of your Company ('the Board') with effect from close of work on 31st July, 2017 and Mr. Zafir Alam [representing General Insurers' (Public Sector) Association of India ('GIPSA')] resigned from the Board with effect from 20th March, 2018. Your Directors would like to record their appreciation for the services rendered by Messrs. Malik and Alam.

Mr. Pillappakkam Bahukutumbi Ramanujam, who resigned as an Independent Director of your Company with effect from 1st August, 2017, expired on 11th February, 2018. Your Directors deeply mourn the demise of Mr. Ramanujam and place on record their appreciation for the valuable contribution made by Mr. Ramanujam during his tenure.

The Board at the meeting held on 16th May, 2018, on the recommendation of the Nomination & Compensation Committee ('the Committee'), appointed Mr. John Pulinthanam as Additional Non-Executive Director of the Company with effect from the said date, representing GIPSA. By virtue of the provisions of Article 96 of the Articles of Association of your Company and Section 161 of the Companies Act, 2013 ('the Act'), Mr. Pulinthanam will vacate office at the ensuing Annual General Meeting ('AGM') of your Company.

On the recommendation of the Committee, the Board also recommended for the approval of the Members, the appointment of Mr. Pulinthanam as a Non-Executive Director of your Company, liable to retire by rotation, for a period of three years from the date of the ensuing AGM.

The Board at the meeting held on 16th May, 2018, on the recommendation of the Committee, re-designated Mr. Sanjiv Puri as Managing Director of the Company with effect from the said date, subject to the approval of the Members. At the said meeting, on the recommendation of the Committee, the Board also recommended for the approval of the Members, the re-appointment of Mr. Puri as a Director, not liable to retire by rotation, and also as Managing Director of the Company for a period of five years with effect from 22nd July, 2019.

Messrs. Nakul Anand and Rajiv Tandon will complete their present term as Wholtime Directors on 2nd January, 2019 and 21st July, 2019, respectively. The Board at the meeting held on 16th May, 2018, on the recommendation of the Committee, recommended for the approval of the Members, the re-appointment of Messrs. Anand and Tandon as Directors, and also as Wholtime Directors of the Company for a period of two years with effect from 3rd January, 2019 and 22nd July, 2019, respectively.

Mr. Shilabhadra Banerjee will complete his present term as an Independent Director on 29th July, 2019. The Board at the meeting held on 16th May, 2018, on the recommendation of the Committee, recommended for the approval of the Members, the re-appointment of Mr. Banerjee as an Independent Director of the Company for a period of five years with effect from 30th July, 2019. Mr. Sahibzada Syed Habib-ur-Rehman who will complete his present term as an Independent Director on 14th September, 2019, will attain the age of seventy five years on 20th March, 2019. The Board at the aforesaid meeting, on the recommendation of the Committee, recommended for the approval of the Members, continuation of Mr. Rehman as an Independent Director of the Company from the day he attains the age of seventy five years i.e. 20th March, 2019, till the remaining period of his current term i.e. up to 14th September, 2019, in compliance with the Securities and Exchange Board of India (Listing

Obligations and Disclosure Requirements) (Amendment) Regulations, 2018.

It may be recalled that the Members at the 105th AGM held on 22nd July, 2016 appointed Mr. Yogesh Chander Deveshwar as Chairman and Non-Executive Director of the Company for a period of three years with effect from 5th February, 2017. Given the increasing size and complexity of the organisation, the Committee and the Board are of the view that it would be in the best interest of the Company for Mr. Deveshwar to continue in his capacity as Chairman for some more time. Accordingly, the Board at the meeting held on 16th May, 2018, on the recommendation of the Committee, recommended for the approval of the Members, the re-appointment of Mr. Deveshwar as Non-Executive Director, not liable to retire by rotation, and Chairman of the Company for the period from 5th February, 2020 to 3rd February, 2022.

Requisite Notices under Section 160 of the Act have been received in respect of Messrs. Pulinthanam, Puri, Anand, Tandon, Banerjee and Deveshwar, who have filed their consents to act as Directors of the Company, if appointed.

Appropriate resolutions seeking your approval to the above are appearing in the Notice convening the 107th AGM of your Company.

Retirement by Rotation

In accordance with the provisions of Section 152 of the Act read with Article 91 of the Articles of Association of the Company, Messrs. Nakul Anand and Sanjiv Puri will retire by rotation at the ensuing AGM and being eligible, offer themselves for re-election. The Board has recommended their re-election.

Number of Board Meetings

Six meetings of the Board were held during the year ended 31st March, 2018.

Attributes, Qualifications & Independence of Directors and their Appointment

As reported in earlier years, criteria for determining qualifications, positive attributes and independence of Directors were approved by the Nomination & Compensation Committee pursuant to the Act and the

Report of the Board of Directors

Rules thereunder, in respect of Directors, including Independent Directors. The Corporate Governance Policy, inter alia, requires that Non-Executive Directors be drawn from amongst eminent professionals, with experience in business / finance / law / public administration and enterprises. The Board Diversity Policy of the Company requires the Board to have balance of skills, experience and diversity of perspectives appropriate to the Company. The Articles of Association of the Company provide that the strength of the Board shall not be fewer than five nor more than eighteen.

Directors are appointed / re-appointed with the approval of the Members for a period of three to five years or a shorter duration, in accordance with retirement guidelines and as may be determined by the Board from time to time. All Directors, other than Independent Directors, are liable to retire by rotation, unless otherwise approved by the Members. One-third of the Directors who are liable to retire by rotation, retire every year and are eligible for re-election.

The Independent Directors of your Company have confirmed that they meet the criteria of Independence as prescribed under Section 149 of the Act and Regulation 16 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('Listing Regulations 2015').

The Company's Policy on remuneration of Directors, Key Managerial Personnel and other employees is provided under the section 'Report on Corporate Governance' in the Report and Accounts.

Board Evaluation

As reported in earlier years, the Nomination & Compensation Committee, pursuant to the Act and the Rules thereunder and the Listing Regulations 2015, formulated the Policy on Board evaluation, evaluation of Board Committees' functioning and individual Director evaluation. In keeping with ITC's belief that it is the collective effectiveness of the Board that impacts Company performance, the primary evaluation platform is that of collective performance of the Board as a whole. Board performance is assessed against the role and responsibilities of the Board as provided in the Act and the Listing Regulations

2015 read with the Company's Governance Policy. The parameters for Board performance evaluation have been derived from the Board's core role of trusteeship to protect and enhance shareholder value as well as to fulfil expectations of other stakeholders through strategic supervision of the Company. Evaluation of functioning of Board Committees is based on discussions amongst Committee members and shared by the respective Committee Chairman with the Board. Individual Directors are evaluated in the context of the role played by each Director as a member of the Board at its meetings, in assisting the Board in realising its role of strategic supervision of the functioning of the Company in pursuit of its purpose and goals.

While the Board evaluated its performance against the parameters laid down by the Nomination & Compensation Committee, the evaluation of individual Directors was carried out anonymously in order to ensure objectivity. Reports on functioning of Committees were placed before the Board by the Committee Chairmen. The Independent Directors Committee of the Board also reviewed the performance of the non-Independent Directors, including the Chairman of the Company, pursuant to Schedule IV to the Act and Regulation 25 of the Listing Regulations 2015.

KEY MANAGERIAL PERSONNEL

Mr. Rajendra Kumar Singhi was appointed by the Board as the Company Secretary of the Company with effect from 4th February, 2018. Mr. Biswa Behari Chatterjee retired from the services of the Company with effect from close of work on 3rd February, 2018 and consequently ceased to be the Company Secretary with effect from the said date.

AUDIT COMMITTEE & AUDITORS

The composition of the Audit Committee is provided under the section 'Board of Directors and Committees' in the Report and Accounts.

Statutory Auditors

The Auditors, Messrs. Deloitte Haskins & Sells, Chartered Accountants ('DHS'), were appointed with your approval at the 103rd AGM to hold such office till

the conclusion of the 108th AGM. On the recommendation of the Audit Committee, the Board recommended for the ratification of the Members, the appointment of DHS from the conclusion of the ensuing AGM till the conclusion of the 108th AGM. On the recommendation of the Audit Committee, the Board also recommended for the approval of the Members, the remuneration of DHS for the financial year 2018-19. Appropriate resolution for the purpose is appearing in the Notice convening the 107th AGM of the Company.

Cost Auditors

Your Board, as recommended by the Audit Committee, appointed for the financial year 2018-19:

- (i) Mr. P. Raju Iyer, Cost Accountant, for audit of Cost Records maintained by the Company in respect of 'Paper and Paperboard' and 'Nicotine Gum' products.
- (ii) Messrs. Shome & Banerjee, Cost Accountants, for audit of Cost Records maintained in respect of all applicable products of the Company, other than 'Paper and Paperboard' and 'Nicotine Gum' products.

Pursuant to Section 148 of the Act read with the Companies (Audit and Auditors) Rules, 2014, appropriate resolutions seeking your ratification to the remuneration of the said Cost Auditors are appearing in the Notice convening the 107th AGM of the Company.

Secretarial Auditors

Your Board appointed Messrs. Vinod Kothari & Company, Practising Company Secretaries, to conduct secretarial audit of the Company for the financial year ended 31st March, 2018. The Report of Messrs. Vinod Kothari & Company is provided in the Annexure forming part of this Report, pursuant to Section 204 of the Act.

CHANGES IN SHARE CAPITAL

During the year, 5,69,11,840 Ordinary Shares of ₹ 1/- each, fully paid-up, were issued and allotted upon exercise of 56,91,184 Options under the Company's Employee Stock Option Schemes.

Consequently, the Issued and Subscribed Share Capital of your Company, as on 31st March, 2018, stands

increased to ₹ 1220,42,94,911/- divided into 1220,42,94,911 Ordinary Shares of ₹ 1/- each.

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

EMPLOYEE STOCK OPTION SCHEMES

Disclosures with respect to Stock Options, as required under Regulation 14 of the Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014 ('the Regulations'), are available in the Notes to the Financial Statements and can also be accessed on the Company's corporate website 'www.itcportal.com' under the section 'Shareholder Value'. During the year, there has not been any material change in the Company's Employee Stock Option Schemes.

Your Company's Auditors, Messrs. Deloitte Haskins & Sells, have certified that the Employee Stock Option Schemes of the Company have been implemented in accordance with the Regulations and the resolutions passed by the Members in this regard.

INVESTOR SERVICE CENTRE

The Investor Service Centre of your Company ('ISC'), registered with the Securities and Exchange Board of India as Category II Share Transfer Agent for providing in-house share registration and related services, continues to provide best-in-class services to the shareholders and investors. During the year, the ISO Quality Management System Certification for investor servicing by ISC was upgraded to ISO 9001:2015 from ISO 9001:2008 by Messrs. Det Norske Veritas ('DNV'), accredited agency for this purpose. DNV also accorded to ISC's systems and processes a 'Level 5' rating, the highest rating level, for the ninth year in succession. These accreditations stand testimony to the robust and effective systems your Company has in place for providing quality investor services.

During the year, a Shareholder Satisfaction Survey was conducted by your Company to assess the performance standards of ISC. Amongst the shareholders who participated in the Survey, 97% expressed that they were satisfied with the services provided by ISC.

Report of the Board of Directors

RELATED PARTY TRANSACTIONS

All contracts or arrangements entered into by the Company with its related parties during the financial year were in accordance with the provisions of the Companies Act, 2013 and the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015. All such contracts or arrangements were on arm's length basis and in the ordinary course of business, and have been approved by the Audit Committee. No material contracts or arrangements with related parties were entered into during the year under review. Accordingly, no transactions are required to be reported in Form No. AOC-2 in terms of Section 134 of the Act read with Rule 8 of the Companies (Accounts) Rules, 2014.

Your Company's Policy on Related Party Transactions, as adopted by your Board, can be accessed on the corporate website at <http://www.itcportal.com/aboutitc/policies/policy-on-rpt.aspx>.

DIRECTORS' RESPONSIBILITY STATEMENT

As required under Section 134 of the Companies Act, 2013, your Directors confirm having:

- a) followed in the preparation of the Annual Accounts, the applicable accounting standards with proper explanation relating to material departures if any;
- b) selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of your Company at the end of the financial year and of the profit of your Company for that period;
- c) taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 2013 for safeguarding the assets of your Company and for preventing and detecting fraud and other irregularities;
- d) prepared the Annual Accounts on a going concern basis;
- e) laid down internal financial controls to be followed by your Company and that such internal financial controls were adequate and operating effectively; and

- f) devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.

CONSOLIDATED FINANCIAL STATEMENTS

Your Company's Board of Directors is responsible for the preparation of the consolidated financial statements of your Company & its Subsidiaries ('the Group'), Associates and Joint Venture entities, in terms of the requirements of the Companies Act, 2013 and in accordance with the accounting principles generally accepted in India, including the Indian Accounting Standards specified under Section 133 of the Act.

The respective Board of Directors of the companies included in the Group and of its associates and joint venture entities are responsible for maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets and for preventing and detecting frauds and other irregularities; the selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and the design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error, which have been used for the purpose of preparation of the consolidated financial statements by the Directors of your Company, as aforesaid.

OTHER INFORMATION

Compliance with the conditions of Corporate Governance

The certificate from your Company's Auditors, Messrs. Deloitte Haskins & Sells, confirming compliance with the conditions of Corporate Governance as stipulated under the Listing Regulations 2015, is annexed.

Compliance with requirements relating to downstream investments

Your Company's Auditors, Messrs. Deloitte Haskins & Sells, have certified that the Company and its subsidiaries are in compliance with the requirements relating to

downstream investment as laid down in the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2017 and other applicable FEMA Regulations.

Integrated Report

The Company has voluntarily prepared its first Integrated Report for the financial year 2017-18. As a green initiative, the Report has been hosted on the Company's corporate website at <http://www.itcportal.com/about-itc/shareholder-value/>.

Going Concern status

There is no significant or material order passed during the year by any regulator, court or tribunal impacting the going concern status of the Company or its future operations.

Extract of Annual Return

The information required under Section 134 of the Act read with Rule 12 of the Companies (Management and Administration) Rules, 2014, is provided in the Annexure forming part of this Report.

Particulars of loans, guarantees or investments

Details of Loans, Guarantees and Investments covered under the provisions of Section 186 of the Companies Act, 2013 are provided in Notes 4, 5, 6, 9 and 27 (v) (a) (ii) to the Financial Statements.

Particulars relating to Conservation of Energy and Technology Absorption

Particulars as required under Section 134 of the Companies Act, 2013 relating to Conservation of Energy and Technology Absorption are also provided in the Annexure to this Report.

Compliance with Secretarial Standards

The Company is in compliance with the applicable Secretarial Standards issued by the Institute of Company Secretaries of India and approved by the Central Government under Section 118(10) of the Act.

Employees

The total number of employees as on 31st March, 2018 stood at 26,147.

There were 72 employees, who were employed throughout the year and were in receipt of remuneration aggregating ₹ 102 lakhs or more or were employed for part of the year and were in receipt of remuneration aggregating ₹ 8.5 lakhs per month or more during the financial year ended 31st March, 2018. The information required under Section 197(12) of the Companies Act, 2013 and the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 is provided in the Annexure forming part of this Report.

Dividend Distribution Policy

The Company's Dividend Distribution Policy is provided in the Annexure forming part of this Report and is also available on the Company's corporate website 'www.itcportal.com'. There has been no change in the Policy during the year.

FORWARD-LOOKING STATEMENTS

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

CONCLUSION

Inspired by the opportunity to serve a larger national purpose, your Company redefined its Vision about two decades ago to transform itself into a vibrant engine of growth that would make a substantial contribution to the Indian economy, whilst rewarding shareholders by creating growing value for the Indian society.

Over the last 22 years, your Company has created multiple drivers of growth by developing a portfolio of

Report of the Board of Directors

world-class businesses across all sectors of the national economy spanning agriculture, manufacturing and services. Your Company ranks amongst the Top 3 in the private sector in terms of Contribution to the Exchequer. Over the last 22 years, your Company's Value Addition aggregated ₹ 4.1 lakh crores of which nearly 75% accrued to the Exchequer at the Central and State levels. During this period, your Company's net revenue and post-tax profit have recorded an impressive compound annual growth of 13.3% and 18.6% respectively. Total Shareholder Returns, measured in terms of increase in market capitalisation and dividends, have grown at a compound rate of 22.4% per annum during this period, placing your Company amongst the foremost in the country in terms of efficiency of servicing financial capital.

Your Company's non-cigarette businesses have grown over 19-fold since 1996 and presently constitute appx. 59% of net segment revenue. In aggregate, the non-cigarette businesses account for over 80% of your Company's operating capital employed, about 90% of the employee base and over 80% of annual investments.

Your Company today, is the leading FMCG marketer in India, a pre-eminent hotel chain and a globally acclaimed icon in green hoteliering, the clear market leader in the Indian Paperboard and Packaging industry, a pioneering trailblazer in farmer and rural empowerment through its Agri Business and a global exemplar in sustainable business practices.

Aligned with the Government's Make in India Vision, your Company is building national assets in the

manufacturing and tourism sector. As stated earlier in this Report, around 15 world-class Integrated Consumer Manufacturing & Logistics facilities are being built to deliver sustainable competitive advantage to your Company's FMCG businesses. Several projects with an aggregate outlay of ₹ 25,000 crores are in various stages of implementation / planning across the length and breadth of the country facilitating regional and national economic development. Recognising that tomorrow's world will belong to those who create, own and nurture intellectual capital, your Company continues to invest in augmenting the capability of its globally benchmarked Life Sciences and Technology Centre to ensure that its Businesses are future-ready and contribute to building intellectual property assets for the nation.

Your Company's Board and employees are inspired by the Vision of sustaining ITC's position as one of India's most admired and valuable companies, creating enduring value for all stakeholders, including the shareholders and the Indian society. The vision of enlarging your Company's contribution to the Indian economy is driven by its 'Let's Put India First' credo anchored on the core values of Trusteeship, Transparency, Empowerment, Accountability and Ethical Citizenship, which are the cornerstones of ITC's Corporate Governance philosophy.

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

On behalf of the Board

Y. C. DEVESHWAR	<i>Chairman</i>
S. PURI	<i>Managing Director</i>
R. TANDON	<i>Director & Chief Financial Officer</i>

16th May, 2018
Gurugram
India