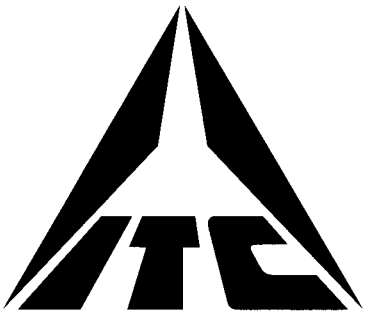
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A Decade of Transformation



Dear Shareholder,

It has been my privilege to have provided leadership to your Company over the last decade. The Vision of sustaining ITC's position as one of India's most valuable corporations through world-class performance has been our inspiration throughout this decade. We made the more difficult strategy choice of creating multiple drivers of growth by matching proven internal capabilities with emerging market opportunities. It is a matter of great pride and deep satisfaction for Team ITC that during this period we have not only grown the Company to a significant size, but also created enormous shareholder value.

Rs. Crores

	1995-96	2005-06	10-Year CAGR (%)
Gross Turnover	5115	16224	*12.2*
Net Turnover	2536	9791	*14.5*
PAT (before exceptional items)	261	2280	*24.2*
EPS (Rs.) - before exceptional items	0.71	6.08	*24.0*
Net Worth	1121	9061	*23.2*
Capital Employed	1886	9506	*17.6*
Market Capitalisation	5571	73207*	*29.4*
Total Shareholder Returns (%)			*30.3*
ROCE (%)	28.4	34.5	

**** Market Capitalisation as at March 31, 2006***



During this period, despite substantial investments to support competitiveness, efficiency in terms of Return on Capital Employed improved significantly from 28.4% in 1995-96 to 34.5% in 2005-06. Total Shareholder Returns, measured in terms of increase in market capitalisation and dividends, grew at a compound rate of 30% per annum during this period placing your Company among the foremost in the country in terms of efficiency of servicing financial capital. Amongst listed companies in the private sector, your Company ranked 4th in terms of Gross Turnover and 3rd in terms of pre-tax profits for the Financial Year ended March 31, 2006. Your Company ranked 6th amongst listed private sector companies in the country in terms of market capitalisation as at March 31, 2006.

Over the last ten years, your Company has made substantial investments in technology, processes and systems, innovation and brand building towards acquiring international competitiveness in terms of cost and quality in each of its businesses. Equally, the strategy of organisation based on the governance principle of distributed leadership has enabled unleashing the entrepreneurial energies of your Company's world-class human resources.

Your Company has increasingly pursued business objectives with a larger sense of societal purpose. This spirit of 'a commitment beyond the market' propels your Company to contribute across the three

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dimensions of the 'triple bottom line' – economic, social and environmental. In this context, it is with immense pride that I report that your Company, already a 'water positive' corporation, became 'carbon positive' during the year. Rapid progress is also being made towards achieving 'zero solid waste' status. Once achieved, this would make your Company perhaps the only one of its kind in the world to have achieved these milestones encompassing all the three critical facets of environmental sustainability. The strides made in your Company's Corporate Social Responsibility (CSR) projects have been equally significant. The thrust of your Company's social sector investments, christened 'Mission Sunehra Kal', is in three areas: (a) natural resource management, which includes wasteland, watershed and agriculture development; (b) sustainable livelihoods, comprising genetic improvement in livestock and women's economic empowerment; and (c) community development, with focus on primary education and health & sanitation. Starting with projects in Karnataka and Andhra Pradesh in 2000-01, your Company's social development projects today are spread over the states of Kerala, Andhra Pradesh, Karnataka, Tamil Nadu, Madhya Pradesh, Uttar Pradesh, Rajasthan and Bihar. As in the past, this year's Report of the Directors outlines your Company's progress in the pursuit of the 'triple bottom line'.



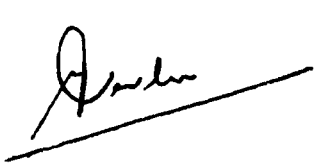


Over the last decade, your Company has received many an accolade in recognition of its pathbreaking initiatives. While a comprehensive list of awards received by the Company is available elsewhere in this Report and Accounts, I would like to take this opportunity to highlight some of the most prestigious ones. Your Company's pioneering e-Choupal initiative won the prestigious 'Stockholm Challenge Award 2006' in the Economic Development category which recognises initiatives that leverage information technology to improve living conditions and foster economic growth in all parts of the world. This award crowns a series of global honours for your Company's e-Choupal initiative making it the most lauded information technology-based rural transformation model. The project has been awarded the ICC-UNDP-IBLF 'World Business Award' in 2004 for furthering the United Nations Millennium Development Goals and the 'Development Gateway Award' in 2005 for contributing to the economic development of rural communities. Your Company also won the 'Golden Peacock Award' for Corporate Social Responsibility in Emerging Economies for two of its unique initiatives that are impactfully transforming lives and landscapes in rural India – the e-Choupal and social & farm forestry initiatives.

It has been a rare privilege for me to have led your Company over these eventful ten years, a period that has witnessed transformational change across the wide spectrum of its various businesses. The quality of your Company's human resources and their unflinching commitment to world-class strategy execution bolsters my confidence in the ability of Team ITC to sustain your Company's position as one of India's most valuable corporations.

I seek your continued support in our efforts to take your Company to new heights in the future.

Yours sincerely,



(Y C DEVESHWAR)

Chairman



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ITC in Branded Packaged Foods

It is ITC's strategic intent to leverage its unique e-Choupal based agri-sourcing strength in conjunction with its traditional capabilities in branding, trade marketing and distribution to exploit growth opportunities in value-added branded foods. ITC's Foods business aspires to become the most trusted provider of food products in India.

Chairman Y C Deveshwar







ITC's foray into the Foods business is an outstanding example of successfully blending multiple internal competencies to create a new driver of business growth. It began in August 2001 with the introduction of 'Kitchens of India' ready-to-eat Indian gourmet dishes. In June 2002 ITC entered the confectionery, staples and biscuits segments. In just five years, the Foods business has grown to a significant size with 100 differentiated products, five distinctive brands, an enviable distribution reach, a rapidly growing market share and a solid market standing.

This success story is driven by two strong fundamentals. The first being ITC's diverse proven capabilities. Be it sourcing high quality agri-produce. The widely acknowledged cuisine expertise of its hotels' business. The robust FMCG distribution infrastructure. The decades-old tradition of building enduring brands by anticipating and exceeding consumer expectations. Or the world-class paperboards and state-of-the-art packaging solutions available in-house. These have combined to give the Company a distinct advantage in the marketplace.

Secondly, ITC's foray has been timed to leverage the exponentially growing potential of the branded packaged food market in India. Demographic shifts are leading to an increase in nuclear families. Rise in discretionary incomes and changing lifestyles are driving the demand for convenient yet healthier consumption options. These trends are strong indicators of a potential upsurge in the demand for packaged foods.

The Government recognises the critical role the food processing industry can play in driving economic growth and generating employment. The priority accorded to the food processing sector particularly the industry friendly policies relating to bank credit, excise duties, etc. will further drive the rapid growth of processed foods in the country.

The share of branded packaged foods, currently estimated at 8% of the total domestic food sector of Rs 550,000 crores, is expected to more than double in the next six years.

ITC is well-positioned to ride this boom.

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Culinary Delight

The cuisine expertise of ITC-Welcomgroup, particularly the signature dishes from its famed restaurants Bukhara, Dum Pukht and Dakshin, have provided ITC's Foods business the springboard from which to launch its "heat-and-eat" gourmet products under the 'Kitchens of India' range. The master chefs from ITC-Welcomgroup bring their culinary insights, recipes and creative advice to help fashion innovative products across categories.



ITC has one of the largest retail reach in the country covering the entire spectrum from premium malls in sophisticated urban locations to tiny outlets in the interiors of rural India. Ensuring that the consumer has easy and wide access to its products. ITC's established brand-building capabilities have helped the Foods business score early and impressive successes in the marketplace. ITC's five distinctive brands – Aashirvaad, Sunfeast, 'Kitchens of India', Mint-o and Candyman – have rapidly gained consumer acceptance and loyalty.

The Foods Team is focused on an ambitious growth agenda, harnessing market opportunities and mobilising internal capabilities to fulfil ITC's aspiration of becoming the most trusted provider of food products in India.



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Delighting the Consumer

The Foods business carries forward ITC's proud tradition of delivering world-class products to the consumer. All its products are crafted on the basis of deep consumer insights developed through extensive research. ITC's understanding of the Indian consumer is reflected in the increasing confidence reposed in its products. Learnings from consumer research help identify existing and emerging consumer needs. The continuous flow of research-backed information helps ITC create products that provide newer and superior benefits.





Taking consumer insights and the Company's inherent culinary strengths to the next level of consumer engagement is ITC's cutting-edge Product Development Centre. The Centre has been the driving force behind the business right from its inception. Employing some of the best food specialists, the Centre is constantly creating ahead-of-the-market products that are prototyped at custom-built pilot plants and test marketed extensively before hitting the supermarket shelves.

The list of innovative products developed and marketed in a short span of four years is both long

"I live in Chicago and recently, by chance, found your products in a grocery store in my neighborhood. Your dishes are delicious, accessible, wonderfully easy to prepare and serve, and the price is most certainly right (frankly, I would even pay a bit more, but I shouldn't say this – I am only a teacher). Indian stuff is a real fad here now – I think good vegetarian food will always have a place here.

Thank you for bringing it to us."

Claudia Laska, *Chicago, IL*

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and impressive. Sunfeast biscuits have witnessed a series of innovations, debuting with the unique Orange Marie and Butterscotch Cream biscuits. Followed by Flavour bursts in cream biscuits, introduction of Sunfeast Dark Fantasy, a dark chocolate and vanilla cream offering, and Sunfeast Snacky salted crackers in the special chilli flakes variant. The brand took a leap with the introduction of Sunfeast Pasta Treat, a non-fried snack made from semolina.



In confectioneries, Mint-o in orange and lemon flavours, Mint-o Fresh in clove and eucalyptus, Candyman Wild Banana, Mango Delite, Butterscotch Licks and Orange Licks with fresh cream were all born of the tradition of innovation.



Aashirvaad ReadyMeals combo packs of 'Basmati Rice and Rajma Masala' and 'Basmati Rice and Dal Tadka' have redefined convenience for the on-the-move consumer. 'Kitchens of India' has expanded its portfolio by introducing unique variants of conserves and chutneys like Pineapple & Green Pepper and Tamarind & Date.



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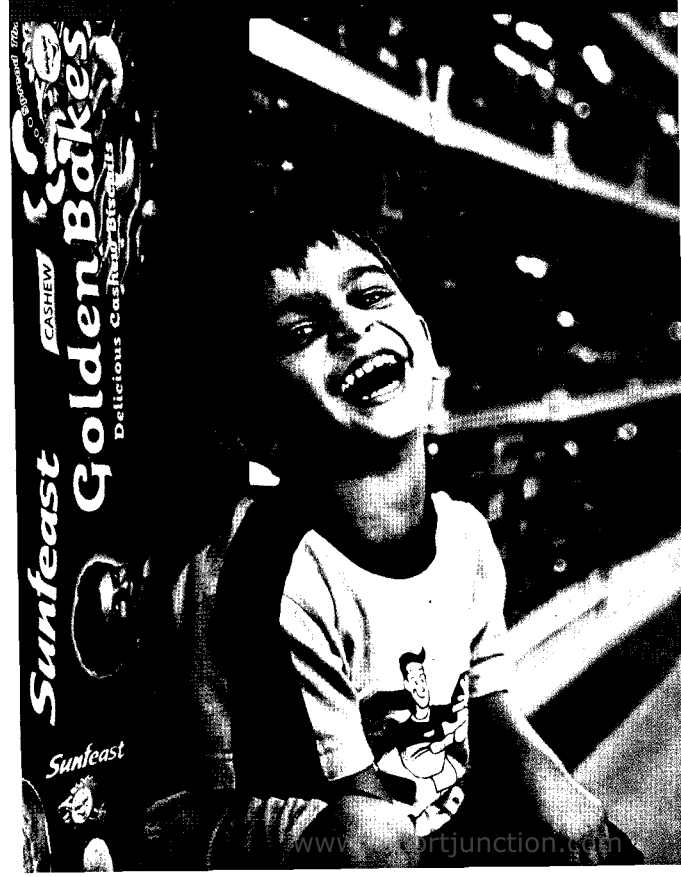
Zest for the Best

The commitment to offer the best quality and value to the consumer is backed by ITC's sourcing skills residing in its Agri business. The Company's century-old relationship with the Indian farmer has been given a new dimension with the path-breaking e-Choupal initiative. Be it Aashirvaad atta produced from handpicked whole wheat or quality-assured and identity-preserved Aashirvaad spices, ITC's farmer linkages provide an unbeatable quality and cost advantage to the consumer.

This value proposition is further enhanced by ITC's vast experience in manufacturing. Its internationally benchmarked processes ensure best-in-class quality. The ITC R&D Centre provides product development







"I have been eating salted biscuits for many years. Recently, I tried Sunfeast Snacky salted biscuits. They are different and much better in terms of:

- Baking is right compared to other salted biscuits
- Salt level is right as it does not leave a lingering salty taste in the mouth
- Size is right, especially for adults, compared to others which are smaller
- Packing is more attractive

Keep up the good quality and reputation of ITC."

Gautam Ganguly, Pune

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