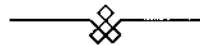


**IN PURSUIT OF THE
MAKE IN INDIA VISION**



**ITC'S MULTI-DIMENSIONAL
CONTRIBUTION**

Address by Shri Y.C. Deveshwar
Chairman, ITC Limited
at the
104th Annual General Meeting
on 31st July, 2015

Ladies and Gentlemen,

It gives me great pleasure to welcome you to the 104th Annual General Meeting of your Company.

VISION FOR A RESURGENT INDIA

A little more than a year ago, a new Government assumed office to fulfill the collective dreams of a billion plus people. Prime Minister Shri Narendra Modi's vision to shape a new destiny with the promise of "*Sabke Saath, Sabka Vikas*" kindled new hopes and aspirations. In the course of the year, a series of reforms and initiatives were announced. Admittedly, it will be a while before the desired results are achieved. Yet, it is apparent that a journey of a thousand miles has indeed begun with determined steps. The growing respect for India in the comity of nations also augurs well.

The Prime Minister's clarion call to 'Make in India' holds enormous promise to radically transform the Indian economy. Complemented by initiatives such as 'Skill India', 'Digital India', 'Swachh Bharat' and 'Jan-Dhan Yojana', a foundation is being laid for a multiplier impact on inclusive development. A conscious

endeavour is visible at creating a vibrant identity that represents modern India.

The vision embedded in these multiple initiatives deeply resonates with your Company's avowed mission to be a world-class Indian enterprise serving national priorities. In this annual address, I would, therefore, like to dwell on ITC's multi-dimensional contribution to national development, shaped by the commitment to put Country before the Corporation. I am sure, as shareholders, you will draw pride from your Company's manifold endeavours to create larger value for the nation.

As in earlier years, I would first like to present the highlights of your Company's triple bottom line performance.

ITC: TRIPLE BOTTOM LINE PERFORMANCE

Your Company delivered steady performance in a rather challenging year. The sluggishness in the overall economy was aggravated by muted consumption and investment demand including growth deceleration in many of the industry segments your Company operates in. In addition, unprecedented pressure on the legal cigarette industry with imposition of steep taxes has led to consumption being diverted to tax-evaded as well as smuggled products.

The wide proliferation of illegal cigarettes has deprived the Exchequer of significant revenue, eroded income of Indian farmers and threatened livelihood of many engaged in the supply chain by driving the trade into unscrupulous hands and creating a large unaccounted flow of foreign exchange out of the country.

Your Company's Gross Income for the year stood at around ₹ 51,900 crores, while Net Profit rose 9.4% to ₹ 9,600 crores in this tepid economic environment. The segment net revenue, other than cigarettes, has grown 17-fold since 1996 to over ₹ 23,500 crores. Today, nearly 59% of net segment revenue is derived from businesses other than cigarettes.

(Figures in ₹ Crores)

ITC : Financial Highlights 1996-2015

	1996	2015
Gross Income	5,188	51,932
Net Segment Revenue (other than Cigarettes)	1,363	23,553
PBIT	536	14,055
Profit After Tax	261	9,608
Market Capitalisation*	5,571	2,51,547

**CAGR in Total Shareholder Returns in the
period 1996-2015: 24.3%**

**As on 21st July, 2015*

Your Company continues its relentless effort in the green-field development of world-class Indian brands in categories other than cigarettes. In a short period of time, these new brands have garnered an annual consumer spend of over ₹ 11,000 crores, a feat unrivalled in the Indian FMCG industry. Enhanced investments are being made in state-of-the-art integrated manufacturing facilities as well as in a formidable distribution highway to drive strong competitive performance in the years ahead.

Your Company's Sustainability performance is globally acclaimed. This year, yet another milestone has been crossed as **your Company completed 10 years of being carbon positive.** Along with its achievement of being **water positive for 13 years**, and **solid waste recycling positive for 8 years**, ITC continues to be the **only enterprise in the world** of comparable dimensions to have achieved these three global environmental distinctions. Your Company's sustainable business models today **support around 6 million livelihoods** across the country. ITC's Sustainability Report, published for the 12th year now, has been assured at the highest "In Accordance-Comprehensive" level enshrined in the new G4 guidelines of the Global Reporting Initiative.

INDIA'S CORE CHALLENGE: BUILDING RESPONSIBLE COMPETITIVENESS

Global forecasts suggest that India is poised to be the third largest economy in the world by 2030. In PPP terms, it is already in the top 3. In a decade from now, India may also emerge as the world's most populous nation. Consequently, the country will possess the world's largest working-age population, surpassing China. Economic analysts reason that this young work-force is capable of adding several percentage points to the growth rate of the country's GDP. India will have the unique opportunity of reaping this demographic dividend over a 25-year horizon. Indeed, there is no mistaking this opportunity. Unleashing a growth impetus that can leverage this large pool of young people can help shape a new destiny for the nation. And in its wake, transform India from a developing economy mired in poverty to a developed nation that commands global respect.

It can be argued that such optimism is misplaced. After all, the scale and depth of the country's challenges are so profound that it will perhaps be unrealistic to harbour such a grand vision. Yet, history is replete with examples of nations that have risen from every adversity to transform

themselves into global economic powers. South Korea, Japan and China stand out as exemplars. Strong leadership, patriotic fervour, robust strategies and flawless execution, backed by an indomitable spirit of entrepreneurship, has marked this extraordinary transformation. **It is my belief that such a vision for the India of tomorrow can be equally inspiring.**

Undeniably, the country's socio-economic challenges are daunting. More than 300 million people need critical support to move out of endemic poverty. Gainful employment has to be created for the 12 million who join the work force every year. This is a colossal task, given that the recent rate of employment generation has barely been 2 to 3 million per annum. Equally critical is the challenge to provide food, water, energy, education and health security to the 1.5 billion that will inhabit the country by 2030. Rural agricultural communities are today becoming even more vulnerable, given the increasing threat of climate change.

It would be futile to expect the economic drivers of yesteryear to address these unrelenting challenges. A structural transformation is called for to foster an environment which can multiply new opportunities that are contemporary and relevant for the world of tomorrow.

-
-
- Economic opportunities, that can spur large-scale sustainable livelihoods along the entire value chain.
 - Livelihood creation, that will provide even those marginalised with the prospect to earn, save, spend and invest, energising a virtuous cycle of growth.
 - Economic activity, that can flourish by nurturing the environment rather than plundering it.

At the end of the day, such structural transformation must enable a synergy of effort that can sustain high growth rates and simultaneously enable a higher order value-capture for the society at large.

How do we, therefore, create a new model of development that can encourage this heightened level of economic activity? **The panacea, to my mind, lies in building extreme competitiveness of the Indian economy.**

Given the large societal challenges, **competitiveness must be attained without creating a burden on the environment or compromising the dignity of labour – a paradigm that I call Responsible Competitiveness.** In the past, competitiveness suffered due to the cumulative effect of a

policy & regulatory framework that was designed in an era of mistrust and suspicion. Such a restrictive mindset must now be consigned to the pages of history. Today, the overarching objective should be to achieve a pinnacle of Responsible Competitiveness.

MAKE IN INDIA VISION: A HARBINGER OF TRANSFORMATION

It is heartening that the Government has embarked on an ambitious journey to build such an environment of competitive growth. To my mind, the Make in India initiative has been insightfully crafted to address some of the most fundamental challenges facing the economy today. At the very least, the vision seeks to make India a competitive manufacturing hub. The potential, however, is much larger. **Make in India can be a harbinger of transformation for a significantly higher order value-capture in the Indian economy, fuelling jobs, maximising revenue and enabling sustainable development.** It can be the basis to re-engineer processes, systems and policies to bring about extreme and responsible competitiveness of the economy.

The potential of Make in India to encourage value creation in the country strikes at the very

root of a critical shortcoming. Post-liberalisation, the country was exposed to a high degree of free competition that saw globally competitive international enterprises and brands establish a dominant presence in the expanding Indian market. The pace of internal reform to make the domestic economy competitive was painfully slow. Over time, the high value-added consumption space thus got predominantly captured by international brands leaving Indian brands to cater mostly to lower-income markets. Many of the global firms also relied on their efficient supply chains overseas to service the Indian market, particularly given a regime of lower import duties. Therefore, value creation in the domestic economy has not been commensurate with the high consumer spend in our markets.

The composition of the country's external trade also reflects India's lack of competitiveness in higher-order value addition. As a result, high value-added products, including branded items, have dominated imports whilst exports comprise relatively lower value-added unbranded products and commodities. Despite the evolution of a rapidly expanding Indian market, a large part of the value created has been accruing overseas. This is one of the primary reasons for the phenomenon of jobless

growth in consumption, besides sub-optimising revenue to the Exchequer.

The Make in India initiative has the opportunity to reverse this rather adverse circumstance by encouraging the setting up of world-class enterprises that capture larger value for the country. When domestic manufacture is accompanied by ownership of intellectual property in India, the country will maximise retention of value, which otherwise, in the case of foreign ownership, would flow out as royalty with much lower incidence of taxation. It is welcome that concerted effort is being made at the Centre and States to improve the ease of doing business and foster an environment where investment is encouraged. In a globalised world, capital and consequently jobs will flow only to locations where it can multiply through superior competitiveness. There are examples of many Indian enterprises who, even to serve the Indian market, have shifted their manufacturing base overseas taking advantage of a more competitive environment. Whilst such a step may have improved their profitability and viability, it has been at the expense of exporting jobs out of the country. Resorting to producing outside the country only points to the need to ramp up competitiveness in the domestic economy.

Having said that, there are others with a patriotic fervour who would rather swim against the tide and invest in the country by overcoming the multifarious challenges. These are investments made by National Champions who believe in building the nation's future, recognising the need to contribute to a shared tomorrow. Such 'patriotic capital' generally co-exists with 'opportunistic capital' in any economy. When the interests of opportunistic capital and the nation's interests converge, the country stands to gain immensely. Otherwise, capital will shy away from "making" in India. Creating the conditions for Responsible Competitiveness will multiply the inflow of capital, thereby accelerating growth and inclusive value addition.

Successful countries across the world have derived enormous strength from enterprises who have, as National Champions, created substantial value for their nations. These National Champions and their brands are jewels in the crown of the countries they belong to. They are repositories of intellectual capital and innovative capacity that ensure profitable and growing economic activity in perpetuity. They have a much larger ability to contribute to national priorities as well as to a globally sustainable future. It is for this reason that many such corporations have been nurtured by their

countries to be the driving force powering their economies.

I believe we are at that moment in history when India must rev up all its gears to create and nurture its own National Champions.

Corporations that are ignited by passion, entrepreneurial ability and patriotic zeal to build world-class institutions of pride and glory. They will be the enterprises of tomorrow who will invest in intellectual capital, build impeccable brands, create vital assets, generate and redeploy surpluses for national growth to deliver larger societal value. A multiplication of such dedicated enterprises would help realise the fullest potential of the Make in India vision and truly create unparalleled value for the country.

ITC: CREATING ENDURING VALUE FOR THE NATION

As valued shareholders, you are aware of your Company's abiding commitment to serve a larger national purpose. **This compelling Vision is manifest in our credo of "Let's Put India First" that has inspired every thought and action over the last two decades.** A passionate endeavour to build an exemplary Indian enterprise has lent wings to

your Company's aspiration to be a National Champion, creating multi-dimensional value.

This commitment is manifest in many ways — in the transformation of your Company into a **multi-business enterprise**; in the creation of **world-class Indian brands** that capture larger value within the country; in establishing **state-of-the-art brick and mortar assets** that enrich the nation's industrial might; in enlarging competencies for a science-based and technology-led future that find expression in the **ITC Life Sciences & Technology Centre**; in the **multi-pronged social investment programme** that helps in building capacity of the weakest in society; and in the pursuit of a **low carbon growth path** that helps in combatting climate change. Taken together, these constitute powerful drivers that enable your Company to create enduring value for all stakeholders, contributing meaningfully to the Make in India vision.

Let me take this opportunity to delineate a few significant aspects of this wide-ranging contribution.

Creating Multiple Drivers of Growth

Close to two decades ago, when you placed me at the helm of your Company, we chose a strategy of multiple drivers of growth to enlarge

ITC's contribution to the national economy. Executing such a strategy meant going against the grain of conventional wisdom of that time. Experts counselled that we must stick to the knitting by focusing on our century-old traditional business by shedding all other activity and abandoning any further diversification. However, your Company held faith in its strength of conviction to invest in the businesses of tomorrow, leveraging the opportunities of an emerging economy that best matched its proven competencies.

Over time, a robust portfolio of businesses emerged leveraging synergies from your Company's enterprise strengths, in the process building and reinforcing capabilities encompassing deep consumer insight, cutting-edge Research & Development, intimate rural linkages, superior agri-sourcing, world-class manufacturing, brand building skills, culinary insights, innovative consumer packaging, digital technology and an effective trade marketing, distribution and logistics network. **Today, your Company has an impressive presence in all the 3 sectors of the economy, namely, agriculture, industry and services, providing unique sources of competitive advantage by harnessing the diversity resident in different businesses. All this has**

enlarged your Company's capacity to contribute to national priorities and create sustainable livelihoods on a much larger scale.

In the Agricultural sector, your Company's agri-business is one of India's foremost marketers of agri-produce in world markets. This business has nurtured the globally acknowledged **ITC e-Choupal** that has empowered rural communities in 40,000 villages, serving more than 4 million farmers with dramatic improvement in their productivity and incomes.

In the Industrial sector, your Company has emerged as **one of the fastest growing consumer goods companies** over the last 10 years. The packaged food portfolio has expanded to include biscuits, cookies, snack foods, juices, multi-grain atta, salt, spices, confectionery, instant noodles, and ready-to-eat products. Dairy products are already on the anvil. Personal care products include soaps, shampoos, shower gels, antiseptic liquids & hand washes, skin care creams, talcum powders, face washes, perfumes, deodorants & fragrances. Education & stationery products include notebooks and a wide range of scholastic products. The Lifestyle Retailing business offers branded apparel in the premium end, and also caters to the youth fashion segment. In a relatively short span of time,

segment revenue in the new FMCG businesses has crossed the ₹ 9,000 crore mark.

ITC is also India's no. 1 producer of Paperboards of world-class standards, and a clear market leader in the value-added segment. In addition, your Company is also **the largest producer of Printed Packaging** for the consumer goods industry.

ITC's products are manufactured in over 250 owned & outsourced units and exported globally to 90-odd countries.

In the Services sector, ITC Hotels are an epitome of luxurious hospitality and a trailblazer in green hoteliering. Your Company's hotels business is a multiplier of employment and aligned to India's tourism vision. In addition, the Company's subsidiary, ITC Infotech, is one of India's fastest growing mid-tier Information Technology companies.

In tandem with the growth of your Company's consumer goods business, the **distribution and logistics infrastructure** has also been substantially augmented. This network today handles a diverse product portfolio, comprising multiple brands and scores of SKUs, covering directly over 1,00,000 markets servicing over 2 million retail outlets across trade channels.

Your Company's strategy to build new engines of growth has enabled ITC to make a growing economic contribution. **Economic value-added from the Company's operations increased from ₹ 3,290 crores in 1995-96 to over ₹ 37,300 crores in FY 2014-15. Your Company makes a substantial contribution to the Central and States' Exchequer. In FY 2015, your Company contributed ₹ 27,000 crores to the Exchequer in the form of various taxes.** In addition, the foreign exchange earnings of the ITC Group over ten years aggregated US\$ 6.5 billion, of which agri-exports constituted 57%. This reflects your Company's contribution to the rural economy by effectively linking the small farmer to international markets.

Creating World-Class Indian Brands

I had earlier spoken to you on the critical need for our country to possess world-class brands based on ownership of intellectual property. **I truly believe that the Make in India vision will be significantly reinforced when National Champions create winning Indian brands —** brands that can, in the first instance, compete and win against the dominant international players in the Indian global market before venturing overseas.

The economics of building winning Indian brands makes for a compelling case. Apart from market leadership, and a sustained source of value for the enterprise, such brands can also anchor the development and competitiveness of the entire value chain, comprising small and medium scale enterprises, thereby multiplying employment opportunities manifold. Creating world-class Indian brands can, therefore, capture much larger value for the country. However, this is easier said than done. Winning international brands have years of innovative lineage behind them. Creating market dominance of a domestic brand will need several generations of committed leadership. International experience suggests that creation of such domestic brands can benefit immensely from a nurturing environment obtaining in the countries of their origin.

Your Company today possesses a vibrant portfolio of brands that continue to demonstrate vitality. These brands have been crafted assiduously over the last few years to the highest quality benchmarks. In the Foods space, popular brands include 'Aashirvaad', 'Sunfeast', 'Dark Fantasy', 'Dream Cream', 'Delishus', 'Bounce', 'Bingo!', 'Yumitos', 'B Natural', 'Candyman', 'mint-o', 'GumOn', 'Kitchens of India' and

'YiPPee!'. It is a matter of pride that your Company's YiPPee! noodles has stood out for its impeccable quality during the recent controversy that engulfed many other brands in this category. The superiority of YiPPee! noodles arises from the highest standards of quality that is built into the product, as far as feasible, right from the stage of buying raw materials at the farm gate by your Company's Agri-Business Division, securing traceability and custody of the supply chain. Ingredients and raw materials are also tested at ITC's world-class Life Sciences & Technology Centre.

Your Company's vital brands also include 'Classmate' and 'Paperkraft' in the Education & Stationery products category; 'Essenza', 'Fiama', 'Vivel', 'Superia', 'Engage', 'Savlon' and 'Shower to Shower' in the Personal Care products segment; 'Wills Lifestyle' and 'John Players' in the Lifestyle Retailing Business; 'Mangaldeep' in Agarbattis, and 'Aim' in Matches. **Aashirvaad and Sunfeast have already garnered consumer spend of over ₹ 2,000 crores each, while Classmate and Bingo! have crossed the ₹ 1,000 crore mark. It is your Company's aspiration to achieve, at the very least, a revenue of ₹ 1,00,000 crores from the new FMCG businesses by 2030, reinforcing our resolve to be the no.1 FMCG player in India.**

Creating Intellectual Capital

It is my belief that the most enduring source of competitive advantage lies in the continuous creation of superior intellectual capital that recharges the company's capacity to delight the consumer. With this conviction, your Company took a leap of faith to significantly enrich and enlarge its R&D capability by setting up a state-of-the-art Life Sciences & Technology Centre in Bengaluru. You will be happy to know that your Company's agenda to create intellectual capital is being driven by a 350-strong diverse pool of highly qualified world-class scientists. **In a short period of time, your Company has filed as many as 351 patent applications.** The distinction does not lie as much in the number of patents filed, as in the fact that the intellectual property resident in these filings belongs also to the country of origin that is India. The use of such assets, therefore, will enable the value to be captured in India. This is quite unlike many a patent that is filed in India on behalf of overseas entities, whereby the use of such intellectual property leads to a continuous flow of royalty out of the country.

Going forward, I am sure the intellectual prowess of the Life Sciences Centre will lend renewed vitality to ITC's competitive strength.

Investing in World-Class Physical Assets

Your Company is investing in India's future by building world-class assets that will contribute to the country's competitive capacity. This ambitious investment plan, underpinning **your Company's support to the Make in India vision, envisages an outlay of ₹ 25,000 crores in 65 projects across the country.** Currently, over 20 projects are underway and in various stages of development. These include state-of-the-art Integrated Consumer Goods Manufacturing and Logistics facilities that are being set up across regions, contributing to balanced economic development. Once these plants are commissioned, it will not only add substantially to your Company's competitive ability but also spur livelihood creation along the entire value chain.

A Global Exemplar in Sustainability

I am sure you derive justifiable pride in your Company's recognition as a global exemplar in sustainability. ITC's vision to contribute to a sustainable, secure and inclusive future has brought about transformational change, particularly in areas of its engagement in Rural India. Apart from ITC's e-Choupal that has helped raise farm productivity and incomes, your Company's social investment programme

has created large-scale sustainable livelihoods along with environmental enrichment. These widely acknowledged initiatives include Afforestation, Watershed Development, Livestock Development, Women's Empowerment, Primary Education and Vocational Training. In addition, the Company's Health & Sanitation initiative will complete over 10,000 toilets by December 2015.

Your Company's resolve to chart a low carbon growth path is manifest in several dimensions. **Over 43% of energy consumed by your Company is now from renewable sources.** Several of your Company's factories and commercial establishments are LEED® certified green buildings. All the premium luxury hotels are LEED® Platinum certified, making ITC Hotels the greenest luxury hotel chain in the world.

By adopting a 360-degree approach to Sustainability, your Company has put in place long-term drivers to contribute meaningfully to the national priority of employment generation and environmental sustainability.

NATIONAL MISSION FOR RESPONSIBLE COMPETITIVENESS

India's entrepreneurial talent is second to none. It is time that this latent vitality is unshackled

to propel India into a new horizon of growth, progress and prosperity.

This calls for a policy and regulatory environment that supports and pro-actively fosters the building of internationally competitive enterprises in India. **Whilst much is being done in terms of ease of doing business, it is equally important to create a shared vision of Responsible Competitiveness among the regulators and developers of industry.** For long, policies have been created in silos, promoting one objective at the cost of another, sub-optimising the overall objective of nurturing Responsible Competitiveness. Policies and procedures must be unambiguous, simple and transparent that discourage arbitrary regulatory action in the field thereby not curbing entrepreneurial initiative. Every regulatory framework must answer the primary question – will it help in making India globally competitive? **There is today a greater need to retrospect and take action to nurture an enabling framework so that all effort – be it policy, regulation, taxation or infrastructure – is aligned to a National Mission for Responsible Competitiveness.**

Every passing year of your Company's journey brings with it a sense of fulfillment as we witness

yet another milestone – the launch of a new product or a new brand, expansion to new markets, a new hotel or a factory opening its doors to a young and energetic force or accolades that encourage your Company's initiative in creating such societal value. Yet, there are miles to go. As enriching as this journey of transformation has been, it is my belief that the best is yet to come. I am sure ITC's world-class team of dedicated professionals will leave no stone unturned in the continuing quest to build your Company as a National Champion to serve our society, and you, our shareholders.

As I conclude, may I, on behalf of your Board of Directors and the employees of your Company, once again thank you for your continued support and encouragement.

Thank you, Ladies & Gentlemen.

The **ECF Hibrite** paper used
in this Booklet is a product of your Company's
Paperboards & Specialty Papers Division.



Enduring Value

www.iteportal.com
