ITC Limited
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Enduring Value

27th July, 2017

The Manager
Listing Department
National Stock Exchange of India Ltd.
Exchange Plaza,
Plot No. C-1, G Block
Bandra-Kurla Complex
Bandra (East)
Mumbai 400 051

The General Manager
Dept. of Corporate Services
BSE Ltd.
1st floor, New Trading Ring
Rotunda Building
P. J. Towers
Dalal Street, Fort
Mumbai 400 001

The Secretary
The Calcutta Stock Exchange Ltd.
7, Lyons Range
Kolkata 700 001

Dear Sirs,

Unaudited Financial Results for the Quarter ended 30th June, 2017

Further to our letter dated 27th July, 2017 forwarding the Unaudited Financial Results of the Company for the Quarter ended 30th June, 2017, we now enclose a copy of the Media Statement issued by the Company on the subject.

Yours faithfully,
ITC Limited

(R. K. Singhi)
Sr. Deputy Secretary

Encl. as above.

Enduring Value

cc: Securities Exchange Commission
Division of Corporate Finance
Office of International Corporate Finance
Mail Stop 3-9
450 Fifth Street
Washington DC 20549
U.S.A.

cc: Societe de la Bourse de Luxembourg
35A Boulevard Joseph II
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Nazeeb Arif
Executive Vice President
Corporate Communications

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Enduring Value

July 27, 2017

MEDIA STATEMENT

Financial Results for the Quarter ended 30th June, 2017

Highlights

Gross Revenue up 4.3%

Net Profit up 7.4%

- **Legal cigarette industry remained under pressure due to further increase in Excise Duty in February 2017. Revised rates of Compensation Cess announced by GST Council w.e.f. 18th July 2017 with the intent to correct anomaly in rates notified earlier has resulted in sharp escalation of tax incidence on cigarettes which is not in line with the fundamental principle of maintaining revenue neutrality under the GST regime; coupled with the increase in Excise Duty, the revised rates under the GST regime will increase the tax burden of the Cigarette Business by over 20%.**

- **Robust growth of 9% in FMCG-Others Segment Revenue amidst muted demand environment and destocking of FMCG products in trade channels ahead of GST implementation. Continued improvement in Segment Results despite higher input costs, sustained investment in brand building and gestation costs of new categories.**

- **Hotels Segment Revenue up 6.1% aided by improvement in Average Room Rate and healthy growth in Food & Beverage sales. Profitability improvement driven by operating leverage and cost management. Ban on sale of liquor from outlets in proximity to highways resulted in revenue loss at certain properties (particularly, ITC Grand Chola, Chennai).**

- **Paperboards, Paper and Packaging segment impacted by subdued demand in FMCG and legal cigarette industry, lower offtake due to destocking of FMCG and Pharma products in trade channels, unabsorbed capacity in domestic paperboard industry and cheap imports from China and ASEAN countries. Segment Results improved on the strength of richer product mix and benign input prices.**

- **Agri Business Segment performance impacted by lower crop output and adverse quality of the Andhra leaf tobacco crop due to drought in 2016 and limited trading opportunities in other agri-commodities.**

The Company delivered steady performance during the quarter against the backdrop of a challenging business environment marked by continuing pressure on the legal cigarette industry, sluggishness in demand for FMCG products exacerbated by destocking in trade channels ahead of implementation of GST, subdued demand conditions and unabsorbed capacity in the domestic paperboard industry and lower crop output & adverse quality of the Andhra leaf tobacco crop due to drought in 2016. The ban imposed by the Hon'ble Supreme Court on sale of liquor at outlets in close proximity to highways adversely impacted some of the Company's hotel properties besides reducing offtake of carton packaging by customers in the liquor industry.

Gross Revenue for the quarter stood at Rs. 13722 crores representing a growth of 4.3% while Profit Before Tax at Rs. 3945 crores and Net Profit at Rs. 2561 crores registered a growth of 7.3% and 7.4% respectively. Earnings Per Share for the quarter stood at Rs. 2.11. Total Comprehensive Income for the quarter stood at Rs. 2717 crores (for the quarter ended 30th June, 2016: Rs. 2448 crores).

FMCG - Others

Segment Revenue grew by 9% during the quarter amidst a muted demand environment which was further impacted by destocking in trade channels ahead of the transition to GST w.e.f. July 1, 2017. Revenue growth was driven primarily by the Branded Packaged Foods Businesses, Personal Care and Stationery products partially offset by the ongoing restructuring of retail footprint and trade presence by the Lifestyle Retailing Business which also saw an early 'end of season sale' and heavy discounting triggered by GST transition.

Segment Results posted an improvement over the corresponding quarter in the previous year despite higher input costs (mainly wheat, oil, soap noodles, sugar), sustained investment in brand building and gestation costs of new categories viz. Juices, Dairy, Chocolates, and Health & Hygiene segment in the Personal Care Products Business.

The **Branded Packaged Foods Businesses** posted steady growth in revenue despite the challenging operating environment with most major categories recording improvement in market standing.

- In the **Staples, Snacks and Meals Business**, Aashirvaad atta recorded healthy growth and consolidated its leadership position across markets. In the Finger Snacks segment, the Business has emerged as the No.1 player in the North and South market driven by the Tedhe Medhe, Mad Angles and Tangles sub-brands. The

  Bingo! Yumitos range of potato chips also continued to make impressive gains. In the Instant Noodles category, the Business launched an innovative variant – YiPPee!

  Mood Masala - comprising two masala mix sachets in a pack providing the consumer the option to add masala to 'match his mood'. The product has been well received by consumers and is being scaled up.

- In the **Confections Business**, the Sunfeast Mom's Magic range of premium cookies and Sunfeast Marie sustained their growth momentum driven by superior product attributes and continuing investment in brand building while Bounce strengthened its leadership position in the creams segment. Portfolio premiumisation continued in the Confectionery category with higher salience of 'Re.1 and above' products in the sales mix. During the quarter, the Business launched a differentiated offer - Candyman Fruitee Fun Sour Slides – in the liquorice format, receiving encouraging consumer response. The recently launched 'Candyman Tadka' in the hard boiled candy segment, and Candyman Jellicious Jelimals & Candyman Jellicious Dubblez in the Jellies segment gained further traction with consumers.

- In the **Dairy & Beverages Business**, B Natural juices registered strong growth leveraging a portfolio of differentiated products including a wide range of 'Not from Concentrate' variants that are made directly from fruit pulp thereby providing consumers a more nutritive and natural tasting experience. The juices portfolio was augmented during the quarter with the launch of several first-to-market products tailored to regional tastes and preferences viz. Bael, Phalse and Pomegranate. The recently launched '100% Not from Concentrate Pomegranate juice' continued to garner impressive consumer franchise in the health and wellness segment.

- The **Fabelle** range of luxury chocolates, available exclusively at Fabelle boutiques across 7 ITC hotels, continued to receive good response from discerning consumers. Product portfolio was strengthened further with the introduction of Rich Dark Ganache with No Added Sugar – a rich and extremely creamy chocolate made from fine Ghana cocoa, blended with fresh cream and butter with no added sugar. The quarter also marked the launch of a premium range of Roast & Ground coffee under the **Sunbean** brand in select retail outlets. Plans are on the anvil to progressively scale up presence in both these categories.

The **Personal Care Products Business** continued to focus on augmenting its product portfolio and enriching product mix. During the quarter, the Business launched 4 exciting variants of deodorants under the Engage Sports range designed to provide maximum freshness to consumers, both men and women, who have an active lifestyle. The Business also launched Vivel Lotus Oil - a unique offering enriched with Lotus Oil and Vitamin E for soft glowing skin. The products have met with encouraging response. The recently launched Engage On pocket perfumes and Savlon pocket hand wash in multi-use sachets designed for on-the-go consumption have gained healthy traction with consumers. The Business continued to leverage innovative brand campaigns and social media platforms towards deepening consumer engagement. The recent intervention of restaging key brands anchored on Women Empowerment in the case of Vivel and Healthy India – Healthy Children through Mission Swachh Bharat in the case of Savlon has received positive response from consumers with significant improvement in brand health metrics and pick-up in sales momentum. Savlon won 7 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 Business also made steady progress in the body wash (Fiama) and hand wash (Savlon) segments.

The Businesses continue to leverage state-of-the-art integrated consumer goods manufacturing facilities set up recently to service proximal markets in a highly efficient and responsive manner. Over 20 projects are underway and in various stages of development – viz. land acquisition/site development, construction of buildings, equipment installation and other infrastructure.

Cigarettes

The legal cigarette industry remained impacted during the quarter due to the cumulative impact of steep increase in taxation over the last 5 years and intense regulatory pressures. The high incidence of taxation on cigarettes was further compounded by the steep increase in taxes announced by the GST Council at its meeting on 17th July, 2017. The increase in Compensation Cess on Cigarettes as announced by the GST Council ranges from Rs. 485 to Rs. 792 per thousand cigarettes. Under the 'Others' segment i.e. cigarettes of length exceeding 75 mm (including the length of filter), a 31% increase in the ad valorem component of the cess has been levied.

As per the Government Press Release, the intent of the GST Council behind increasing the Compensation Cess as aforestated was to correct an apparent anomaly in cigarette taxation under the new tax regime announced earlier, on account of the removal of the cascading effect of Excise Duty which existed in the pre GST regime. However, such increase has resulted in significantly higher tax incidence on cigarettes under the new tax regime compared to the pre GST scenario which is not in keeping with the fundamental principle of revenue neutrality. In fact, the combined impact of increase in Excise Duty announced by the Union Budget 2017 and the recent increase in tax rates effected by the GST Council is estimated to result in an incremental tax burden of over 20% on the Company. The cumulative growth in tax incidence on cigarettes, after cognising for the latest increase in Cess rates, stands at a staggering 202% since 2011-12, i.e. the last 6 years.

The additional tax burden caused by the increase in the Compensation Cess rates, as aforestated, will exacerbate the pressure on the entire legal cigarette value chain in the country. The legal cigarette industry is already reeling under a huge tax burden on account of the continuous increase in excise duties on cigarettes which has resulted in a 25% decline in legal cigarette industry volumes since 2012/13.

It is apprehended that the sharp increase in tax incidence on cigarettes will further increase the huge tax arbitrage available to unscrupulous players and provide a fillip to smuggling syndicates. This will severely undermine the legal cigarette industry and adversely impact tobacco farmers and the revenue objective of the Government. According to an independent study conducted by Euromonitor International, India is today the 4th largest market for illegal cigarettes in the world. It is estimated that almost 68% of the tobacco consumed in the country remains outside the tax net on account of evasion[1]. The proliferation of these tax-evaded products has resulted in significant losses to the Exchequer, in excess of Rs. 9000 crores per annum according to an independent study conducted by the Federation of Indian Chambers of Commerce and Industry (FICCI).

As reported earlier, the significant decline in legal cigarette volumes and the consequent reduction in the utilisation of Indian Flue-cured Virginia (FCV) tobacco has adversely impacted the livelihoods of over 45 million tobacco farmers, farm workers and others dependent on the tobacco sector. Besides, the soft demand for Indian FCV tobacco has prompted consecutive reductions in the authorised tobacco crop size in 2015-16 and 2016-17. This, in turn, has also led to lower exports of tobacco. In fact, since 2013-14, the annual earnings of tobacco farming community has shrunk by more than Rs. 1,500 crores due to drop in offtake of tobacco for the manufacture of domestic legal cigarettes.

Although legal cigarettes account for only about 11% of total tobacco consumption in the country, they contribute 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.

Unfortunately, the taxation policy of the country is largely cigarette-centric and based on western models of tobacco taxation. This policy is 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 Company continues to engage with policy makers for a tobacco taxation policy that is non-discriminatory, helps combat the problem of illegal cigarettes and addresses the issues of all stakeholders, particularly the tobacco farmers, the 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.

Despite the extremely challenging operating environment, the Company sustained its leadership position in the industry through relentless focus on delivering world-class products, continuous innovation & value addition and best-in-class execution.

Hotels

The Hotels Business recorded a healthy growth in Segment Revenue during the quarter driven by improvement in Average Room Rate and higher Food & Beverage sales. Segment Results improved significantly as compared to the corresponding quarter in the previous year due to operating leverage and cost management. However, improvement in profitability was limited due to loss of revenue at certain properties (particularly ITC Grand Chola, Chennai) on account of the ban on sale of liquor at outlets in close proximity to highways and gestation costs of the recently commissioned ITC Grand Bharat, Gurgaon.

The Business made steady progress during the quarter in the construction of ITC Hotels at Hyderabad, Kolkata and Ahmedabad and WelcomHotels in Coimbatore, Guntur and Bhubaneswar.

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

Agri Business

The performance of the Agri Business Segment during the quarter was impacted by lower crop output and adverse quality of the Andhra leaf tobacco crop due to drought in 2016 and limited trading opportunities in other agri-commodities.

The Business continued to provide strategic sourcing support to the Company's Cigarette business and leveraged its deep rural linkages to source superior quality wheat, spices and fruit pulp at competitive prices for the Branded Packaged Foods Businesses. The Business continued to leverage the e-choupal network to source superior quality wheat at competitive cost and deliver substantial savings to the system through efficient logistics management and other cost-optimisation initiatives.

The quarter also marked the Company's foray into the Premium Frozen Prawns segment under the 'ITC Master Chef' brand. These high quality 'Super Safe' prawns are nurtured and harvested in world-class farms which adhere to extremely stringent international hygiene standards and leverage the Agri Business's experience of over 40 years in exporting prawns to the most demanding markets in the world such as Japan, US, EU etc. The products have received encouraging response in the launch markets and will be progressively rolled out to target markets.

Paperboards, Paper & Packaging

The performance of the Paperboards, Paper & Packaging Segment remained impacted during the quarter primarily due to sluggish demand conditions prevailing in the FMCG and legal Cigarette industry and unabsorbed capacity in the paperboard market. In addition, offtake of paperboards and carton packaging was impacted due to destocking of FMCG and Pharma products in trade channels ahead of the transition to GST and the ban on sale of liquor from outlets located in close proximity to highways. Profitability, however, improved on the back of benign input prices and richer product mix.

As reported in the previous quarter, the Business commissioned India's first Bleached Chemical Thermo Mechanical Pulp mill (BCTMP) at the Bhadrachalam unit. The facility is in the stabilisation phase with progressive ramp up in capacity utilisation. The BCTMP mill along with the new 36 MW power block will reduce dependence on imported pulp and the carbon footprint of the Company's operations. Capacity expansion in the Value Added Paperboards and Décor segments is also making satisfactory progress.

Contribution to Sustainable Development

The Company's Social Investments Programme aims to address the challenges arising out of poverty, environmental degradation and climate change through a range of activities with the overarching objective of creating sustainable sources of livelihood for stakeholders.

The footprint of the Company's Social Investments Programme is given in the table below:

Intervention Areas	Unit of Measurement	Cumulative till date
Social and Farm Forestry	Lakh Acres	**6.25**
Soil and Moisture Conservation Programme	Lakh Acres	**8.22**
Sustainable Agricultural Practices		
Compost Units	Number	**34,962**
Sustainable Livelihoods Initiative		
Cattle Development Centres	Number	**223**
Animal Husbandry Services	Artificial Inseminations (in lakhs)	**20.31**
Economic Empowerment of Women		
Ultra Poor Women covered	Number	**13,800**
Self Help Group Members	Number	**34,374**

Livelihoods created	Number	**54,732**
Primary Education Children covered	Number (in lakhs)	**5.24**
Health and Sanitation Low Cost Sanitary Units Households covered under Solid Waste Management	 Number Number	 **25,243** **60,534**
Vocational Training Students Enrolled	Number	**46,140**

The Board of Directors, at its meeting in Kolkata on 27th July 2017, approved the financial results for the quarter ended 30th June 2017, which are enclosed.

for Nandini Basu

(Nazeeb Arif)