ITC Limited
Virginia House
37 J. L. Nehru Road
Kolkata 700 071, India
Tel. : 91 33 2288 9371
Fax : 91 33 2288 4016 / 1256 / 2259 / 2260

Enduring Value

26th October, 2016

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 and Six Months ended 30th September, 2016**

Further to our letter dated 26th October, 2016 forwarding the Unaudited Financial Results of the Company for the Quarter and Six Months ended 30th September, 2016, 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
L – 1840 Luxembourg

**ITC Limited**
Virginia House
37 J. L. Nehru Road
Kolkata 700 071, India
Tel.: +91 33 22889371, 22889900
Fax: +91 33 22882256/2257/2259/2260

Enduring Value

# Media Statement

## Financial Results for the Quarter ended 30th September, 2016

### Highlights

**Revenue from Operations up 7.8%**

**Net Profit up 10.5%**

- **Healthy growth in revenue and profit amidst a challenging operating environment.**
- **FMCG-Cigarettes Segment continues to be impacted due to severe pressure on legal Cigarette industry even as illegal trade grows unabated resulting in significant revenue loss to the exchequer.**
- **FMCG-Others Segment Revenue up 13.3% amidst a persistently sluggish demand environment. Continued improvement in Segment Results despite significant increase in input cost, gestation cost of new categories and sustained investment in brand building.**
- **Fabelle range of luxury chocolates well received. 'Fabelle Chocolate Boutique' extended to ITC Maurya, ITC Sonar and ITC Grand Chola during the quarter in addition to the one in ITC Gardenia launched earlier.**
- **Paperboards, Paper and Packaging Segment Revenue impacted by subdued demand in FMCG & legal Cigarette industry, zero duty imports under Free Trade Agreement with ASEAN countries and cheap imports from China. Improvement in profitability driven by richer mix and benign input cost.**

The Company delivered another quarter of steady performance despite a challenging operating environment marked by continuing pressure on legal Cigarette industry volumes, increase in input cost and subdued demand conditions prevailing in the FMCG industry. Operating conditions in the Hotels and Paperboards, Paper and Packaging segment also remained subdued. Revenue from Operations for the quarter stood at Rs. 13491.37 crores representing a growth of 7.8%. Profit Before Tax at Rs. 3826.22 crores and Net Profit at Rs. 2500.03 crores registered a growth of 9.1% and 10.5% respectively during the quarter. Earnings Per Share for the quarter stood at Rs. 2.07.

Total Comprehensive Income (TCI) for the quarter stood at Rs. 2474.84 crores representing a growth of 10.2%.

Financial results for the Quarter and Half year ended 30th September, 2016 have been prepared in accordance with Indian Accounting Standards (Ind-AS). Results for Quarter and Half year ended 30th September, 2015 and year ended 31st March 2016 have been recast in accordance with Ind-AS to facilitate comparison.

**FMCG-Others**

Segment Revenue recorded a robust growth of 13.3% during the quarter amidst weak demand conditions, with most major categories recording improvement in market standing. Segment Results improved over the corresponding period in the previous year driven by enhanced scale and enriched mix offsetting the impact of a significant increase in input cost, continuing investment in brand building and consumer/trade promotion activities. Segment Results also include the gestation cost relating to new categories viz. Juices, Chocolates, Dairy and Health & Hygiene segment in the Personal Care Products Business.

The **Branded Packaged Foods Businesses** posted healthy growth in revenue led by Noodles, Staples, Snacks and Biscuits categories despite sluggish demand conditions prevailing in the industry.

- In the **Staples, Snacks and Meals Business**, 'Aashirvaad' atta continued to perform well consolidating its leadership position across markets. 'Aashirvaad Sugar Release Control Atta', launched during the preceding quarter, gained good consumer traction.

  The 'Bingo!' range of snack foods recorded healthy growth driven by the 'Tedhe Medhe' and 'Mad Angles' sub-brands. 'Bingo! Yumitos Original Style' potato chips was extended to target markets during the quarter and posted impressive growth in sales. The 'Tedhe Medhe Achaari Masti', 'Tangles Masala Cheese' and 'Yumitos Dilli Masala' variants, which were added recently to the product portfolio, continued to garner increasing consumer franchise.

  In the Instant Noodles category, 'YiPPee!' continued to perform well in the market leveraging its superior value proposition anchored on best-in-class product quality, safety and taste. Product portfolio was augmented during the quarter with the launch of 'YiPPee! Power Up Masala' - Atta Noodles. The product has received encouraging consumer response.

- In the **Confections Business**, the 'Sunfeast Mom's Magic' range of premium cookies sustained its rapid growth momentum driven by superior product attributes and investment in brand building. The recently launched 'Sunfeast Farmlite Digestive All Good' cookies - a 'No maida and No added sugar' biscuit made from Aashirvaad whole wheat atta - continues to gather momentum in the market. The Business leveraged its biscuits manufacturing facility at Mangaldoi, Assam (set up through a joint venture company viz., North East Nutrients Private Ltd.) to enhance its market standing significantly in the fast growing north-eastern market. Portfolio premiumisation continued in the Confectionery category with the

share of 'Re.1 and above' products further increasing during the quarter. The recently launched 'Candyman Jellicious Jelimals' has been well received by consumers and is being rolled out to target markets.

- The **Dairy and Beverages Business** scaled up sales of the 'B Natural' range of juices and also launched 2 exquisitely crafted blends of gourmet coffee under the 'Sunbean' brand. The brand is currently available at select ITC Hotels. While 'Sunbean Nicamalai' - a blend of the choicest coffee beans from Nicaragua and Anamalai in Tamil Nadu - is a fruity-sweet aromatic coffee with a creamy expression, 'Sunbean Panagiri' - a blend of select coffee varietals from Panama and Baba Budangiri in Chikkamagaluru, Karnataka - is an intensely fragrant coffee with a pleasant roasted nutty taste and a hint of chocolate.

- During the quarter, the Business expanded the footprint of **'Fabelle Chocolate Boutiques'** to ITC Sonar, Kolkata, ITC Maurya, New Delhi and ITC Grand Chola, Chennai in addition to the one at ITC Gardenia launched earlier. Plans are on the anvil to extend the luxury chocolate boutiques to select ITC Hotels in the ensuing months. Made from impeccable single-origin cocoas sourced from the best growing regions in Africa and South America and combined with unique ingredients, Fabelle has received excellent consumer response and is redefining the luxury chocolate segment in India.

The **Personal Care Products Business** continued to focus on product mix enrichment and augmenting its product portfolio. Recently launched variants in the Hand Wash and Antiseptic Liquid categories under the 'Savlon' brand continue to gain traction amongst consumers. The Deodorants product portfolio stood expanded during the quarter with the launch of several new variants under the 'Engage' brand.

The Business also launched several innovative brand campaigns and leveraged social media platforms with a view to deepening consumer engagement. Marketing interventions centred around brand Vivel's new tagline – 'Ab Samjhauta Nahin' – have received excellent response from consumers within a relatively short span of time and is beginning to expand the brand's appeal by moving beyond product attributes to addressing gender-typecasting and attitudes towards women, thereby enhancing emotional connect with consumers.

The Company made steady progress during the quarter towards setting up state-of-the-art owned integrated consumer goods manufacturing facilities at Uluberia and Panchla (West Bengal), Kapurthala (Punjab) and Ambarnath (Maharashtra). Currently, over 20 projects are underway and in various stages of development – from land acquisition/site development to construction of buildings and other infrastructure.

**Cigarettes**

The performance of the Cigarette Business during the quarter remained subdued on account of continued pressure on the legal Cigarette industry in India.

Over the last 4 years, the incidence of Excise Duty and VAT on cigarettes, at a per unit level, has gone up cumulatively by 118% and 142% respectively thereby exerting severe pressure on legal industry volumes even as illegal trade grows unabated. It is pertinent to note that steep increases in Excise Duty on cigarettes in recent years have resulted in widening the differential in Excise Duty rates (on a per kg. of tobacco basis) between cigarettes and other tobacco products from 29 times in 2005/06 to over 53 times currently. High incidence of taxation and a discriminatory regulatory regime on cigarettes in India have over the years led to a significant shift in tobacco consumption to lightly taxed or tax-evaded tobacco products like bidi, khaini, chewing tobacco, gutkha and illegal cigarettes which presently constitute over 89% of total tobacco consumption in the country. Besides adversely impacting the performance of the legal cigarette industry, this has led to sub-optimisation of the revenue potential from the tobacco sector.

The operating environment for the legal Cigarette industry in India was rendered even more challenging in the wake of a further increase of 10% in Excise Duty announced in the Union Budget 2016 and introduction of the new 85% graphic health warnings (GHW) on cigarette packages.

On 4th May, 2016, the Honourable Supreme Court directed the Honourable High Court of Karnataka to hear and dispose of within six weeks, the legal challenge to GHW pending in several High Courts. The Honourable Supreme Court, however, also ordered that any stay order granted by any High Court would not be given effect to till the cases are finally disposed of. The Company is currently manufacturing cigarettes with 85% warning in compliance with the interim requirements pending final decision by the Honourable Karnataka High Court on the matter. The matter has been part heard by the Honourable Karnataka High Court and hearings are expected to resume shortly.

The Tobacco industry in India supports the livelihood of over 45 million people including vulnerable sections of society like farmers, farm labour, rural poor, women, tribals etc. and contributes around Rs. 30000 crores to the national exchequer apart from generating valuable foreign exchange earnings of around Rs. 6000 crores.

The proposed GHW is excessively large, extremely gruesome and unreasonable. There is no evidence to suggest that cigarette smoking would cause the diseases depicted in the pictures or that large GHW will lead to reduction in consumption. In fact this inadequacy of evidence prompted the courts in USA to hold that the US FDA's proposal for introduction of similar GHW in that country as unconstitutional. Further, over 100 countries representing 60% of the signatories to the Framework Convention on Tobacco Control have not adopted GHW. It is pertinent to note that other major tobacco producing countries have taken a considered view on the matter and have not adopted over-sized and excessive graphic health warnings, thus striking a balance between the interests of the consumer and of their farmers. It may also be noted that

the global average size for GHW is only about 30% coverage of the principal display area. Moreover, the top three cigarette consuming countries - USA, China and Japan - which together account for 51% of global cigarette consumption have only text based warnings and have not adopted pictorial / graphic health warnings.

The new GHW will encourage the flow of illegal trade of brands owned by international companies into the country since such brands are manufactured in many jurisdictions which do not mandate the printing of graphic health warnings on cigarette packages as applicable in India. The legal cigarette industry in India will be hard pressed to counter the menace of illegal cigarettes as they will be perceived by the consumer to be safer in the absence of the statutorily mandated health warnings. Coupled with the fact that illegal cigarettes are available at a fraction of the price of legal cigarettes, the new GHW will provide further fillip to the growth of illegal cigarettes in the country.

According to an independent study, India is now the 4th largest market for illegal cigarettes in the world. In fact, illegal trade comprising smuggled foreign and domestically manufactured tax-evaded cigarettes is estimated to constitute one-fifth of the overall cigarette industry in India and is estimated to cost the exchequer a revenue loss of more than Rs. 9000 crores per annum.

It is pertinent to note that the Department of Commerce, in its submissions to the Parliamentary Committee on Subordinate Legislation, has stated that "large warnings will lead to an increase in overall tobacco consumption and illegal cigarettes; when large quantities of non-cigarette tobacco products from unorganised sector are sold loose and / or without any health warnings, it gives an impression of these products being relatively safer than cigarettes."

As always, the Company complies fully with all regulations and laws in letter and spirit and continues to engage with policy-makers for reasonable, pragmatic and evidence based regulation and taxation policies that balance the health, employment and economic imperatives of the country.

Despite the challenging operating environment, the Company continues to consolidate its market leadership through relentless focus on delivering world-class products, continuous innovation & value addition and best-in-class execution.

**Hotels**

Segment Revenue during the quarter was flattish in comparison to the corresponding period in the previous year reflecting the subdued operating conditions in the Indian hospitality industry, which continues to be impacted by excessive room inventory in key domestic markets and sluggish macroeconomic environment both in India and major source markets.

Although Segment Results improved as compared to the corresponding quarter in the previous year, the same remained muted due to the challenging business context as aforestated and gestation costs of the recently commissioned ITC Grand Bharat, Gurgaon.

Construction activities at the luxury hotel projects in Kolkata, Hyderabad and Ahmedabad are progressing satisfactorily.

**Agri Business**

The Business provides strategic sourcing support to the Company's Cigarette business and leverages its deep rural linkages to source superior quality wheat, chip stock potato, spices and fruit pulp at competitive prices for the Branded Packaged Foods Businesses. The Business continues 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.

Segment Revenue grew by 2% over the corresponding period in the previous year on the back of higher agri-commodity sales in the domestic market offset by lower supplies to the Company's FMCG businesses (mainly account timing differences in offtake). Steeper currency depreciation in competing geographies and lower wheat crop output in India constrained growth in exports.

**Paperboards, Paper & Packaging**

Segment Revenue remained impacted by the subdued demand environment prevailing in the FMCG and legal Cigarette industry. Zero duty imports under Free Trade Agreement with ASEAN countries and cheap imports from China along with capacity expansion / ramp-up by other industry players, continued to adversely impact the Paper and Paperboard industry. Segment Results, however, improved on the strength of improved mix and benign input costs.

In an endeavour to reduce its dependence on imported pulp, the Business is in the process of setting up India's first Bleached Chemical Thermo Mechanical Pulp mill at its Bhadrachalam unit. The facility is expected to be commissioned in the second half of the current financial year. Capacity expansion in the Value Added Paperboards and Décor segments is also underway.

**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 can be viewed at a glance in the following chart:

| Intervention Areas | Unit of Measurement | Cumulative till date |
|---|---|---|
| Social and Farm Forestry | Hectare | **243,562** |
| Soil and Moisture Conservation Programme | Hectare | **277,912** |
| Sustainable Agricultural Practices | | |
| Compost Units | Number | **31,761** |
| Sustainable Livelihoods Initiative | | |
| Cattle Development Centres | Number | **223** |
| Animal Husbandry Services | Artificial Inseminations (in lakhs) | **18.74** |
| Economic Empowerment of Women | | |
| Ultra Poor Women covered | Number | **10,200** |
| Self Help Group Members | Number | **29,453** |
| Livelihoods created | Number | **51,066** |
| Primary Education | | |
| Children covered | Number (in lakhs) | **4.93** |
| Health and Sanitation | | |
| Low Cost Sanitary Units | Number | **17,022** |
| Households covered under Solid Waste Management | Number | **45,541** |
| Vocational Training | | |
| Students Enrolled | Number | **37,557** |

The Board of Directors, at its meeting in Gurgaon on 26th October 2016, approved the financial results for the quarter ended 30th September 2016, which are enclosed.

(Nazeeb Arif)
Executive Vice President
Corporate Communications