

For all our tomorrows

Sustainability Report 2005



ITC Limited

Enduring value.

For the nation. For the shareholder.

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Chairman's Statement

Towards Sustainable Development: Creating an Ethos of Care and Commitment

Sustainability has assumed significant importance and urgency in the developmental context of India, which ranks 127th in the Human Development Index. As our nation embarks on a trajectory of high rates of economic growth, it would become critically necessary to focus on the impact of such growth on society and the environment. Economic growth will translate to sustainable development only when it is inclusive, creating the capacity to consume among those living at the margin – the lion's share of whom are in rural India. Equally, sustainable development will be achieved only when environmental capital is enriched. The sharp decline in per capita availability of water, the low forest cover due to continuing deforestation, increasing levels of air and water pollution, the remorseless increase in the quantum of wastelands and the rising demand for fossil fuels are some of the serious issues that need to be addressed on a war footing if India has to realise its ambitious agenda for sustainable progress.

Corporates, which constitute an important membership of any society, need to make their contribution in meeting this challenge. Premium needs to be placed on those companies that create economic progress with minimal adverse impact on ecology by deploying technologies that use the planet's finite resources efficiently. Indeed those that serve to replenish natural capital need to be valued even more. Accordingly, the contribution of companies needs to be more comprehensively measured along three dimensions, commonly referred to as the "triple bottom line". These dimensions are: economic, ecological and social. As society witnesses the growing influence of corporations in driving economic, environmental and social change, investors and other stakeholders will expect the highest standards of ethics, transparency, sensitivity and responsiveness from corporates. It is my belief that stakeholders, including consumers, will increasingly raise the bar of expectation in relation to corporate response to issues of sustainable development.

Envisioning a larger societal purpose has always been a hallmark of ITC, described by me in the past as "a commitment beyond the market". ITC sees no conflict between the two goals of shareholder value enhancement and societal value creation. The challenge lies in fashioning a corporate strategy that enables realisation of these goals in a mutually reinforcing and synergistic manner. ITC's e-Choupal and social forestry programmes represent two stellar examples of this philosophy in action.

As a Company that continuously strives to be 'Citizen First', ITC has always attached critical importance to its responsibility to contribute to the triple bottom line. ITC perceives itself as a corporate trustee of the physical, social and economic resources deployed in its business operations. ITC's mission is to enhance the capacity of its businesses to generate sustainable wealth by using these resources wisely and responsibly. This commitment finds expression in the Company's sustainable development philosophy, which recognises the need to not only preserve but also enrich precious environmental resources while providing a safe and healthy workplace for its employees.

Apart from crafting business models that establish direct linkages between business and societal goals, ITC is also engaged in implementing various other sustainable development initiatives towards making a meaningful contribution in the economic vicinity of its operating locations. The thrust of these initiatives, christened 'Sunehra Kal', is in three areas: (i) natural resource management, which includes wasteland, watershed and agriculture development; (ii) sustainable livelihoods, comprising genetic improvement in livestock and economic empowerment of women; and (iii) community development, with focus on primary education and health and sanitation.

ITC is committed to conducting its business operations with passionate respect for the environment. Several prestigious national and international awards (listed elsewhere in this report) testify to ITC's abiding commitment. Such recognition has further reinforced the Company's commitment to consciously synergise and direct the collective endeavour of its employees at all levels across all businesses, functions and locations to continuously improve sustainability practices, to ultimately attain and exceed global standards.

Internationally benchmarked specific consumption of water, dedicated pursuit of the goal of zero discharge and scaling up of rainwater harvesting in several moisture-stressed districts of India have enabled ITC retain its enviable position of a water positive company for the third successive year. The water harvesting potential created so far is nearly three times the Company's net water consumption.

ITC's contribution to addressing the challenges of global warming and climate change are being expressed through significant improvement in specific energy consumption, use of environmentally superior fuels and carbon sequestration through large-scale agro-forestry programmes. The Company now sequesters nearly 86% of the carbon dioxide emitted by its operations. The systemic commitment to energy conservation even in a phase of aggressive business growth will enable ITC to achieve the goal of becoming a carbon positive enterprise within the next couple of years.

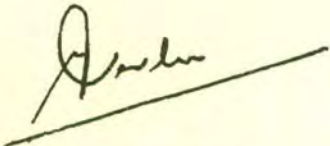
In order to eliminate solid waste, ITC has embarked on a unique initiative to either recycle all wastes from its operations or identify them as raw material for others. The strategic vision behind these policies and their dedicated implementation have positioned ITC firmly on the path to becoming a zero solid waste company.

In a nation where economic deprivation is widespread and the capacity of a large share of its citizens to participate effectively in economic growth is grossly limited, ITC seeks to contribute in meaningful measure towards social empowerment and genderised development. The ITC e-Choupal infrastructure – a combination of digital, human and physical assets – already serves over 3.5 million farmers and is potentially an efficient delivery channel for rural development. Similarly, ITC's social farm forestry strategy enables the creation of substantial employment both on farms and off farms, besides converting private wastelands into productive assets, and simultaneously addressing serious issues relating to biomass depletion, soil erosion, water security, ecological balance and biodiversity.

Enterprises use significant amounts of societal resources. It is therefore imperative that companies make periodical disclosures to stakeholders, including the civil society. Such disclosures need to reflect how efficiently societal resources are being utilised, and how companies are contributing to the triple bottom line.

The enclosed Sustainability Report 2005, prepared in accordance with the guidelines of the Global Reporting Initiative (GRI), represents a balanced and reasonable presentation of ITC's economic, environmental and social performance. It sets out the progress made by ITC against measurable indices.

ITC dedicates this report to the cause of India's social and ecological development. It also acknowledges the contribution made by the 28,000 employees in the ITC Group, whose initiative and commitment have enabled the Company make great strides in its sustainability performance.



(YC DEVESHWAR)

ITC: Commitment to the Triple Bottom Line



ITC's Sustainability Report 2004 was the first 'In Accordance' report in India prepared as per GRI guidelines



Highlights of ITC's 'triple bottom line' contributions during 2004-05



Net Sales grew by 18%



Export and Foreign Exchange earnings touched Rs.1,316 crores



ITC's excise payments accounted for nearly 5% of India's total excise collections



The total rainwater harvesting potential created by ITC increased to 16.86 million kilolitres, making it a 'water positive' corporation for the third successive year



The Company sequestered 86% of CO₂ emitted, up from 31% last year, by greening 29,230 hectares of wastelands with over 100 million saplings



Having been felicitated in 2004 with the World Business Award for the transformational impact of e-Choupal on rural India, the pathbreaking initiative also won the Development Gateway Award in 2005

The Global Reporting Initiative

The Global Reporting Initiative (GRI) is a multi-stakeholder process whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines. These Guidelines are for voluntary use by organisations while reporting the economic, environmental and social dimensions of their activities, products and services. The GRI involves the active participation of representatives from business, accountancy, investment, environmental, human rights, research and labour organisations from around the world. Started in 1997, GRI became independent in 2002. It is an official collaborating centre of the United Nations Environment Programme (UNEP) and works in cooperation with UN Secretary-General Kofi Annan's Global Compact.



GRI helps business organisations and their stakeholders elucidate their contribution to sustainable development, which in turn defines their status and aligns future goals. Sustainability reporting also helps the management define the organisation's contribution to natural, human and social capital. It highlights the contributions of the organisation to society and to the environment, thereby defining the value proposition of its products and services. For more information log on to: www.globalreporting.org

I T C : A P R O F I L E



Creating Enduring Value

ITC is one of India's foremost private sector companies with a market capitalisation in excess of US \$ 10 billion and a turnover of more than US \$ 3 billion. Rated among the World's Leading Companies by Forbes magazine, ITC ranks fifth in terms of Gross Sales, third on all major profit parameters (including pre and post tax, as well as, cash profit), and sixth in terms of market capitalisation among India's private sector corporations. ITC has a diversified presence in Cigarettes, Hotels, Paperboards & Specialty Papers, Packaging, Agri Business, Branded Apparel, Packaged Foods & Confectionery, Greeting Cards and other FMCG Products. While ITC is an outstanding market leader in its traditional businesses of Cigarettes, Hotels, Paperboards, Packaging and Agri-Exports, it is rapidly gaining market share even in its nascent businesses of Branded Apparel, Packaged Foods & Confectionery, and Greeting Cards & Stationery.



The strengthening competitive capability of ITC's businesses has enabled the Company to sustain superior performance over the years. The focus on nurturing strategic capability is rapidly positioning each business to garner a growing share of the exciting market opportunities unfolding in the Indian and global markets.

It is a measure of the continued trust reposed in the Company by its consumers that ITC's brands today account for the top two FMCG brands in the country.



ITC's strategic commitment to the Hotels business, even during the downturn that beset the tourism industry for nearly 4 years, enabled the addition of 5 world-class properties at the premium end of the market. ITC has embarked on an aggressive investment-led growth plan to position ITC Welcomgroup as the leading hotel chain in India.

The continuing strong growth in the Paperboards, Paper and Packaging segment is driven by capacity expansion, technology upgradation and a unique forestry programme for improved availability of high quality fibre. This business is now poised to make decisive strides towards establishing itself as a major player in the Afro-Asian region.



In the Agri Business segment, ITC is engaged in innovatively leveraging digital technology to transform the rural sector, and strengthening its position in domestic and global markets as a leading supplier of high quality, identity-preserved agri commodities. This digital infrastructure, known as e-Choupal, constitutes the basis for the Company's deeper engagement with the rural economy through the progressive development of low cost, broadband fulfillment capability for two-way flow of goods and services. The Company's investments in creating rural infrastructure to support this two-way flow of goods and services is being strengthened through the creation of rural hubs, christened 'Choupal Sagar'.



Within three years of inception, ITC's Packaged Foods business has launched a wide spectrum of value added products comprising Staples such as atta, spices and cooking pastes; Confectionery; Snack Foods such as biscuits and pasta; and Ready-to-eat foods. The Foods portfolio now comprises 5 brands – Aashirvaad, Sunfeast, Candyman, Mint-O and Kitchens of India – 75 distinct products and over 200 SKUs. Aashirvaad atta is already the market leader in its segment. ITC's Foods business aspires to become the most trusted provider of food products in India.



ITC's Lifestyle Retailing business is poised to capitalise on the opportunity afforded to India post the dismantling of the Multi-Fibre Agreement regime. At the premium end, the brand portfolio under the 'Wills' trademark comprises Wills Sport, Wills Clublife and Wills Classic, while the mid-market segment is being served by John Players. The world-class products of this business are now available in nearly 80 exclusive stores and 1,300 multi-brand outlets across the country.



ITC has seized market opportunity through the Greeting Cards and Stationery business to leverage the pulp value chain, with attendant impact on rural livelihoods through social farm forestry initiatives. This business now markets over 18,000 value added design variants under three brands – Expressions, Classmate and Regalia.

As part of ITC's business strategy of creating multiple drivers of growth in the FMCG sector, the Company markets Safety Matches and Agarbattis (incense sticks) sourced from the small-scale and cottage units. ITC's 'AIM' is the single largest safety matches brand in the country. The recent acquisition of WIMCO by the Company's wholly owned subsidiary Russell Credit Ltd. will yield significant synergistic advantages in the Safety Matches business. The 'Mangaldeep' brand of agarbattis is fast emerging as the only national brand in an industry dominated by multiple local brands.

ITC is driven by the compelling vision of enlarging its contribution to society. It seeks to achieve this value objective by not only driving each of its businesses towards international competitiveness, but by also consciously contributing to the competitiveness of the entire value chain. As a Company that continuously strives to be 'Citizen First', ITC attaches critical importance to its responsibility to contribute to the 'Triple Bottom Line', namely the augmentation of economic, ecological and social capital.



Fulfilling Stakeholder Expectations

Shareholding Pattern

As on March 31, 2005, ITC's Authorised Share Capital was Rs.300 crores, with 30,00,00,000 Ordinary Shares of Rs.10 each. The Issued & Subscribed Capital was Rs.248,22,13,290 with 24,82,21,329 Ordinary Shares of Rs.10 each.

ITC's shares are listed on three Stock Exchanges in India – National Stock Exchange of India Limited (NSE), Bombay Stock Exchange Limited (BSE) and The Calcutta Stock Exchange Association Limited (CSE).

Pursuant to an offer of Global Depository Receipts (GDRs) made by the Company in 1993, 73,90,034 GDRs, representing 73,90,034 underlying Shares of the Company (2.98% of the issued and subscribed Share Capital), were outstanding as on March 31, 2005.

The Company's GDRs are listed on the Luxembourg Stock Exchange.

Pursuant to the approval of the Members of the Company, effective September 28, 2005, the Ordinary Shares of the Company were sub-divided into Ordinary Shares of Re.1 each and the Authorised Share Capital was increased to Rs.500 crores, with 500,00,00,000 Ordinary Shares of Re.1 each. 125,17,12,290 Ordinary Shares were issued and allotted as fully paid-up Bonus Shares on October 5, 2005. The Issued and Subscribed Capital of the Company accordingly stands increased to Rs.375,51,36,870 with 375,51,36,870 Ordinary Shares of Re.1 each.

The following table sets out the composition of the Company's shareholders as shown in its Register of Members as on March 31, 2005:



Stakeholder Engagement

As a large corporation, with a diverse business portfolio and units spread over 60 locations, ITC has a large number of stakeholders – the Government and its statutory bodies, shareholders, customers, employees, suppliers, contractors, local communities, and the society at large – who are affected by the Company's operations.

ITC and all its units consistently strive to anticipate emerging stakeholder expectations. The Company's various businesses have evolved and institutionalised structured systems to formally review and update their understanding of stakeholder expectations.

ITC is committed to the timely disclosure of relevant and reliable information on its financial performance, its entire gamut of activities relating to Environment, (Occupational) Health and Safety (EHS), and its social initiatives. ITC believes that the disclosure of all appropriate and useful information with regard to Company activities that can have an impact on stakeholders is at the heart of good governance.

Following is a summary of ITC's different key stakeholders, the Company's mode of engagement with them, their key concerns regarding sustainability, and the initiatives undertaken by the Company, whether statutory or otherwise, to positively affect the various sections of stakeholders:

Stakeholder & Mode of Engagement	Key Sustainability Concerns	Initiatives undertaken by the Company
<p>Shareholders</p> <ul style="list-style-type: none"> • Annual General Meeting • Written communication • Investor Service Centre 	<ul style="list-style-type: none"> • Profitability • Growth 	<ul style="list-style-type: none"> • The Quarterly results of the Company are announced and published within a month of completion of the quarter. Audited Annual results are declared within two months of the end of the financial year. All these results, including the entire Report and Accounts, are posted on SEBI's EDIFAR website. • Information related to shareholding pattern, compliance with corporate governance norms etc., is also posted on SEBI's EDIFAR website. • The Company's corporate website 'www.itcportal.com' is a comprehensive source of information on ITC's portfolio of businesses, social responsibility activities and EHS performance. Two exclusive sections on 'Shareholder Value' and 'Investor Relations' serve to inform and service shareholder needs. The entire Report and Accounts, as well as, quarterly and half-yearly financial results are available in downloadable formats under the section 'Shareholder Value' on the Company's website, to facilitate easy access to all information. The 'Newsroom' section includes all major Press Releases from the Company and relevant press clippings. Clarifications as and when provided to institutional investors and analysts, including presentations, if any, made to them, are also posted on the Company's website. • ITC's Investor Service Centre (ISC) provides share registration and other related services. Such services are provided by a dedicated and trained team of professionals, backed by state-of-the-art infrastructure. Already a benchmark in-house Registrar, the Investor Service Centre endeavours to keep investor servicing contemporary and efficient. ITC is among the few companies to have received the coveted Quality Management Systems Certification, ISO 9001:2000, for its investor servicing. This testifies to the exemplary standards that the Company follows while complying with statutory and regulatory requirements and redressing investor grievances.
<p>Government</p> <ul style="list-style-type: none"> • Regular meetings and structured communication on key economic, EHS and social issues, and regulatory trends 	<ul style="list-style-type: none"> • Regulatory Issues • Community Interests 	<ul style="list-style-type: none"> • Implementing a 'beyond compliance' strategy • Proactively fulfilling all formalities and procedures • Sharing information on key EHS initiatives with local regulatory agencies and community leaders • Participating in seminars organised by local regulatory bodies • Undertaking Public Awareness Programmes
<p>Employees</p> <ul style="list-style-type: none"> • Regular interaction through elected unions and delegates • Direct interaction at the workplace. Implementation of Suggestion Schemes • Representation of employees in EHS and Social Initiatives • Employees' involvement in Total Productivity Maintenance 	<ul style="list-style-type: none"> • Health and Safety • Growth prospects • Employee satisfaction and commitment • Ethical standards in business • Attracting and retaining talent • Career development opportunities 	<ul style="list-style-type: none"> • Organising EHS Training Programmes • Holding programmes to discover and promote leadership talents • Systematically encouraging innovation • Conceptualising and implementing knowledge management tools • Creating an organisational culture that combines a warm and caring ambience with a high-performance ethos • Signing Long Term Agreements • Providing adequate welfare amenities • Facilitating employees' professional development in premier institutions • Training in competency-building at national and international levels, in the latest technology and machines • Enabling employee welfare through training of employees' families and their children in EHS • Organising the following programmes for employees and their children: <ul style="list-style-type: none"> • Career Options and how to face interviews • Course on spoken English • Courses on Computer operation and desktop publishing

Stakeholder & Mode of Engagement	Key Sustainability Concerns	Initiatives undertaken by the Company
<p>Communities</p> <ul style="list-style-type: none"> • Public hearings for new projects • Surveys through NGOs • Need-based discussions/written communication 	<ul style="list-style-type: none"> • Air and Water quality • Environment quality • Support in awareness-building • Support in community health and infrastructure improvements 	<ul style="list-style-type: none"> • Channeling of water supply to nearby farms/colonies, and for irrigation • Organising Public Awareness Programmes on EHS • Organising medical facilities like pulse polio and eye camps • Providing infrastructural support through road-building, and effecting improvements in school buildings and public toilets • Actively supporting local NGO initiatives in public health, sewerage and community waste management • Improving the quality of life in the community • Spearheading AIDS awareness • Building low cost toilets • Distributing condoms free of cost • Promoting mother and child welfare programmes • Creating self-help groups through NGOs for income generation, micro-enterprises, imparting education including accelerated learning techniques for children, and improving livestock yield in identified locations • Providing computers to complement education in local communities in identified locations • Training housewives on LPG usage, road and home safety
<p>Customers</p> <ul style="list-style-type: none"> • Customer and market surveys • Regular visits by Managers • Customer-complaint records 	<ul style="list-style-type: none"> • Quality • Costs • Delivery • Innovation • Services • Flexibility 	<ul style="list-style-type: none"> • Using IT to improve supply chain management • Adopting ISO 9000, CANDO (5S), IQRS (International Quality Rating System) certification, and online instrumentation to ensure product quality and consistency • Improving designs and processes through R&D and product development • Developing and implementing actions to ensure prevention of reoccurrence of market complaints • Developing new products eg., food-grade packaging etc

“Experiments like e-Choupal show the way forward in the application of modern science to the betterment of the life of the people. We need more such examples of entrepreneurial creativity.”

– Dr. Manmohan Singh, Prime Minister of India, while speaking on ‘India: The Next Decade’ at the Ninth Indira Gandhi Conference in New Delhi on November 19, 2004

Scope and Profile of the Report

Scope

This is ITC's second Sustainability Report. The data and performance indicators in this report cover the period April 1, 2004 to March 31, 2005, except for the section on Awards and Certifications

which includes more recent updates. The reporting principles and methodology recommended by the Global Reporting Initiative have been adopted.

This report covers the following businesses and their corresponding units:

Business

FMCG – Cigarettes



Products

Cigarettes and smoking mixtures



Locations

Kolkata (West Bengal)
Bangalore (Karnataka)
Munger (Bihar)
Saharanpur (Uttar Pradesh)
Integrated Group Research & Development Centre, Bangalore (Karnataka)

Hotels



Hoteliering



ITC Hotel Maurya Sheraton & Towers (New Delhi)
ITC Hotel Grand Maratha Sheraton & Towers (Mumbai)
ITC Hotel Grand Central Sheraton & Towers (Mumbai)
ITC Sonar Bangla Sheraton & Towers (Kolkata)
Marriott WelcomHotel (New Delhi)
WelcomHotel Chola Sheraton (Chennai)
WelcomHotel Mughal Sheraton (Agra)
ITC Hotel Windsor Sheraton & Towers (Bangalore)
WelcomHotel Rajputana Palace Sheraton (Jaipur)

Paperboards, Paper & Packaging



Paperboards, Paper (including Specialty Paper & Packaging)



Munger (Bihar)
Tiruvottiyur (Tamil Nadu)
Tribeni (West Bengal)
Bhadrachalam & Bollaram (Andhra Pradesh)
Kovai (Tamil Nadu)

Agri Business



Leaf Tobacco



Anaparti & Chirala leaf plants and Research Centre at Rajahmundry (Andhra Pradesh)

Lifestyle Retailing



Branded Apparel & Accessories



Design & Tech. Centre, Gurgaon (Haryana)

The environmental and social impact of the Greeting, Gifting and Stationery, Foods, Safety Matches, Agarbatti and Agri-Export businesses have not been included in this report. Manufacturing for these businesses is outsourced.

Profile

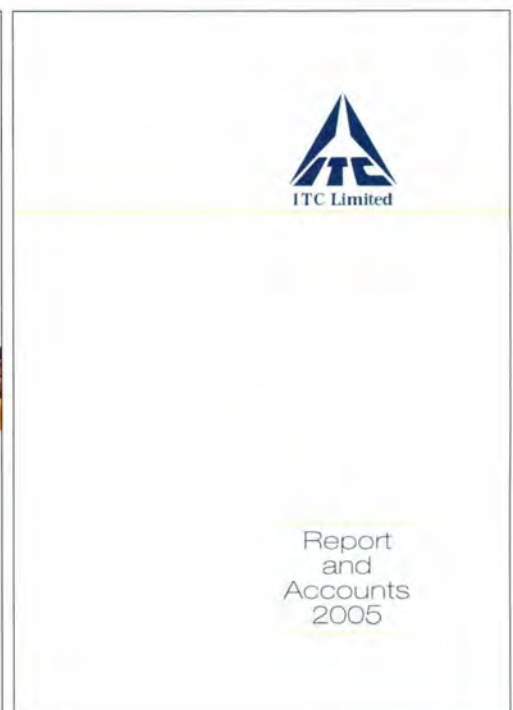
The Sustainability Report 2005 follows the Sustainability Report 2004 and the Company's Environment, Health and Safety (EHS) Report 2003, which reported on the EHS performance of the Company. This Report is based on the Global Reporting Initiative (GRI) guidelines, criteria, methodology and definitions (GRI-2002). The EHS Report for 2003 and the Sustainability Report 2004 used the same criteria for evaluating and reporting performance. The report on economic performance is largely drawn from the Directors' Report and Annual Accounts for 2004-05, and has been audited by independent External Auditors.

EHS data and performance are continually monitored and audited by the Company's Corporate EHS Department. The Corporate EHS Department has developed comprehensive EHS guidelines based on national statutes, national and international standards, and codes of best practices. The Company sends its EHS Reports to relevant statutory bodies to audit and check compliance with all prescribed norms.

ITC's policies and data on social performance have been broadly derived from the Company's constantly updated corporate web portal, 'www.itcportal.com'. The Company has published and widely circulated a number of booklets and backgrounders regarding its environmental and social initiatives. Relevant excerpts from these booklets are reproduced in this Sustainability Report to provide a holistic picture of the Company's social commitment and performance.

PricewaterhouseCoopers have verified the conformance of the report to GRI guidelines and provided assurance on reliability of performance data.

For additional information on ITC please visit 'www.itcportal.com'. For copies of the Annual Report, Chairman's Speech and Company Brochures or additional copies of this report please write to: Head, Corporate Communications, ITC Limited, 37 J L Nehru Road Kolkata-700 071 or e-mail enduringvalue@itc.in.



Vision, Mission and Core Values

ITC's Vision:

Sustain ITC's position as one of India's most valuable corporations through world class performance, creating growing value for the Indian economy and the Company's stakeholders.

ITC's Mission:

To enhance the wealth generating capability of the enterprise in a globalising environment, delivering superior and sustainable stakeholder value.

ITC's Core Values:

ITC's Core Values are aimed at developing a customer-focused, high-performance organisation which creates value for all its stakeholders.

Trusteeship

As professional managers, we are conscious that ITC has been given to us in "trust" by all our stakeholders. We will actualise stakeholder value and interest on a long term sustainable basis.

Customer Focus

We are always customer focused and will deliver what the customer needs in terms of value, quality and satisfaction.

Respect For People

We are result oriented, setting high performance standards for ourselves as individuals and teams.

We will simultaneously respect and value people and uphold humanness and human dignity.

We acknowledge that every individual brings different perspectives and capabilities to the team and that a strong team is founded on a variety of perspectives.

We want individuals to dream, value differences, create and experiment in pursuit of opportunities and achieve leadership through teamwork.

Excellence

We do what is right, do it well and win. We will strive for excellence in whatever we do.

Innovation

We will constantly pursue newer and better processes, products, services and management practices.

Nation Orientation

We are aware of our responsibility to generate economic value for the Nation. In pursuit of our goals, we will make no compromise in complying with applicable laws and regulations at all levels.

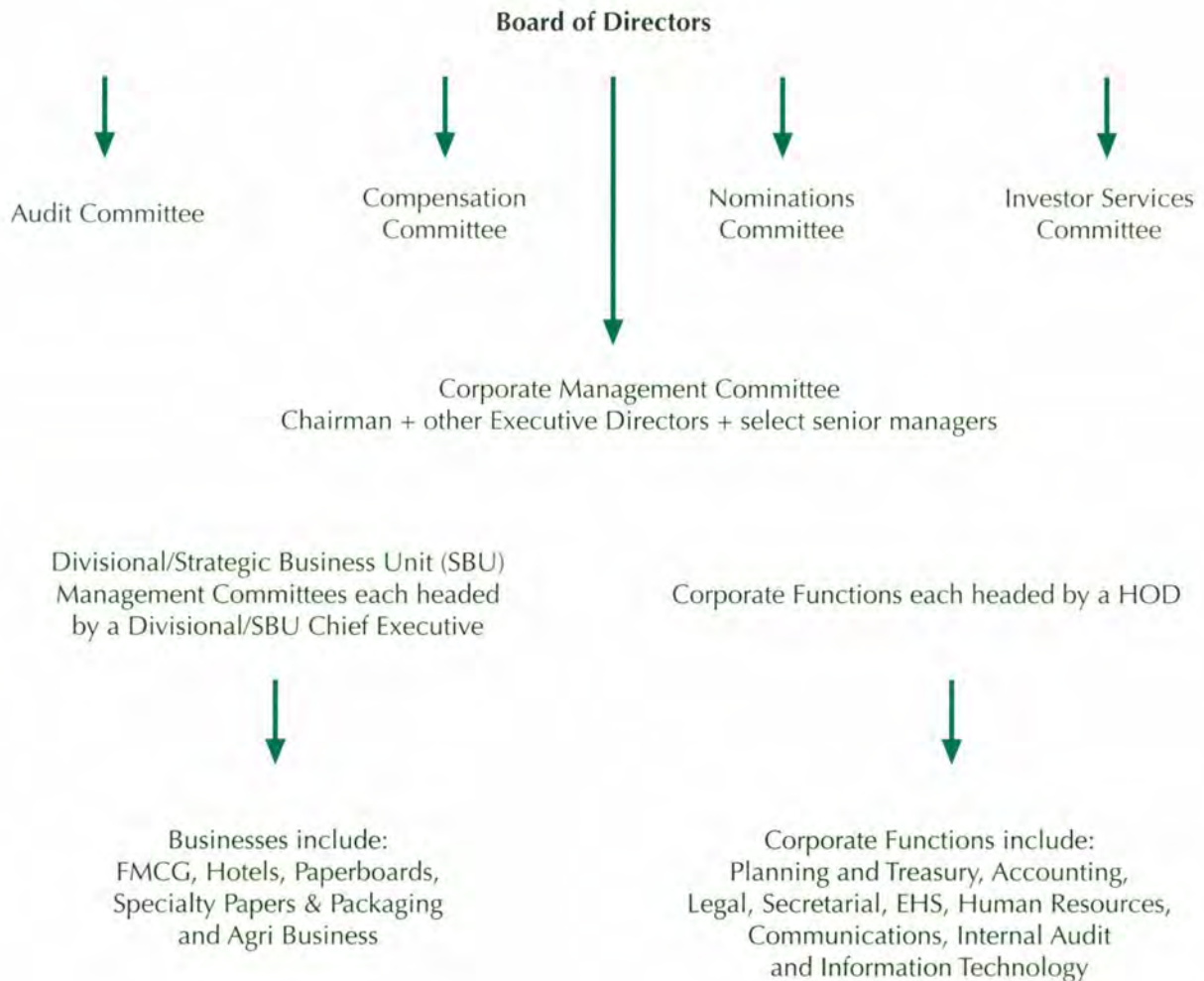


Governance Structure and Management Systems



Managing Multiple Drivers of Growth

Strategy of Organisation



ITC's Corporate Governance processes are designed to support effective management of multiple businesses, while retaining focus on each one of them.

The practice of Corporate Governance in ITC takes place at three interlinked levels:

Strategic supervision	by the Board of Directors
Strategic management	by the Corporate Management Committee
Executive management	by the Divisional/Strategic Business Unit (SBU) Chief Executives, assisted by the respective Divisional/SBU Management Committees.

The Corporate functions provide support and assistance to both the Corporate and Divisional Management Committees.

This three-tier governance structure ensures that:

- Strategic supervision (on behalf of the shareholders), being free from involvement in the task of strategic management of the Company, can be conducted by the Board with objectivity, thereby sharpening accountability of management;
- Strategic management of the Company, uncluttered by the day-to-day tasks of executive management, remains focused and energised;
- Executive management of a Business, free from collective strategic responsibilities for ITC as a whole, focuses on enhancing the quality, efficiency and effectiveness of the business.

Board of Directors (Board)

The primary role of the Board is that of trusteeship, to protect and enhance shareholder value through strategic supervision of ITC, its wholly owned subsidiaries and their wholly owned subsidiaries. As trustees, the Board ensures that the Company has clear goals relating to creation of shareholder value and its growth. The Board sets strategic goals and seeks accountability towards their fulfillment. The Board also provides direction and exercises appropriate control to ensure that the Company is managed in a manner that fulfils stakeholder aspirations and societal expectations.

The ITC Board is a balanced Board, comprising Executive and Non-Executive Directors. The Non-Executive Directors include independent professionals. The Governance Policy requires that the Non-Executive Directors be drawn from amongst eminent professionals with experience in business/finance/law/public enterprises. The present strength of the Board is twelve. Eight out of the twelve are Non-Executive Directors.

Board Committees

Currently, there are four Board Committees – the Audit Committee, the Nominations Committee, the Compensation Committee and the Investor Services Committee.

The Audit Committee of the Board, inter alia, provides reassurance to the Board on the existence of an effective internal control environment that ensures efficiency and effectiveness of operations, both domestic and overseas, safeguarding of assets and adequacy of provisions for all liabilities, reliability of financial and other management information, adequacy of disclosures and compliance with all relevant statutes.

The primary role of the Nominations Committee of the Board is to make recommendations on appointments to the Board, the Corporate Management Committee and the senior most level of executive management one level below the Board. The Committee also clears succession plans for these levels.

The Compensation Committee of the Board, inter alia, recommends to the Board the compensation terms of Executive Directors and the senior most level of management immediately below the Executive Directors. The Committee also has the responsibility for administering the Employee Stock Option Scheme of the Company.

The Investor Services Committee of the Board oversees redressal of shareholder and investor grievances, and approves sub-division/transmission of shares, issue of duplicate share certificates etc.

Corporate Management Committee (CMC)

The primary role of the CMC is strategic management of the Company's businesses within a Board-approved direction/framework. The CMC operates under the strategic supervision and control of the Board.



Divisional Management Committee (DMC)/SBU Management Committee (SBU MC)

The primary role of the DMC/SBU MC is executive management of the Divisional/SBU business to realise tactical and strategic objectives in accordance with the Board-approved plan.

Selection of Directors

- The Governance Policy states that the Non-Executive Directors (including Independent Directors) be drawn from amongst eminent professionals with experience in business/finance/law/public enterprises. Directors are appointed/re-appointed with the approval of the Shareholders for a period of three to five years or a shorter duration in accordance with the policy on retirement as determined by the Board.

- The selection of Directors is done by the Nominations Committee, which comprises all the Non-Executive Directors and the Chairman.

- Although not spelt out in writing, the Nominations Committee is also guided by the following parameters, while considering induction of Directors:

Board members are expected to possess the expertise, skills and experience required to manage and guide a high-growth, large, diversified Company. Expertise in strategy, finance, management and human resources is essential. Board members are expected to rigorously prepare for, attend, and participate in all Board and applicable committee meetings.

Board members are not expected to be relatives of an Executive Director or of an Independent Director. They are generally not expected to serve in any executive or independent position in any company that is in direct competition with the Company. Each Board member is expected to ensure that their other current and planned future commitments do not materially interfere with the member's responsibility as the Company's Director.

Independent Directors

As of March 31, 2005 the Board comprised twelve Directors, of whom six Directors (representing 50% of the Board) were independent Non-Executive Directors.

An 'independent director' means a Non-Executive Director of the Company who:

- apart from receiving Director's remuneration, does not have any material pecuniary relationships or transactions with the Company, its Directors, its senior management, its subsidiaries and associates, which may affect the independence of the Director;
- is not related to persons occupying management positions at the Board level or at one level below the Board;
- has not been an executive of the Company in the immediately preceding three financial years;
- is or was not a partner or an executive during the preceding three years, of any of the following:
 - i) the statutory audit firm or the internal audit firm that is associated with the Company, and
 - ii) the legal firm(s)/consulting firm(s) that have a material association with the Company;
- is not a material supplier, service provider, customer or a lessor or lessee of the Company, which may affect the independence of the Director; and
- does not own 2% or more shares of the Company.

Executive Compensation

Remuneration of Executive Directors (including the Executive Chairman) and the senior most level of management, immediately below the Executive Directors, is determined by the Compensation Committee comprising only Non-Executive Directors. The recommendations of the Compensation Committee are considered and approved by the Board. The remuneration of Executive



Directors is subject to the approval of the shareholders. The Chairman and Executive Directors are also entitled, in addition to their consolidated salary, to a Performance Bonus for each financial year, as may be determined by the Board on the recommendation of the Compensation Committee, up to a maximum of 85% and 75% of their consolidated salary, respectively. The senior most level of management, immediately below the Executive Directors, is also entitled to a Performance Bonus for each financial year, up to a maximum of 60% of their consolidated salary, as may be determined by the Compensation Committee; such Performance Bonus is determined, inter alia, on the basis of weightage placed on parameters of profit and profitability, market standing and organisational vitality, and creation of foundations for future growth. Remuneration of other managers is approved by the Corporate Management Committee. Details of compensation paid to the Executive Directors and senior managers above a certain prescribed level are provided to the shareholders every year in the Company's Annual Report.

Oversight, Implementation and Audit of Economic, Environmental, Social and Related Policies

The Corporate Management Committee of the Company approves the Environment, Occupational Health and Safety, and Social policies of ITC.

The Corporate EHS Department, headed by an Executive Vice-President, is responsible for laying down ITC's standards, preparing EHS Guidelines, ensuring implementation and, at least annually, auditing the EHS performance in each of the Units/Factories/Hotels to ensure conformity to statutory requirements, Corporate EHS Guidelines and Standards.

The Corporate Human Resource (CHR) Department coordinates all activities relating to the Company's social performance.

Corporate Governance Policy

ITC defines Corporate Governance as a systemic process by which companies are directed and controlled to enhance their wealth-generating capability. Since large corporations employ a vast quantum of societal resources, ITC believes that the governance process should ensure that these resources are utilised in a manner that meets stakeholders' aspirations and societal expectations. This belief is reflected in the Company's deep commitment to contribute to the "triple bottom line", namely the development, nurture and regeneration of the nation's economic, ecological and social capital.

ITC's Corporate Governance structure, systems and processes are based on two core principles:

- Management must have the executive freedom to drive the enterprise forward without undue restraints; and
- This freedom of management should be exercised within a framework of effective accountability.

ITC believes that any meaningful policy on Corporate Governance must empower the executive management of the Company. At the same time, Governance must create a mechanism of checks and balances to ensure that the decision-making powers vested in the executive management are used with care and responsibility to meet stakeholders' aspirations and societal expectations. From this definition and from the core principles of Corporate Governance emerge the cornerstones of ITC's governance philosophy, namely trusteeship, transparency, empowerment and accountability, control and ethical corporate citizenship. ITC believes that the practice of each of these creates the right corporate culture that fulfils the true purpose of Corporate Governance.

Trusteeship recognises that large corporations, which represent a coalition of interests, namely those of the shareholders, other providers of capital, business associates and employees, have both an economic and a social purpose, thereby casting the



responsibility on the Board of Directors to protect and enhance shareholder value, as well as fulfil obligations towards other stakeholders. Inherent in the concept of trusteeship is the responsibility to ensure equity, namely, that the rights of all shareholders, large or small, are protected.

Transparency means explaining the Company's policies and actions to those towards whom it has responsibilities. Externally, this means maximum appropriate disclosures without jeopardising the Company's strategic interests, and internally, this means openness in the Company's relationship with its employees and in the conduct of its business. ITC believes transparency enhances accountability.

Empowerment is a process of unleashing creativity and innovation throughout the organisation by truly vesting decision-making powers at the most appropriate levels and as close to the scene of action as feasible, thereby helping actualise the potential of its employees. Empowerment is an essential concomitant of ITC's first core principle of governance, that management must have the freedom to drive the enterprise forward. ITC believes that empowerment combined with accountability provides an impetus to performance and improves effectiveness, thereby enhancing shareholder value.

Control ensures that freedom of management is exercised within a framework of checks and balances. It is designed to prevent misuse of power, facilitate timely management of change and ensure effective management of risks. ITC believes that control is a necessary concomitant of its second core principle of governance, that the freedom of management should be exercised within a framework of appropriate checks and balances.

Ethical Corporate Citizenship means setting exemplary standards of ethical behaviour, both internally within the organisation, as well as in external relationships. ITC believes that unethical behaviour corrupts organisational culture and undermines stakeholder value. Governance processes in ITC continuously

reinforce and help realise the Company's belief in ethical corporate citizenship.

ITC Code of Conduct

'The ITC Code of Conduct' is derived from three interlinked fundamental principles, namely, good corporate governance, good corporate citizenship and exemplary personal conduct, and is applicable to all Directors, senior management and employees of the Company. The Code covers ITC's commitment towards sustainable development, concern for occupational health, safety and environment, a gender-friendly workplace, transparency and auditability, legal compliance, and the philosophy of leading by personal example. The Code is available on the Company's corporate website.

ITC Code of Conduct for Prevention of Insider Trading

The Board of Directors of the Company adopted on March 27, 2002 the ITC Code of Conduct for Prevention of Insider Trading ('ITC Code') in the shares and securities of the Company. The ITC Code, inter alia, prohibits purchase/sale of shares of the Company by employees while in possession of unpublished, price-sensitive information in relation to the Company. The ITC Code is available on the Company's corporate website.

Shareholder Mechanisms

A General Meeting of the Shareholders of the Company is held at least once a year to consider and approve the Report of the Directors, the annual financial statements with the notes and schedules thereto, declaration of dividends or any other returns or resources intended for distribution, the appointment of Directors and auditors, and other important matters requiring shareholder approval. The Annual General Meeting is the principal forum for face-to-face interaction with shareholders, where the entire Board is present. The Chairman addresses the shareholders on issues of



relevance to the Company and provides clarifications to shareholders on behalf of the Board. The Board encourages open dialogue with all its shareholders – be it individuals, corporates or foreign investors. At the General Meetings, shareholders are provided with all requisite information.

Shareholders are also encouraged to write to the Company with their suggestions, comments and opinions on the working of the Company. Valid suggestions and comments are taken into consideration.

The Company's corporate website 'www.itcportal.com' provides comprehensive information on ITC's portfolio of businesses, its social responsibility activities and EHS performance. The website has entire sections dedicated to ITC's profile, history and evolution, core values, corporate governance and leadership, and to 'Shareholder Value' and 'Investor Relations'. It also provides a ready forum through which shareholders can express their views and opinions to the Company.

Precautionary Principles

The Company has in place an extensive framework of policies, processes and procedures that define its approach towards protection of property rights and risk management.

ITC ensures the protection of Company property by means of a comprehensive insurance mechanism. The Internal Audit Department and External Auditors conduct audits of financial accounting, projects, systems and IT security of all Divisions/SBUs. A Projects Policy Manual is also in place. Apart from this, the Company has clearly spelt out Environment, (Occupational) Health and Safety requirements, compliance reports of which are furnished every month to the Corporate Management Committee. Corporate EHS undertakes an EHS audit of all Units. All new projects are designed in accordance with corporate standards and are audited and certified by the Corporate EHS Department.

ITC has a Corporate Accounting and Systems Policies (CASP) document. The objective of CASP is to operationalise the tenets of Corporate Governance; ensure adherence to laid down accounting policies for uniformity of systems, procedures and practices across the Company and be a handbook for risk management. The Divisions have evolved their own DASP (Divisional Accounting and Systems Policies) for their respective businesses. Other major Central/Divisional policies are:

- Policy for risk management in commodities trading
- Forex Treasury Manual
- Human Resource Policy
- Information Technology Policy

The Company is committed to complying with all the relevant statutes, and has benchmarked practices in various aspects of its operations and Corporate Governance.



The Company has enunciated internal codes such as the ITC Code of Conduct and the Insider Trading Code. Expenditure control and monitoring is undertaken by way of monthly cost budgets along with variance analysis.

Auditing Process

Messrs. A. F. Ferguson & Co., Chartered Accountants, are the Statutory Auditors of the Company. They conduct audit of the financial statements of the Company, in accordance with the auditing standards generally accepted in India, and report the same to the shareholders of the Company. Additionally, ITC also has its own Internal Audit Department, which provides an independent and objective assessment of the status of the following: adequacy of operating systems and policies and compliance thereof, statutory compliance, risk exposures and their management, implementation of top management directives, quality of management decision making process and the financial health of the business in terms of quality of assets and profits.

Environmental and Social Review of Service Providers

Procedures detailed under ISO 14001 and OHSAS 18001, and the Corporate EHS Guidelines set out detailed and comprehensive norms that all suppliers and service providers must follow. These norms and guidelines are communicated to all the service providers before they are enlisted. These are also specified on job and work orders. The EHS coordinator of each Unit is responsible for elucidating ITC's EHS norms and safe work practices, and educating the service providers and suppliers who interface with that Unit. All new 'entrants' in the capacity of service providers are imparted EHS training. ITC Units have solicited support from the National Safety Council for training service providers and their workmen involved in large construction work, like the installation of the new pulping facility in ITC's Paperboard Unit at Bhadrachalam. Planned and surprise EHS audits at the Unit level, supplemented with audits by the Corporate EHS Department and Internal Audit Department help ensure compliance with all applicable statutes and relevant labour laws.

 *The social agenda is an integral part of ITC's philosophy. ITC is widely recognised as dedicated to the cause of nation building. This vibrant view of social conscience allowed ITC to recognise the unique opportunity of blending shareholder value creation with social development.* 

C. K. Prahalad
Management Guru

ITC's TRIPLE BOTTOM LINE

ECONOMIC PERFORMANCE

- > US \$ 3 billion in turnover
- > US \$ 10 billion in market capitalisation



ENVIRONMENTAL PERFORMANCE

- Water positive corporation for 3rd successive year
- Moving towards being a carbon positive corporation
- Targeting zero solid waste



SOCIAL PERFORMANCE

- Empowering 3.5 million farmers
- Providing health care for over 40,000 women and children



Economic Performance

ITC posted yet another year of stellar performance, with Gross Turnover growing by 13% to Rs.13,350 crores. The success of the Company's strategy of creating multiple drivers of growth leveraging the diverse competencies inherent in its portfolio of businesses is evident in the resounding growth of its non-cigarette businesses. While cigarette sales recorded an 8.4% growth, the non-cigarette businesses grew by 29.5%, largely due to the outstanding performance of the hotels, paperboards and FMCG businesses. Consequently, the share of the non-cigarettes businesses in net sales has increased from 25% in 1999-00 to 42% in 2004-05.

Economic Performance Indicators

(Rs. Crores)

Key Economic Indicators	2001	2002	2003	2004	2005
1. Net Turnover					
Gross Turnover	8,683	9,840	11,025	11,815	13,350
Less: Excise Duty and Taxes on Sales of Products and Services	4,475	4,781	5,159	5,345	5,710
Net Turnover	4,208	5,059	5,866	6,470	7,640
Exports Turnover	584	905	1,229	977	1,009
Domestic Turnover	8,099	8,935	9,796	10,838	12,341
2. Taxes Paid					
Contribution to Exchequer	5,106	5,308	5,981	6,134	6,523
3. Cost of Goods	1,492	1,890	2,248	2,388	2,770
4. Consumption of Raw Materials & Stores and Spares					
(a) Raw Materials					
Imported	187	299	319	299	378
Indigenous	1,129	1,285	1,231	1,718	1,646
Total Raw Materials Consumed (A)	1,317	1,583	1,550	2,016	2,024
(b) Stores & Spares					
Imported	24	41	34	37	36
Indigenous	41	50	59	65	83
Total Stores & Spares Consumed (B)	65	91	93	102	119
Total Consumption (A) + (B)	1,382	1,674	1,643	2,118	2,143
5. Payroll Expenses	274	310	346	416	467
6. Interest Paid on Debts & Borrowings	96	67	30	25	42
7.(a) Dividend Paid	245	334	371	495	773
(b) Dividend Paid (including Tax on Dividend)	270	334	419	559	882
8. Retained Profits	736	856	953	1,034	1,310
9. Community Investments	11	13	13	47	56

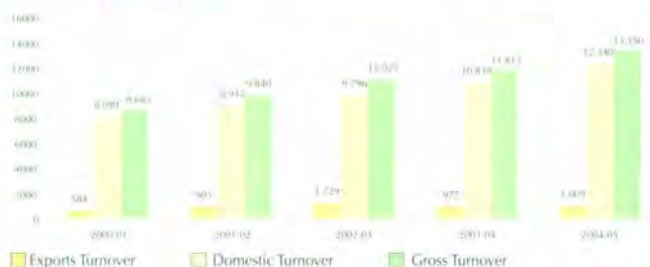
* All figures rounded off to the nearest digit

Direct Economic Impact

Putting Customers First

ITC ranked fifth in terms of gross sales in the Indian Private Sector in 2004-2005. Net Sales grew at an impressive 18% during the year. The export turnover grew to Rs.1,009 crores. This signifies a CAGR of 14.6% over the last 5 years. All businesses in the ITC portfolio are mandated to engage with overseas markets in a bid to test competitiveness and seek growth opportunities. The ITC group's contribution to foreign exchange earnings over the last decade grew on a sustained basis, amounting to a total of USD 2.2 billion, of which agri exports accounted for USD 1.6 billion. Agri export earnings are an indicator of ITC's contribution to the rural economy through effectively linking the farmers with international markets.

Turnover (Rs. Crores)



The 'FMCG – Others' segment recorded the highest growth in terms of sales. This segment includes sale of Foods (Atta, Ready to Eat Meals, Biscuits, Confectioneries), Garments Retailing, Greeting Cards, Stationery, Agarbatti and Matches. ITC is of the view that the FMCG sector presents exciting long-term growth prospects, as the underlying macroeconomic trend points to a compelling opportunity.

Product Category	(Rs. Crores)		Growth (%)
	03-04	04-05	
FMCG – Cigarettes	9,230	10,003	8
FMCG – Others	304	562	85
FMCG – Total	9,534	10,565	11
Hotels	254	573	125*
Agri Business	1,286	1,221	-5
Paperboards, Paper and Packaging	741	991	34
Total	11,815	13,350	13

All figures rounded off to the nearest digit

The Company's market standing was significantly enhanced due to the rapid expansion of product range across chosen categories. The Company's trade marketing and sales management processes, spanning multiple skills across diverse categories, are acknowledged as the industry benchmark.

*The figures of the Hotels business are not comparable, as the figures of FY 2003-04 do not include figures of erstwhile ITC Hotels Limited, now merged with ITC Limited, with effect from April 1, 2004.

Contributing to the National Exchequer

ITC's contribution to the national exchequer is significant in terms of payment of excise duties, luxury taxes, income tax and other rates and taxes. The share of ITC's contribution to the exchequer constitutes nearly 72% of its Value Added. In terms of Direct Taxes, the Company's contribution to the exchequer ranks amongst the top companies in the private sector in India. ITC's excise payments account for nearly 5% of the total excise collection in India.

Turnover & Taxes Paid (Rs. Crores)



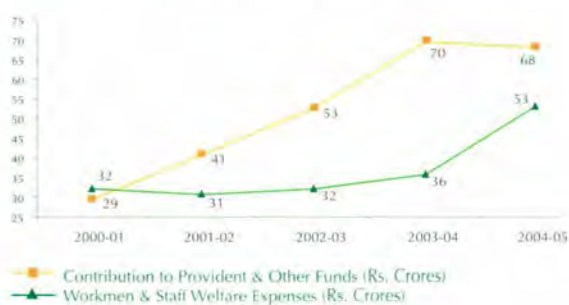
Nurturing Talent

People are ITC's unique source of competitive advantage. ITC's Human Resource strategies and policies are anchored in the belief that the quality and preparedness of the human resource is the decisive differentiator. ITC's HR strategies and policies seek to build sustained market leadership and organisational vitality for continuous regeneration and renewal, thereby creating enduring value for the stakeholder. ITC believes that executive remuneration is an important instrument in attracting and retaining talent, and remuneration/reward is a key component of the performance management system. The Company recognises that value addition at a rate faster than competition can serve as a key retention factor, while simultaneously developing capabilities for the future.

Payroll Costs (Rs. Crores)



The Company administers various funds in respect of Employees' Retirement Benefit Schemes through duly constituted and approved independent trusts. However, Provident Fund and Family Pension contributions in respect of unionised staff, as required by the statutes, are statutorily deposited with the Government.



Rewarding Shareholders

The Company has been making dividend payments consistently over the past several years with dividends increasing from Rs.10 per share in 2001 to Rs.31 per share in 2005. The retained profits of the Company increased to Rs.1,309.70 crores in 2005 from Rs.1,034.02 crores in 2004.

	2001	2002	2003	2004	2005
Dividend Paid (Rs. Crores)	270	334	419	559	882
Dividend per Share (Rs.)	10	13	15	20	31

All figures rounded off to the nearest digit.

ITC is a debt-free company with no long-term borrowings and negligible short-term borrowings.

Material Impact

Cost of Goods Sold (Rs. Crores)



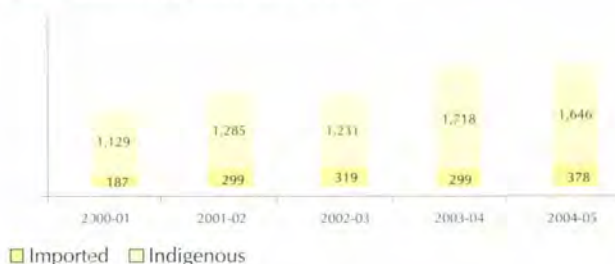
All figures rounded off to the nearest digit.

The monetary flows include the outlay for purchase of raw materials, purchase of finished goods from third parties, and contract manufacturing charges, mainly for cigarettes, agri products and other goods. The primary raw materials are unmanufactured

tobacco, agri products, waste paper and pulp, chemicals for paperboard and paper, board, filter rods etc. The indigenous content of raw materials consumed is upwards of 80% of the value of consumption.

The cost of goods is determined after adjusting the opening and closing stocks of raw materials and finished goods with the purchase value of raw materials, finished goods and contract manufacturing charges. The finished goods stock consists mainly of cigarettes, paperboards and specialty paper, agri products etc.

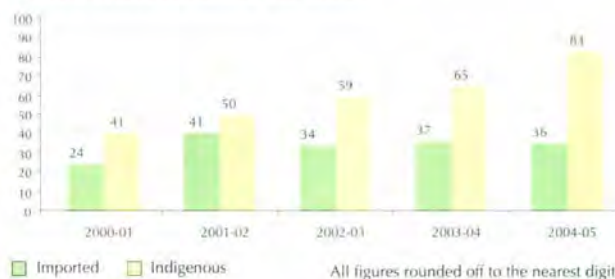
Raw Materials Consumed (Rs. Crores)



The Company's policy is to state inventories, including work-in-progress, at cost or below. The cost is calculated on the basis of the weighted average method. Cost comprises expenditure incurred, in the normal course of business, in bringing such inventories to their location and includes, where applicable, appropriate overheads based on normal level of activity. Obsolete, slow moving and defective inventories are identified at the time of physical verification and, where necessary, provision is made for such inventories.

Apart from raw materials, stores and spares are consumed in the normal course of manufacture where the indigenous content in terms of value is nearly 70%.

Stores & Spares Consumed (Rs. Crores)



All figures rounded off to the nearest digit.

A large part of raw materials purchased and supplies procured are through immediate payment or through letters of credit. The efficiency of accounting system has been improved to enable speedy processing of payments to vendors and suppliers.

Environmental Performance

ITC's commitment to contribute to the development and regeneration of the nation's social and environmental capital is growing in strength with every passing year. The Company's uncompromising dedication to internationally benchmarked 'beyond compliance' performance has ensured that all its units excel in the fields of safety, occupational health and environmental performance. On the basis of its water-harvesting initiatives within its units and in several moisture-stressed districts of the country, the Company has retained its position as a water positive corporation for the third successive year. ITC is now making significant progress towards becoming a carbon positive and zero solid waste Company.

Energy Sustainability

Global Warming refers to an average increase in the earth's temperature, which in turn causes adverse changes in climate. Climate change may lead to changes in rainfall patterns, a rise in sea level, and a wide range of impact on plants, wildlife and humans. Scientists are concerned about global warming caused by human activities. Greenhouse gases trap energy in the atmosphere and thereby make the earth warmer. Reduction of greenhouse gases discharged into the atmosphere is the answer to the challenge of global warming.

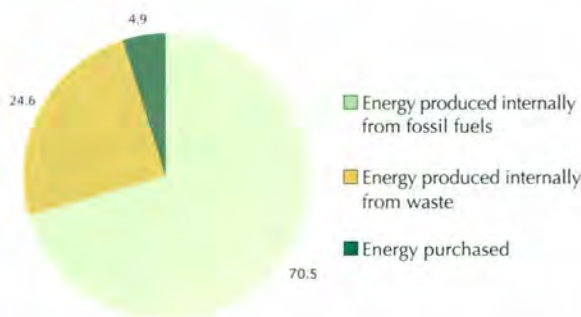
ITC's strategy on energy sustainability and its contribution in reducing global warming can be summarised as follows:

- Ensuring availability and sustainability of energy supply
- Benchmarking specific energy consumption to progressively achieve reduction
- Using renewable sources, including energy from wastes
- Creating a positive environmental footprint through sequestration

Energy Supply & Sustainability

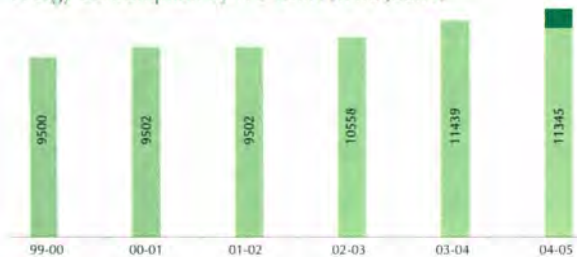
ITC operations consumed 12,085 Terra Joules of energy in 2004-05 (11,439 Terra Joules in 03-04). 95.11% of this energy was generated internally. Almost a quarter (24.6%) of the total energy was produced from wastes. Only 4.89% energy was purchased in the form of electricity.

Energy Scenario in ITC (in percentage)



On a like to like basis, for the operating units reported in the Sustainability Report 2004, actual consumption of energy has in fact gone down by 0.82% from 03-04, in spite of a 9.4% growth in paper production, which is an energy-intensive process.

Energy Consumption by ITC Units (Terra Joules)

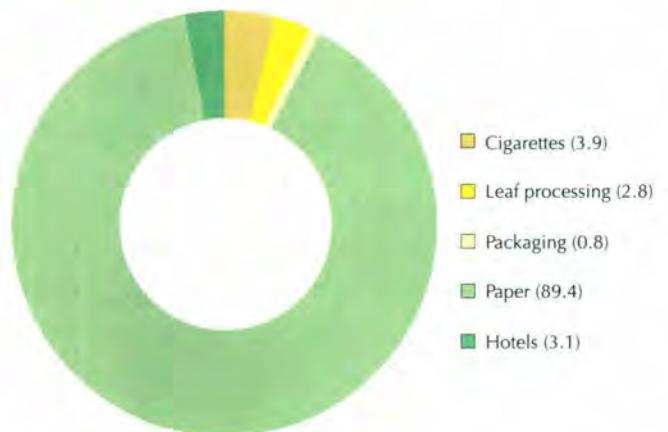


■ Additional 740 Terra Joules energy used by newly acquired paperboards unit at Kovai and merged hotels

Benchmarked Specific Energy Consumption

The Bhadrachalam, Tribeni and Kovai units of the Paperboards and Specialty Papers Division together account for over 89% of the total energy utilised by ITC operations.

Energy Consumption by ITC businesses (in percentage)



Significant efforts, therefore, continue to be directed towards minimising specific energy consumption, a measure of energy requirement per unit of production, in these paper and paperboards units.

Bhadrachalam

Energy consumption per tonne of paperboard in the Bhadrachalam unit decreased to 33.3 GJ (an improvement of 7.75% over the previous year). The specific energy consumption in the last three years has been slightly higher than the lowest consumption figures achieved in 00-01, due to the commissioning of two new paper machines and a substantially larger pulp mill.

The Bhadrachalam unit continues to be the most energy-efficient unit in its category of mills in the world (the international benchmark for structurally similar mills is 32.0 – 40.93 GJ/tonne of paper).

Specific Energy Consumption in the Bhadrachalam Paperboards Mill (Giga Joules/tonne of paperboard)



Tribeni

The Specialty Paper Mill at Tribeni achieved a 6.8% reduction in specific energy consumption over the previous reporting period.

Kovai

A number of energy-efficiency initiatives have been undertaken in the Kovai unit. These have been described later in this report.

Other ITC units

All other ITC units continued energy conservation efforts through energy audits conducted by experts, deployment of latest technologies, awareness campaigns and benchmarking.

ITC's cigarette manufacturing units achieved 19.4% reduction in specific energy consumption over the previous year. The average specific energy consumption of these units stands at 8.24 GJ/million cigarettes. This compares very well with the specific energy consumption of 20.27 GJ/million cigarettes, reported by British American Tobacco in its Social Report of 2004-05.

Energy Conservation at ITC Sonar Bangla Sheraton

The newly opened ITC Sonar Bangla Sheraton & Towers at Kolkata has undertaken a number of initiatives in the field of energy conservation. This has resulted in an 8.04% reduction in total energy usage over the previous year (in spite of 78% growth in room nights sold). Some of the measures adopted, such as retrofitting of pumps, hot water generation using condensed steam, replacement of electric heater with solar heater and installation of variable frequency drives for fans have not only resulted in improved energy usage, but also reduced the Carbon Dioxide (CO₂) emissions by 2,841 tonnes per annum.



Renewable Energy

ITC continued its focus on improving the use of renewable energy such as biomass and solar energy. Of the total energy used, 24.6% is generated internally from Biomass. A number of units have installed solar thermal systems mainly for use in canteens and kitchens.



e-Choupal and Solar Energy

ITC e-Choupal has creatively leveraged information technology to set up a meta-market in favour of India's small and poor farmers, who would otherwise continue to operate and transact in 'unevolved' markets. e-Choupal also sidesteps the value-sapping problems caused by fragmentation, dispersion, heterogeneity and weak infrastructure.

ITC takes on the role of a Network Orchestrator in this meta-market by stitching together an end-to-end solution. The solution simultaneously addresses the viability concerns of the participating companies by virtually aggregating the demand from thousands of small farmers, and the value-for-money concerns of the farmers by creating competition among the companies in each leg of the value chain.



Several problems were encountered while setting up and managing the 'e-Choupals', or Internet kiosks that give farmers access to critical information related to their farm produce through dedicated websites. These related primarily to infrastructural inadequacies, including power supply, telecom connectivity and bandwidth, apart from the challenge of imparting skills to first time Internet users in remote and inaccessible areas of rural India.

ITC has largely overcome the problems of power supply by investing in alternative energy. Two solar panels of 40 Watts have been installed at every e-Choupal, which requires approximately 80 Watts of power for operating the computer and for satellite connectivity. Free surplus power created helps in lighting up the room of the Sanchalak or lead farmer who operates the e-Choupal. This has resulted in, among other conveniences, better lighting for rural children who now use it for studies.

ITC Close to Becoming a Carbon Positive Corporation

ITC endeavours to be a carbon positive corporation. ITC's efforts in the field of energy conservation, its use of carbon neutral fuels, sourcing of renewable energy and large scale tree plantations through social and farm forestry have resulted in ITC sequestering 85.6% of the Carbon Dioxide (CO₂) emitted by its operations.

The total CO₂ released by ITC units was 4.5% more than the previous year. This can be primarily attributed to the newly acquired Kovai paperboards unit, the inclusion of hotel properties due to the merger of ITC Hotels with ITC and the growth in the Paper and Hotels businesses. ITC's farm and social forestry plantations, covering 29,230 hectares (19,500 hectares till 2003-04), enabled sequestration of 85.6% of greenhouse gases emitted during the year, up from 31% in 2003-04.

Intense R&D has resulted in the productivity of these plantations doubling in the last few years. A study by experts from the Indian Institute of Science, Bangalore, has shown that the above & below ground biomass contributes 71% carbon sink additional to the CO₂ sequestered by pulpable wood.

	Unit	2002-03	2003-04	2004-05
CO ₂ released				
(Manufacturing & Freight)	Kilotons	1,188	1,013	1,058
CO ₂ sequestered	Kilotons	216	311	906
CO ₂ sequestered	Percentage	18	31	86

All figures rounded off to the nearest digit



ITC Continues to be a Water Positive Corporation

For the third successive year, ITC continued to be a 'Water Positive Corporation'. Rainwater harvesting (RWH) potential generated todate exceeds the total consumption of water by all the units of the Company.



'Sunderbans' at ITC Sonar Bangla Sheraton: Almost all the rainwater is collected in water bodies

Water Balance at ITC	2002-03	2003-04	2004-05
Fresh water intake	24.1	22.48	24.98
Treated effluents discharged	14.64	14.04	19.55
Net water consumption	9.49	8.44	5.43
RWH potential created within ITC units	0.24	0.39	0.34
RWH potential created through watershed projects	12.5	15.67	16.52
Total RWH potential created (todate)	12.74	16.06	16.86

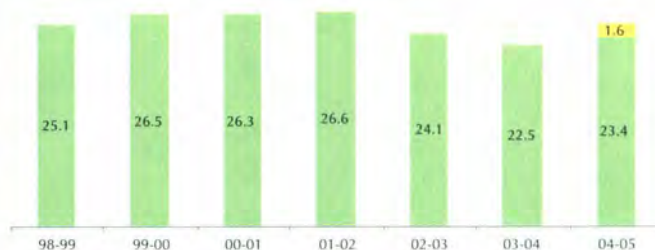
(In million KL)

Water Use – Sources – Strategy – Sustainability

Water use

Fresh water intake by all ITC units in 2004-05 amounted to 24.98 million KL. This included water drawn by the newly acquired paperboards unit at Kovai and the additional hotels resulting from the merger of ITC Hotels with ITC.

Fresh Water Intake by ITC Units (million KL)



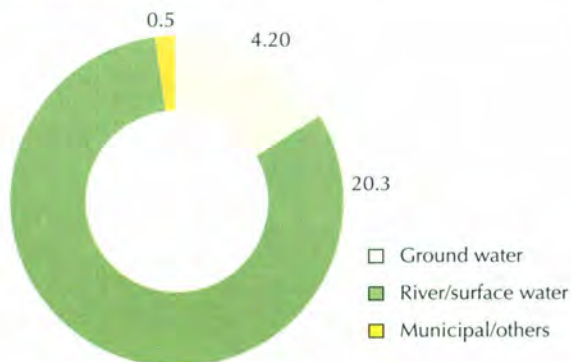
Water used by newly acquired Kovai paperboards unit & additional hotels following merger of ITC Hotels with ITC

On a comparable basis, water usage in 2004-05 was 4% higher than the previous year, primarily due to the 9.4% increase in Paperboards and 15.5% increase in Hotels.

Sources

81.30% (20.3 million KL) of ITC's total water requirement was drawn from rivers/surface water and 16.8% (4.20 million KL) came from ground water. Only 2% (0.48 million KL) of the total water consumed by ITC units was sourced from municipal bodies.

Water Sources (million KL)



ITC's water strategy is founded on 4 pillars:

1. Sustainability of water sources
2. Benchmarked specific water consumption (measure of water required per unit of production) for progressive reduction
3. Zero 'waste water' discharge
4. Creating 'positive footprint' through rainwater harvesting

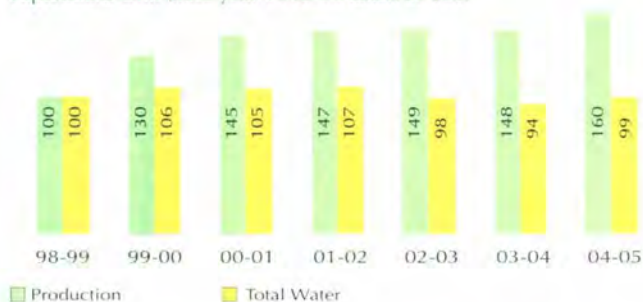
Sustainability

All ITC units are required to minimise water consumption and undertake measures to ensure sustainability of water sources, e.g. wherever water is drawn from underground sources like tubewells, strict surveillance on the water table is maintained. Measures like rainwater harvesting are implemented to ensure sustainability of these water sources.

Benchmarking 'specific water consumption'

Of the total 24.98 million KL of water drawn by ITC units, 91.28% (22.80 million KL) was used by the three large paperboards and specialty paper units. Special efforts were, therefore, directed towards water conservation and reducing specific water consumption in these units.

Production Versus Fresh Water Intake for Bhadrachalam Paperboard Unit (base year 1998-99 taken as 100)

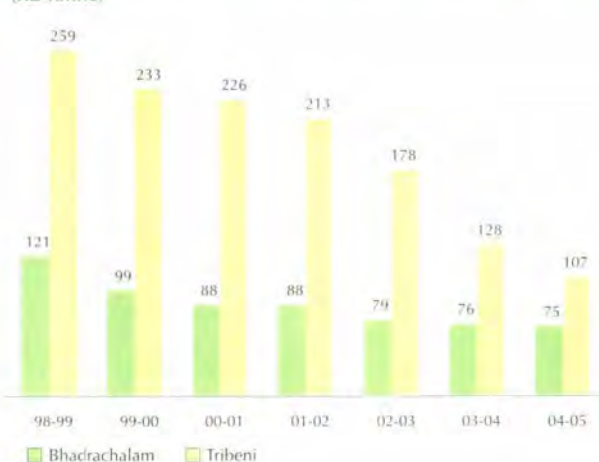


In the Bhadrachalam pulp and paperboards unit, while the production since 1998-99 has gone up by 60%, actual water consumption has gone down by 1%. Further efforts and improvements are in progress to substantially reduce fresh water requirement per tonne of paperboards.

ITC's specialty paper unit at Tribeni produces very fine papers (as low as 21 GSM). This unit achieved a 16.4% reduction in fresh water consumption per tonne of paper in 2004-05 (i.e. 6.5% less fresh water intake than last year, in spite of an additional production of 11.7%). This is specially significant since Tribeni had reported a 28% reduction in specific water consumption in 2003-04.



Specific Water Consumption for Bhadrachalam and Tribeni Units (KL/Tonne)



All the other units of ITC also continued their significant efforts to reduce specific water consumption. ITC's cigarette manufacturing units brought down specific water consumption from 7.5 KL (2003-04) to 7.2 KL (2004-05) per million cigarettes. This compares well with the specific water consumption of 8.01 KL per million cigarettes reported by British American Tobacco in its Social Report 2004-05.

Zero Effluent Discharge

The degree of closure of the water cycle is the best indicator of efforts and initiatives taken by a unit to minimise fresh water consumption.

ITC's Cigarette factories at Bangalore & Saharanpur, the ITC Group Research & Development Centre at Bangalore, the Leaf processing plant at Anaparti, Packaging & Printing factory at Tiruvottiyur, the Cast coating plant at Bollaram, ITC Hotel Sonar Bangla Sheraton & Towers at Kolkata and WelcomHotel Rajputana Palace Sheraton at Jaipur did not discharge any waste water/effluent during the year. The treated effluent was recycled/used for cooling towers, flushing toilets, gardening and other similar activities within the premises.

Rainwater Harvesting

ITC's endeavours towards sustainability go beyond the corporate boundary. Apart from each unit of the Company implementing rainwater harvesting, the Company supports watershed projects in water stressed areas, as described in the 'Social Performance' section of this report. The rainwater harvesting efforts in different units range from rooftop rainwater harvesting in smaller units to total rainwater collection/charging aquifers.

Water and Energy Conservation: Breakthrough at Specialty Paper Mill, Tribeni

ITC's Specialty Paper unit at Tribeni, West Bengal, requires large quantities of energy and water for the production of fine specialty papers. During 2004-05, the unit achieved a 6.5% reduction in fresh water usage compared to 2003-04 (a cumulative reduction of 54% in the last 7 years).

This was made possible by the commissioning of a detailed system of metering & monitoring; optimising consumption at all user-points; replacing the use of fresh water with recycled water, wherever possible; commissioning of 3 water-recycling plants; and installation of Flow/Orifice Meters at critical locations to restrict the consumption.



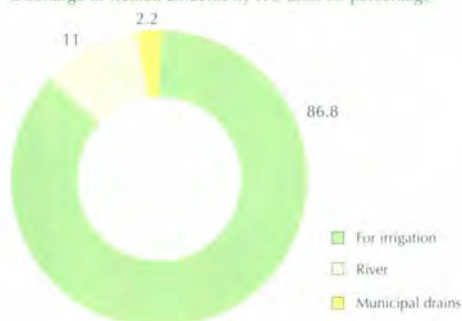
Apart from water conservation measures, a number of other initiatives have enabled the Tribeni unit to reduce its specific energy consumption by 6.8%, and specific CO₂ emissions by 14.97%, as compared to 2003-04. These initiatives include revamping of the compressed air system; retrofitting and replacement of pumping systems; tuning of refiners in stock preparation; optimisation of frequency in the turbo generators; retrofitting of Boiler ID Fans and cooling tower fans, use of energy efficient light fittings, and replacement of exhaust fans with natural ventilation systems.

Significant Effluent Discharges

All the units of ITC have state-of-the-art effluent treatment plants to eliminate or reduce undesirable effluent characteristics. Continuous upgradation of technology, efficient operation of treatment plants and implementation of international management systems help enhance the quality of treated effluent discharge.

During 2004-05, ITC factories and hotels discharged 462 tonnes of Biochemical Oxygen Demand (BOD), 3,279 tonnes of Chemical Oxygen Demand (COD) and 1,316 tonnes of Total Suspended Solids (TSS). The discharged effluent characteristics have always been well below the standards stipulated by the regulatory bodies.

Discharge of Treated Effluents by ITC units (in percentage)



The Paperboards and Specialty Papers business accounts for more than 90% of all discharges. During 2004-05, ITC's largest paperboards unit at Bhadrachalam had an effluent BOD of 1.57 kg/tonne and COD of 11.74 kg/tonne of paper/paperboard production.

The Adsorbable Organic Halides (AOX) level of these effluents in the Bhadrachalam unit measured 0.01 kg/tonne of paperboard production. The AOX level is significantly below the average of 2 kg/tonne discharged by other Indian paper mills. This is also well below the World Bank guidelines of 0.2 kg/tonne for new paper mills.

Significant Spills of Chemicals, Oils and Fuels

All ITC units have effective spill control measures to eliminate or contain spill of chemicals, oils and fuels, to prevent any adverse effect on the environment. The storage facilities are designed in accordance with international standards and are provided with adequate controls such as dyke walls around the storage area and leak detection systems. These measures for spill control are inspected on a regular basis to ensure their effectiveness. Corporate EHS audits of the units, done once every year, further confirm adequacy of these control measures.

No chemical, oil or fuel spills occurred in any of the ITC units in 2004-05.

Towards Zero Solid Waste

EHS Initiatives at the Newly Acquired Paperboards Unit – Kovai

Post acquisition of the Kovai paperboards unit on March 19, 2004, a massive training programme for all employees, including service providers' workmen, was launched to raise quality, environment, occupational health and safety levels to ITC standards. The unit invested 2,260 mandays in training managers, workmen and service providers. Thanks to focused efforts at all levels, the unit has achieved ISO 9001, ISO 14001 & OHSAS 18001 certifications within a year. All the managers in the unit were trained in EHS Risk Management, with the help of National Safety Council, to identify hazards and implement risk reduction plans.



Water: At the time of acquisition, the Kovai unit used 30 KL of water per tonne of board. The Tamil Nadu Pollution Control Board requires all effluents from the mill to be discharged on Company-owned land at a maximum of 35 KL/acre. This limited the total production capacity of the unit. Petax filters were installed, at substantial investments, to clean and recycle the processed water, thereby drastically reducing the water usage to a mere 11 KL per tonne of board. Studies were conducted to establish the significant potential for rainwater harvesting and the unit is gearing up to create a potential of 2,57,257 KL per annum of rainwater harvesting before the 2006 monsoon. Rainwater thus collected should help meet nearly 25% of the total water requirement. Further efforts to reduce consumption and improve recycling of water are underway.

Energy: Various energy saving activities have been explored and implemented due to which 7 MWh power is already being saved every day.

Safety: During the last 7 months of 2004-05, the unit did not have a single lost time accident.

ITC believes that waste is a useful resource that can be recycled either within the Company or can be used as raw material elsewhere.

During 2004-05, ITC units generated 2,80,891 tonnes of solid waste (34.9% higher than the previous year). This included the waste generated by the newly acquired Kovai paperboards unit and the merged hotel properties. All the businesses continued efforts to reduce waste and achieve 100% recycling. This year, 80.5% of the total waste generated was recycled (53.3% in 2003-04).

Breakdown of Solid Waste Generation (In percentage)



■ Cigarettes (2.9) ■ Leaf tobacco (5.5) ■ Packaging & Printing (2.7)
■ Pulp & Paper (87.7) ■ Hotels (1.2)

Significant progress was made by a large number of units towards achieving zero solid waste, through reduction or elimination of waste at source, coupled with recycling and reuse practices.

The Cigarette factory at Kolkata, the Leaf processing factory at Chirala, the Packaging & Printing unit at Tiruvottiyur, the Cast coating unit at Bollaram and the ITC Grand Central Hotel at Mumbai achieved zero solid waste status through 100% recycling. In these units, the waste generated was either reused internally or 100% recycled.

The Cigarettes, Leaf Tobacco and Packaging & Printing businesses achieved over 90% recycling of solid wastes generated.

The Fly Ash Initiative at Bhadrachalam

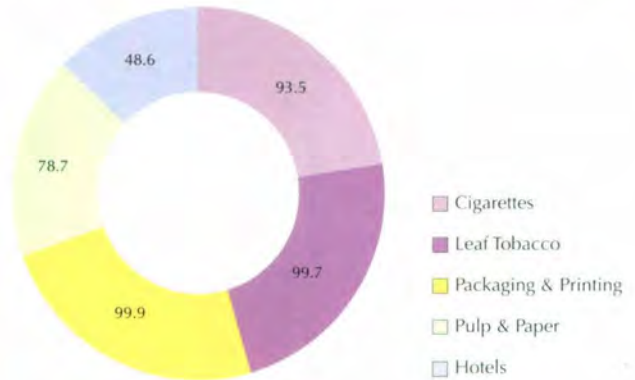


ITC's Bhadrachalam factory, along with its colony, comprising residential units, guest houses, clubs, staff canteens and bachelors' hostels, has undertaken major recycling efforts. The fly ash generated from the boilers in the Bhadrachalam Mill is converted into building bricks. The Staff Colony is constructed from these fly ash bricks. Requirements are also generated from the neighbourhood industrial and residential colonies to which these bricks are supplied.



Of the total solid waste generated by ITC, the three large paperboards and paper units contributed 86.7% in 2004-05 (2,43,460 tonnes). These units recycled 78.6% of waste this year. The yet-to-be recycled waste comprises fly ash (15.1%), lime sludge (4.8%), wood bark, chips and mixed plastic (1.5%). Various plans and projects (additional brick making capacity, biomass gasification etc.) are underway to achieve 100% recycling within the next 2-3 years.

Recycling of Solid Wastes by ITC Businesses (in percentage)



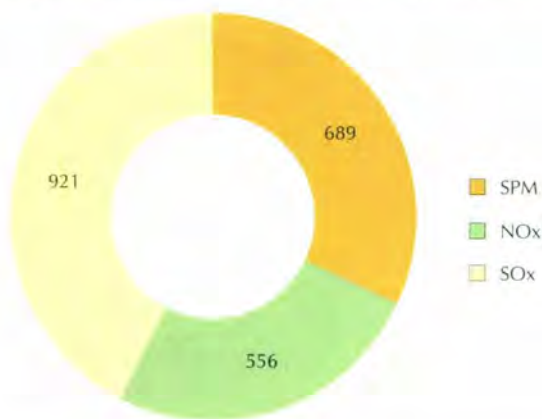
The specialty paper mill at Tribeni made remarkable progress in recycling and reusing solid wastes. During the year, 99.6% (40,767 tonnes) of the total waste was recycled (29% in 2003-04). At the Bhadrachalam unit, dedicated efforts have resulted in the improvement of solid waste recycling. 75.1% of waste was recycled this year compared to 53.3% in 2003-04.



Reducing Significant Emissions

ITC in its endeavour to reduce significant emissions has established adequate controls and regular monitoring of air emissions such as Suspended Particulate Matter (SPM), Oxides of Sulphur (SOx) and Oxides of Nitrogen (NOx) in all its units. In addition, emission of Hydrogen Sulphide (H₂S) is monitored at the Bhadrachalam paper mill on a regular basis. The measured parameters are regularly communicated to the respective Pollution Control Boards. During 2004-05, the monitored air emissions were as follows:

Significant Air Emissions by ITC units in 2004-05 (tonnes)



The Paperboards and Specialty Papers business accounted for more than 50% of the total emissions reported. The Bhadrachalam paperboards unit emitted 4.6 tonnes of H₂S.

ITC's Cigarettes business emitted 2.65 kg of SPM/million cigarettes produced. The specific emission levels of Sulphur Dioxide (SO₂) and NOx were at 3.94 kg and 1.50 kg/million cigarettes manufactured, respectively.

Ozone Depleting Substances (ODS)

As one of the signatories to the Montreal Protocol, India has formulated a policy phasing out Ozone Depleting Substances. In line with Government of India requirements, ITC has developed programmes to meet the requirements well before the deadlines stipulated by the Government. All ITC units focus on reducing the consumption of ODS through effective preventive maintenance schedules, and replacement of old equipment with latest non-ODS technology. These are audited regularly by the Corporate EHS to ensure compliance. In the year 2004-05, all the units of ITC had 4.11 tonnes of ODS (equivalent to CFC-11) in use.

Bhadrachalam Paperboards Unit

In 2004-05, the mill generated 1.42 kg of SPM/Bone-Dry Metric Tonne (BDMT) of paperboard produced, which compares well with the specific SPM emission levels of Indian Papermills (reported in the range of 1.1 kg/BDMT to 11 kg/BDMT). The specific emission level of SO₂ for the unit was monitored at 0.57 kg/tonne of paperboard, whereas the European Union pulp and paper mills have specific emissions of 0.7 kg/tonne of product. The specific NOx emission level was at 0.76 kg/tonne of paperboard. This compares well with 1.14 kg of NOx generation per tonne of product in the European pulp and paper industry (Source: Green Rating Project by Centre for Science and Environment, 2004).



Biodiversity

Except the two newly opened hotels in Mumbai and Kolkata, all other units of ITC have been in operation for several years. ITC Grand Central Sheraton in Mumbai is actually built on the land vacated by one of ITC's cigarette factories. Even though both the hotels are situated in dense urban locations, Environmental Impact Assessment (EIA) was fully carried out to address impact, if any, on biodiversity, affecting species and ecosystems.

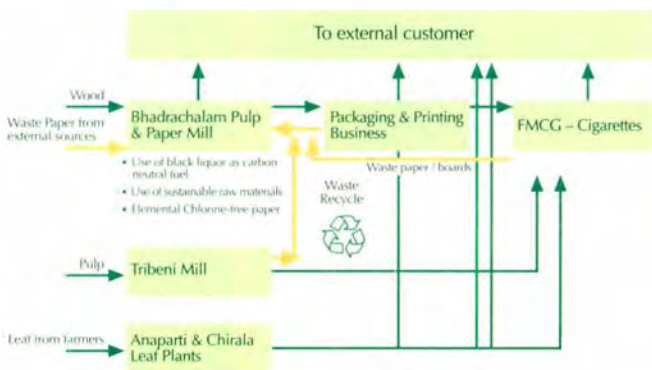
Consumption of Raw Materials

Vertical, as well as, horizontal integration of ITC businesses provide excellent synergy in the utilisation of raw materials and reuse of waste, thereby minimising environmental impact. The main raw materials used by various businesses in 2004-05 were as follows:

Business	2002-03	2003-04	2004-05
Paperboards & Specialty Paper			
Wood (tonne)	1,85,534	2,49,990	2,63,282
Waste paper (tonne)	79,169	68,896	1,15,075
Pulp (tonne)	67,411	57,152	76,664
FMCG – Cigarettes			
Cigarette paper ('000' Bobbins)	678	723	762
Lamina & stem (tonne)	50,090	52,156	64,402
Filter rods (billion)	8.5	8.9	9.5
Agri Business – Leaf Tobacco			
Green Leaf (million kg)	77	89	90
Packaging & Printing			
Paperboard (tonne)	29	32	35

The paper and paperboards wastes generated in the cigarettes, packaging and printing units are reused as raw materials in the paper and paperboards units. Wastes amounted to 25.3% of the total raw material used by the Paperboards business (inclusive of waste paper from outside).

Material and Energy Usage



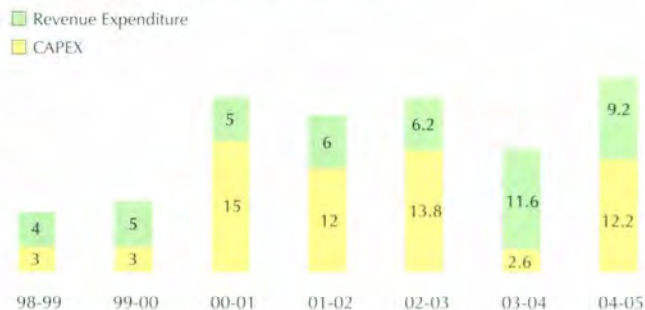
EHS Expenditure

Continuing improvements in almost all areas of safety, occupational health and environmental performance clearly demonstrate management commitment at all levels, suitably backed by adequate financial resources.



During 2004-05, ITC units' capital expenditure on EHS activities amounted to Rs.12.2 crores. Revenue expenditure on the same was Rs.9.2 crores.

EHS Expenditure in ITC units (Rs. Crores)



Beyond Compliance

In 2004-05, not a single unit in ITC was fined for non-compliance of statutory requirements. In all, 2 minor deviations from the relevant statutory requirements were observed in ITC's Tribeni paper mill unit with respect to high concentration level of iron content in the effluent discharge. Immediate corrective actions were taken to ensure that effluent parameters were within the stipulated standard. The Pollution Control Board was informed accordingly.

S o c i a l P e r f o r m a n c e

As a responsible corporate citizen, ITC has made remarkable forays in the social sector. The Company is engaged in poverty alleviation activities in some of the most underdeveloped areas of the country. The thrust of the Company's social sector investments, christened 'Mission Sunehra Kal', is on: (a) web-enablement of the Indian farmer, (b) natural resource management, which includes wasteland, watershed, and agricultural development, (c) sustainable livelihoods, comprising genetic improvement in livestock and economic empowerment of women, and (d) community development, with a focus on primary education, and health & sanitation. ITC's social development projects are spread over the states of Andhra Pradesh, Karnataka, Tamil Nadu, Madhya Pradesh, Uttar Pradesh, Rajasthan, West Bengal and Bihar.

Transforming Lives and Landscapes: ITC's Community Development Philosophy at Work

As a Company that continuously strives to be 'Citizen First', ITC attaches critical importance to its responsibility to contribute to the 'Triple Bottom Line', namely the augmentation of economic, ecological and social capital. This commitment finds expression in the Company's sustainable development philosophy, which recognises the need to not only preserve but also enrich precious environmental resources while providing a safe and healthy workplace for its employees.

ITC's social development initiatives harmonise the Company's goal to create shareholder value with making a substantial contribution to society. The thrust of the Company's social sector investment is in four areas: (a) Web-enablement of the Indian farmer through the e-Choupal initiative; (b) Natural resource management, which includes wasteland, watershed and agriculture development; (c) Sustainable livelihood creation, comprising genetic improvement in livestock productivity, economic empowerment of women and (d) Community development, with focus on primary education and health & sanitation.

Web-enablement of the Indian Farmer

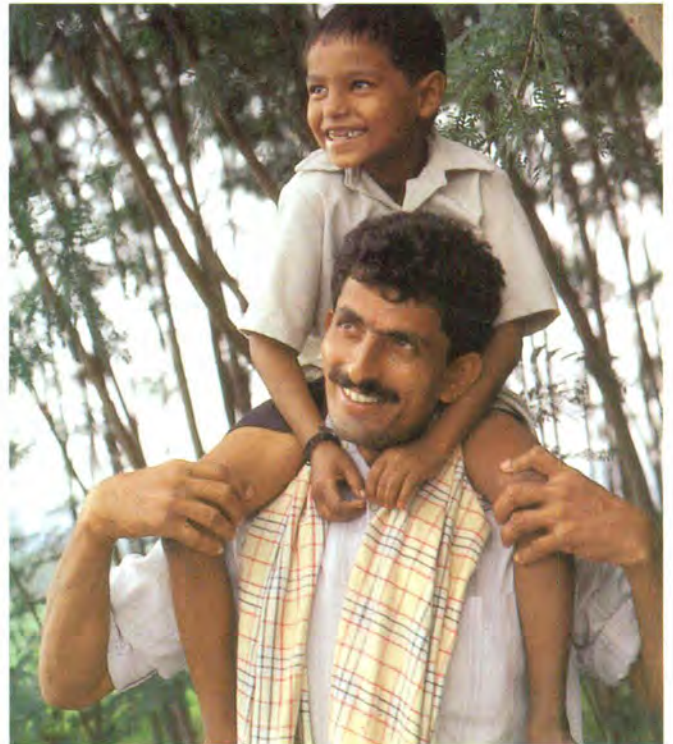
The e-Choupal Initiative

The Company continued to scale up the e-Choupal network during the year. This pioneering initiative comprising 5,200 choupals, currently reaches out to over 3.5 million farmers in the States of Madhya Pradesh, Uttar Pradesh, Rajasthan, Karnataka, Maharashtra, Andhra Pradesh and Kerala.



The e-Choupal initiative, apart from imparting knowhow and facilitating price discovery for the farmer, is fast becoming a two-way distribution channel for goods and services. Pilot projects initiated in the previous years were ramped up towards attaining commercial scale. Goods and services worth nearly Rs.50 crores were sold during the year, primarily in Madhya Pradesh and Uttar Pradesh, comprising agri-inputs, FMCG products, vehicles, consumer durables, insurance products and other marketing services. Nearly 40 companies, both from the public and private sector, are already being served by the network.

The e-Choupal is now being regarded as a reliable delivery mechanism for resource development initiatives. Its potential is being tested through pilot projects in healthcare, education, water management and cattle health management with the help of non-governmental organisations.



Natural Resource Management

Wasteland Development – Social and Farm Forestry

During 2004-05, 1,765 hectares of wasteland were brought under plantations through social forestry, taking the cumulative total to 4,643 hectares. The project today covers 14 mandals, 224 villages and 6,400 poor households, with the strength of total area under plantation touching 19 million saplings.

ITC's strategic alliance with the Government of Andhra Pradesh took off to a successful start by bringing 112 hectares of land under clonal plantation.

The year also marked the successful validation of the social forestry model of the Company, under which poor tribals are provided a comprehensive package of support and extension services to help them convert their wastelands into plantations. As at March 2005, 153 poor tribal households had harvested 73 hectares of their plantations, yielding 2,549 tonnes of pulpwood, valued at Rs.37 lakhs. The entire output was purchased by ITC's Paperboards business. The harvesting households deposited Rs.14 lakhs with the Sanghas towards creation of the village development fund. This successful validation of the social intervention model has greatly reinforced ITC's belief that it is possible to synergise shareholder value creation with service to society.

ITC's social and farm forestry programmes have greened 29,230 hectares with over 100 million saplings.

Soil & Moisture Conservation

ITC's water management programme, designed to assist farmers in identified moisture-stressed districts, focuses on soil and moisture conservation initiatives. A total of 224 large and small water harvesting structures were constructed during 2004-05, taking the total number of structures to 550 with a command area of about 8,000 hectares, covering 5 districts, 100 villages and 9,400 farmers.



Integrated Agriculture Development

These recent interventions aim to improve farm productivity and hence incomes by promoting a package of efficient farm practices and technologies. During 2004-05, 58 group irrigation projects were implemented covering 180 poor farmers, who could not otherwise afford to sink deep bores. 100 sprinkler sets covering 125 hectares were installed for demonstration. In addition, 250 demonstration plots were developed. 674 composting units were established during the year, comprising 390 vermi-compost pits and 284 NADEP units.



Sustainable Livelihoods

Livestock Development

With the objective of creating high-yielding progenies through genetic improvement, an additional 23 Cattle Development Centres (CDCs) were established during 2004-05, taking the total number of CDCs to 32, covering 635 villages. So far over 11,000 artificial inseminations have been performed. Additionally, 17,000 milch animals were covered under the preventive health programme. The main focus of this programme is to create alternative employment for surplus rural labour and decrease pressure on arable land by promoting non-agricultural incomes.



Economic Empowerment of Women

These programmes aim to create sustainable income opportunities for women. During 2004-05, close to 380 self-help groups with 5,350 members mobilised small savings of Rs.27 lakhs. Over 2,000 women are gainfully employed in various enterprises like Chikkan work, agarbatti rolling, etc.



Health & Sanitation

More than 40,000 women-at-risk and children under 5 have been covered under the Mother & Child Health programme. A total of 1,289 low cost sanitary units have been constructed. As per the design of the programme, one-third of the cost is borne by the potential beneficiaries.

Community Development

Primary Education



94 Supplementary Learning Centres are providing regular coaching to nearly 3,000 children. The support to primary schools in rural India covers over 10,000 children.



Upholding Human Dignity

Strategy and Management

ITC believes that all its employees must live with socio-economic dignity and freedom, regardless of nationality, gender, race, economic status or religion. In the management of its businesses and operations therefore, ITC ensures that it upholds the spirit of human rights as enshrined in existing international standards such as the Universal Declaration and the Fundamental Human Rights Conventions of the ILO.

ITC upholds international human rights standards, does not condone human rights abuses, and creates and nurtures a working environment where human rights are respected without prejudice.

The Corporate Human Resources (CHR) function of ITC is responsible for the Human Rights Policy design, implementation and upgradation.

The policy is implemented at all ITC units through a set of separate policies and procedures, covering each of the main constituents of human rights applicable at workplaces.

The assessment procedures for different constituents of this policy are defined against each specific policy.

Supply Chain

Evidence of Consideration of Human Rights Impact Across the Supply Chain

As a large and multi-product enterprise, whose products are benchmarked nationally and internationally, ITC's main supply chains can be grouped as follows:

- For all its operations, technology, machinery and equipment are sourced from reputed and globally benchmarked suppliers/vendors who are expected to follow internationally acceptable norms and standards regarding human rights.
- ITC's major businesses are vertically integrated across several Divisions. A substantial part of the supply chain is, therefore, internal through strategic backward linkages. Common values relating to human rights performance are shared across this supply chain.
- Being an agri-based company, the agricultural sector is a major supplier of inputs for ITC's operations. The bulk of agricultural commodities are procured from state-controlled trading platforms and the open market.

- A very small proportion of ITC's business consists of supply chains comprising local vendors and suppliers. The policy framework for such entities is enunciated separately in 'Policy to Ensure Respect for Human Rights across the Supply Chain'.

Preventing Discrimination at the Workplace

ITC acknowledges that every individual brings a unique set of perspectives and capabilities to the team. A discrimination-free workplace for the employees creates an environment where diverse talents can bloom and be nurtured. This is achieved by ensuring that a non-discrimination policy is practiced across the Company, in line with corporate principles and benchmarked business practices.

ITC's approach towards its human resources is premised on the fundamental belief of fostering meritocracy in the organisation which, *pari passu*, promotes diversity and offers equal opportunity to all employees. ITC does not engage in, or support, direct or indirect discrimination in recruitment, compensation, access to training, promotion, termination or retirement, based on caste, religion, disability, gender, age, race, colour, ancestry, marital status or affiliation with a political, religious, or union organisation or minority group.

The policy is communicated to all employees through induction programmes, policy manuals and intranet portals.

The custodian of this policy is the head of each operational unit and the divisional chief of the respective business.

ITC's complaints resolution procedure is premised on the freedom of employees to approach higher officials beyond his/her immediate superior. For the unionised employees, compliance of the policy is ensured through a robust grievance handling procedure, and the presence of a union that brings violations to the notice of the unit HR head.

The accountability for the application of the non-discrimination employment policy rests with the Unit Head, who reviews anti-discriminatory complaints annually or on a case-by-case basis.

CHR conducts non-discrimination reviews annually, on a sample basis with unit heads, and through on-site assessments.

Freedom of Association

ITC's culture is characterised by cooperative relationships and high employee involvement that relies on building of partnerships to meet our collective needs. Adhering to these principles has helped build, sustain, and strengthen harmonious industrial relations in the organisation.

ITC respects the employees' right to organise themselves into interest groups, as initiatives of the workers, independent from supervision by the management. In keeping with the spirit of this Policy, employees are not discriminated against for exercising this right.

The policy is communicated to all employees through induction programmes, policy manuals and intranet portals.

The custodian of this policy is the HR head of each operational unit, who reports directly to the Unit Head on such issues.

The actualisation of the Collective Bargaining policy is evident from the joint agreements and minutes that are signed between the union and the management.

Each ITC Unit has appropriate systems and checks to ensure compliance with the Policy and statutory provisions, including means for filing of grievances, collective bargaining agreements, and minutes from worker meetings.

The Divisional HR Department, Corporate Internal Audit, external statutory auditors and relevant statutory authorities regularly monitor compliance with the Policy.

No Child or Forced Labour

The foundation of ITC's No Child or Forced Labour policy is based on the Company's commitment to find practical, meaningful and culturally-appropriate responses to support the elimination of such labour practices. It thus endorses the need for appropriate national and international initiatives to progressively eliminate these abuses.

ITC does not employ any person below the age of eighteen years in the workplace.

ITC prohibits the use of forced or compulsory labour at all its units. No employee is made to work against his/her will or work as bonded/forced labour or is subject to corporal punishment or coercion of any type related to work.

This policy is communicated to all employees through induction programmes, policy manuals and intranet portals. The responsibility for the implementation of the policy rests with the units' HR Department, and the security staff, who do not permit underage persons to enter the factory as workers.

Employment contracts and other records documenting all relevant details of the employees, including age, are maintained at all units, and are open to verification by any authorised personnel or relevant statutory body.

The compliance with this policy is evident in the transparent system of recruitment and the policy of exit interviews, which are undertaken by a manager not directly connected with the employee. For the unionised employees, compliance is also ensured through a robust grievance-handling procedure and the presence of a union that brings violations to the notice of the unit HR head.

Sample checks of the records are undertaken annually by CHR.

Audit and assessment are undertaken annually by Corporate Internal Audit and EHS.

Code of Conduct

ITC's Code of Conduct requires that all Company employees must avoid situations in which their personal interest could conflict with the interest of the Company. This is an area in which it is impossible to provide comprehensive guidance. But the practical guiding principle is that any conflict or potential conflict must be disclosed to higher management for guidance and proper action.

All Company employees must ensure that in their dealings with suppliers and customers, the Company's interests are never compromised. Accepting gifts and presents of more than a nominal value, gratuity payments and other payments from suppliers or customers is viewed as a serious breach of discipline as this could lead to compromising the Company's interest.

Donations

Donations, determined on an equitable basis by the Board, were made to political parties during the year as follows: All India Anna Dravida Munnetra Kazhagam – Rs.0.06 crore; All India Trinamool Congress – Rs.0.04 crore; Bahujan Samaj Party – Rs.0.19 crore; Bharatiya Janata Party – Rs.1.37 crores; Biju Janata Dal – Rs.0.11 crore; Dravida Munnetra Kazhagam – Rs. 0.16 crore; Indian National Congress – Rs.1.44 crores; Indian National Lok Dal – Rs.0.03 crore; Jammu & Kashmir National Conference – Rs.0.03 crore; Janata Dal (United) – Rs.0.08 crore; Jharkhand Mukti Morcha – Rs.0.05 crore; Nationalist Congress Party – Rs.0.09 crore; Rashtriya Janata Dal – Rs.0.21 crore; Samajwadi Party – Rs.0.36 crore; Shiromani Akali Dal – Rs.0.08 crore; Shiv Sena – Rs.0.12 crore; Telangana Rashtra Samithi – Rs. 0.05 crore; Telegu Desam Party – Rs.0.15 crore.

Labour Practices and Decent Work

Employment

As on March 31, 2005, ITC employed 15,692 (13,850 in 03-04) persons in the units covered in the scope of this report. Out of these, 10,605 employees belonged to the unionised cadre. The remaining were Management Staff, Lady Confidential Secretaries, Administrative Assistants and those non-management staff who have opted 'out of union membership'. All unionised 'non management staff' at the factories, hotels and other establishments are represented by independent trade union organisations with whom periodic Long Term Agreements (LTAs) are signed. All Management Staff, Lady Confidential Secretaries and Administrative Assistants who are not unionised, enter the services of the organisation by signing individual contracts of employment.



The total number of employees in the current report exceeds the number stated in the previous report by 1,842. The merger of ITC Hotels with ITC Ltd. and the acquisition of the Kovai Paper Mill brought 1,752 employees into the fold of the Company. ITC created direct additional employment opportunities for 304 persons in the newly opened Grand Central Sheraton Hotel in Mumbai.

Labour/Management Relations

Information and Consultation on Changes

ITC believes in an employee-engagement process that aligns its employees with a shared vision and purpose, because every individual brings a different perspective and capability to the team. ITC thus harnesses the creative potential of all its employees by promoting a culture of partnership to unleash relevant synergies between different groups of employees.



All major changes in operations involving work processes, manning norms and other productivity linked issues are carried out after discussions and consultations with the employees and the recognised unions at each location.

Business plans are shared with employees at all units, through a series of formal communication meetings and intranet portals. Unionised employees at the concerned units are informed of all major changes well in advance, through their representatives.

The responsibility for the implementation of the policy rests with the Unit's HR Department in the case of unionised employees, and with the concerned DMCs for other employees.

The employees are given enough time to consider the implications of change, consult/notify their union, seek the union's opinion and notify the management.

The Policy is actualised through consultative meetings with the representatives of workers, culminating in joint minutes/agreements.

Compliance with the Policy is regularly monitored by the Unit Head.

Ensuring Occupational Health & Safety

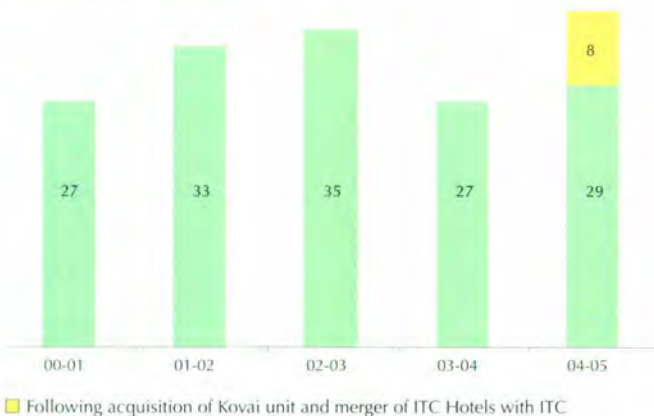
Towards Zero Accident

ITC continued its efforts to achieve zero accidents in all its units. Ongoing training programmes, involvement of employees, suggestion schemes and proactive risk management by the units has considerably reduced serious accidents in the Company.

During 2004-05 there were no lost time accidents at Bangalore and Kidderpore Cigarette factories; IGRDC and Rajamundry Research Centres; Munger Packaging & Printing unit; Maurya, Mughal, Chola, Sonar Bangla, Grand Central, Rajputana and Windsor hotels.

ITC units had 37 lost time accidents (LTA) during 2004-05, which included 8 LTAs in the newly acquired Kovai paperboards unit and the additional hotels which came into the fold due to the merger of ITC Hotels with ITC.

Number of Lost Time Accidents

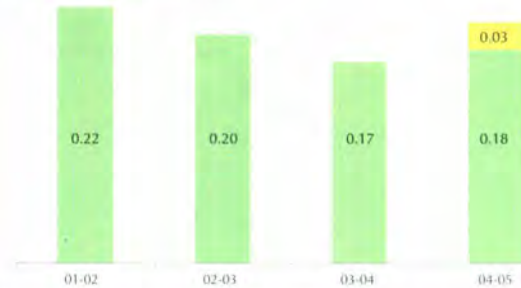


Accident Incidence Rate

Accident Incidence Rate (AIR), a measure of the number of accidents for every 2,00,000 manhours worked, for 2004-05 is 0.207. This includes accidents at the newly acquired Kovai unit and the additional hotels after the merger of ITC Hotels with ITC.

Accident Incidence Rate for the Cigarettes business stands at 0.11. This compares well with the AIR of 0.64 reported by BAT, one of the leading cigarette manufacturers of the world, for all its operations (Source: Social Report of British American Tobacco 2004-05).

Accident Incidence Rate (AIR)



AIR: Number of accidents for every 2,00,000 manhours worked
■ At the newly acquired Kovai unit and merged hotel properties

Accident Statistics at ITC Units

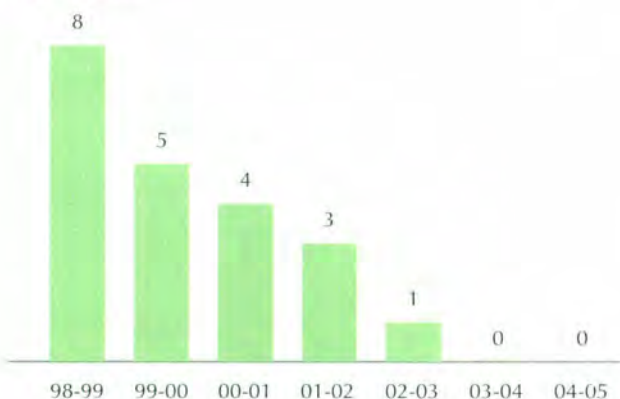
Year	LTA	AIR
04-05	37	0.21*
03-04	27	0.17
02-03	35	0.20
01-02	33	0.22
00-01	27	0.17
99-00	55	0.35
98-99	62	0.60

* Includes those at newly acquired Kovai unit and merged hotel properties

Fire Safety

All ITC units have state-of-the-art fire detection and control systems. All employees are trained in fire safety and evacuation drills. Corporate EHS fire safety experts carry out a detailed audit of each unit once a year to ensure that all fire safety systems are in line with corporate standards and in state of readiness. ITC continued to remain 'fire accident-free' in the year 2004-05.

Fire Accidents



Medical Examination

ITC is committed to ensure the well being of all its employees by conducting comprehensive preventive medical examinations. This helps in identifying any symptom of occupational illness and taking early appropriate action to eliminate the same. The number of persons medically examined in 2004-05 was 7,718 (37% higher than 2003-04).

Number of Persons Medically Examined



■ Additional numbers due to newly acquired Kovai Unit and merger of ITC Hotels with ITC Ltd.

The Factories Act of 1948, with its numerous amendments, and the Factory Rules in the States, encompass almost all the requirements of recording and notifying occupational accidents and diseases in the factories. Indian statutes on this subject are in line with the requirements of the International Labour Organisation (ILO). All the provisions of these statutes are implemented at ITC Units. Units are regularly audited for proper application of these standards. In case of any accident or injury, the Manager of the department concerned, and the Unit EHS Manager document all relevant information – person(s) involved, time of occurrence, the extent of injury or damage to any Company asset, and so on.

All first aid injuries, incidents (accidents without injury or property damage), dangerous occurrences, fires and serious accidents are required to be investigated by trained managers (including the Unit EHS Manager), and action taken to prevent similar recurrences.

In any accident where the injured is likely to be unfit for more than 48 hours, a report in the prescribed format is sent to the Inspector of Factories.

In case of any fatal accident, an enquiry committee is constituted within 48 hours of the accident to investigate its root cause, specify the human or system failure responsible, and recommend action to prevent future recurrence. The findings and recommendations are discussed in the monthly meetings of the Safety Committee. The findings are circulated to all Departmental Heads/Chiefs so that they may take necessary measures to prevent similar accidents in the future.

All serious accidents are reported to the Divisional and Corporate Management Committees.

EHS Committees

All ITC factories, hotels and large offices are required to set up EHS committees, consisting of an equal number of representatives of the workers and the management. The central and departmental EHS committees help maintain proper Safety and Health at the workplace. They periodically review the measures taken in the area of EHS. The EHS committees, which meet at least once every three months, have substantially contributed to EHS improvements in the respective units.



HIV/AIDS

ITC is committed to providing a safe and healthy work environment to all its employees. These policy guidelines on HIV/AIDS are an endorsement of this resolve and, in particular, of the Company's commitment to specific programmes and actions in response to the HIV epidemic.

The Company's position is based on scientific and epidemiological evidence proving that people with HIV/AIDS do not pose a risk of transmission of the virus to co-workers by casual, non-sexual contact in the normal work setting.

Policy Guidelines

i. Compliance

The Company's policies on HIV/AIDS with regard to its employees will, at a minimum, comply with all relevant Central and State legislations and the Company will implement all policies and directions of the Government regarding HIV/AIDS whenever issued.

ii. Prevention through Awareness

The Company will provide all its employees sensitive, accurate and latest information about risk reduction strategies in their personal lives, with the objectives of reducing the stigma of HIV/AIDS, encouraging safe behaviour and improving their understanding of its treatment.

iii. Safe and Healthy Workplace

The Company is committed to providing a safe and healthy workplace to all its employees. It seeks to ensure that employees have access to health services to prevent and manage HIV/AIDS.

iv. Non-discrimination

The Company will not discriminate against any employee infected by HIV/AIDS with regard to promotions, training and other privileges, and benefits as applicable to all employees.

a) An HIV positive employee will be allowed to continue at his/her job unless

- Medical conditions interfere with the specific job being done, in which case reasonable alternative working arrangements will be made; or

- The employee is incapacitated to perform his/her duties and is declared medically unfit by a medical doctor, in which case the employee will be assisted to rehabilitate himself/herself outside the Company.

b) The Company will not make pre-employment HIV/AIDS screening mandatory as part of its fitness to work assessment. Screening of this kind refers to direct methods (HIV testing), indirect methods (assessment of risk behaviour) and questions about HIV tests already taken.

c) HIV/AIDS test will not be a part of the annual health check-ups unless specifically requested for by an employee.

v. Confidentiality

- Voluntary testing for HIV/AIDS, when requested for by the employee, will be carried out by private or community health services, and not at the workplace.

• There will be no obligation on the part of the employees to inform the Company about their clinical status in relation to HIV/AIDS.

- Information on clinical diagnosis of an employee in terms of his/her HIV/AIDS status, if advised to the Company, will be kept strictly confidential.



Training

ITC believes that the challenge of attaining international dimensions is at once humbling, inspiring and exciting. In the ultimate analysis, the cutting edge in the realisation of such an aspiration would be provided by the dynamism of its human resources.

The secret of creating a winning corporation lies in the appreciation of the potential of human capital, and in the ability of the distributed leadership within the Company to nurture and mobilise such talent.

ITC believes that training requirements vary with each phase of the individual's career growth. Keeping this in mind, the training programmes must be sound in their objectives and effective in their delivery.

ITC invested 54,072 mandays in training 19,883 persons (including 11,013 mandays of training provided to various employees of the service providers at different locations). The Company, on an average, provided 2.7 mandays of training to each employee.

The training matrix in the Company endeavours to provide a balance, with a strong functional bias in the early years, and an emphasis on managerial and business skills in mid and late career stages. The programme includes high-level international training events at key points. Training also seeks to continuously build awareness of other functions at every stage of the process.

Environment, Occupational Health & Safety training constituted a significant proportion of the total training. The Company places serious emphasis on Risk Management and Fire, Electrical and General Safety training to encourage the participation of employees at all levels.



Product Responsibility

Product Information and Labelling

ITC, as a responsible corporate citizen, complies fully with all relevant statutory regulations and legislations pertaining to product information and labelling. In view of the diverse nature of ITC's businesses, the policy, procedures, management systems & compliance mechanisms for each business vary.

The **FMCG-Cigarettes Business** complies fully with the following Acts:

- Weights & Measures Act
- Cigarettes Act, 1975
- Central Excise & Customs Act
- COTPA (Cigarettes and Other Tobacco Products Act)

The Business has provisions in place to ensure validation of the product with respect to all relevant statutes prior to commercial launch. The product development process, based on Six Sigma methodologies, envisages a formal check of all product-related statutory compliance, before finalisation of the product specifications and design. A rigorous Quality Management system at all stages of manufacturing ensures meticulous adherence to product design. The Business also has a system in place for monthly review and confirmation of compliance to all statutes by operating managers. This confirmation is communicated to the Corporate Management Committee.

In the **Leaf Tobacco Business** all the products are labelled to meet customer specifications. Labels normally contain information about the Grade, Crop Year, Weight, Lot No., date and the location where the product is packaged and, in certain cases, the destination and the customer that the product is intended for.

All the packages are bar-coded. The products scrupulously conform to the prescribed chemistry (Sugars, Nicotine, Chloride, etc.), Particle Size distribution, stem content and the Packing (Moisture and Temperature) requirements of the customer. The protocols for testing and tolerances are specified by the customer.

The manufacturing units at Anaparti and Chirala are ISO 9001 certified. The quality procedures for the above parameters are clearly enunciated in the ISO 9001 manual. The Units have advanced systems to monitor strict adherence to process and packing specifications laid down by the customers. In addition to providing information, samples from the final packages are sent to customers for cross-verification in their laboratories.

In the **Paperboards & Specialty Papers Business**, information about the product, covering relevant technical parameters agreed & finalised with the customers, is documented in the product specification sheet. Quality Assurance certificates are issued against consignments on request from customers. The label on each product pack bears the product name, substance (gsm), size, weight & batch/reference number for effective traceability.

In the **Hotels Business**, the Company does not produce and sell any packaged products. However, product information regarding Rooms and Food & Beverages is communicated through brochures, in-room literature and the website.

The **Foods Business** complies with all statutes relevant to packaged branded Food products (including statutes on labelling and product information) which include:

1. Prevention of Food Adulteration Act
2. Weights & Measures Act
3. Food Products Order
4. Packaged Commodity Rules

To ensure continuous compliance with the statutes, the business has an internal mechanism of checks and compliance certification by operating managers.

In addition to the statutory requirements, the Business ensures voluntary declaration of nutrition facts in the final packaging of its Ready to Eat products.

In the year 2004-05, the Business conducted consumer satisfaction surveys (in different parts of India) on 4 occasions. In all surveys, ITC's food products were rated better than those of competition.

In the **Lifestyle Retailing Business** all the products are labelled to conform to statutory requirements. Additional information on attributes of the product is given to inform the consumer of the salient features of the product. The product also carries instructions on handling and care.

Customer Safety: Prime Concern

Various operating policies, systems and control mechanisms are embedded in each business to ensure consistent delivery of a quality product to the consumer.

In the **FMCG-Cigarettes Business**, there is very stringent auditing to ensure the strictest compliance with the provisions related to the display of the statutory warning. ITC ensures adherence to statutes and begins benchmarking to 'best in class' practices at the product design and development stage itself. Identification and choice of raw materials is preceded by a rigorous validation of conformity to exacting product specifications. ITC's manufacturing facilities are state-of-the-art. New generation machines and computer controlled process equipment ensure product quality and consistency. These machines have facilities for online detection, multiple checks during different stages of the manufacturing process and rejection of products and batches that do not conform to specifications. The manufacturing processes are subjected to stringent statistical process control systems and online quality management systems to ensure that products strictly conform to specifications. An internationally acclaimed Product Quality Rating System (PQRS) has been institutionalised at all manufacturing locations. All aspects of product quality are measured at every stage of the manufacturing process to ensure the highest standards.

After manufacturing, a sample analysis of the final product, with regard to various parameters and packaging, is carried out at the ITC Group Research and Development Centre (IGRDC) in Bangalore, which is recognised by the Council of Scientific and Industrial Research (CSIR). After this analysis, the requisite feedback goes to the manufacturing units. Once the product is in the market, the respective brand managers do a monthly certification for compliance with various statutory provisions.

In the **Paperboards & Specialty Papers Business**, samples of Company's value-added products used for packaging food and pharmaceutical products are tested annually by an independent reputed laboratory for compliance with US FDA standards. All suppliers of inputs for the manufacture of these value-added products also have to certify that the supplies are compatible with the prescribed Safety norms.

In the **Leaf Tobacco Business** the products are manufactured as per customer specifications. The customers in this business are large Cigarette Manufacturers and international Tobacco Merchants who themselves have well laid down Health and Safety Guidelines. Besides, both Anaparti and Chirala GLT plants have been certified under ISO 14001 for environment management and OSHAS 18001 for occupational health and safety management systems.

In the **Packaging & Printing Business** the products are mostly secondary packaging and are designed in consultation with the customers.

In the **Hotels Business**, policies are in place to ensure the highest standards of customer Health and Safety. The policies are prominently displayed at conspicuous locations in the hotels. Customers are encouraged to participate in various Safety exercises and activities.

The **Foods Business** ensures adherence to highest levels of quality standards in designing, manufacturing and selling packaged branded food products.

Raw materials are sourced through established internal/external vendors, who are periodically monitored for quality of supplies. Vendors are selected after evaluation on parameters of quality and consistency.

The Business operates on a model of outsourced manufacturing. The base premise of the agreements with the manufacturers is adherence to quality standards, more stringent than the existing statutory requirements. The quality performance of each manufacturer is monitored on a daily basis apart from periodic quality audits. All the manufacturers are encouraged to obtain certification in accordance with HACCP (Hazard Analysis & Critical Control Point) requirements. 16 out of 31 outsourced manufacturers have already received HACCP certification, and the rest are in various stages of progress.

The supply chain is designed to ensure highest levels of hygiene across the material/product handling chain. System for identification and destruction of old/damaged/defective products is strictly implemented and monitored in the entire chain.

The **Lifestyle Retailing Business** ensures adherence to Health & Safety Standards in its Products by following guidelines set by International Retailers right from the Product Design and Development stage.

Identification and choice of Fibres & Fabrics is preceded by rigorous evaluation of the mills and their facilities as well as validation of conformity to product specifications drawn out through benchmarking conducted with assistance of internationally accredited Textile Testing Laboratories. All raw materials/products are tested in ITC's in-house state-of-the-art Testing Laboratory and only those products conforming to the standards set through Product Protocols are allowed to pass muster.

ITC's products are manufactured in state-of-the-art plants equipped with the best-of-breed machineries, with laid down processes designed to deliver quality as per internationally accepted Statistical Quality Control norms. ITC's products are also evaluated from the "Consumer's View Point" by subjecting them to an internal Product Quality Rating System (PQRS).

Consumer Privacy

While all the businesses treat customer-related information as strictly Private and Confidential, the procedures, management systems & compliance mechanisms vary in view of the diverse nature of ITC's businesses. Customer-related information is consciously and discerningly made available to only those individuals in the organisation who interface with customers and require this information to ensure that customers are delighted with the fulfillment of their exacting needs and requirements.

Consumer information in the **FMCG-Cigarettes Business** is gathered by nominated external agencies on behalf of ITC. In the process of collecting this information, all contact with the consumer for market research is conducted with complete adherence to the code of conduct stipulated by MRSI (Market Research Society of India). This policy applies to all market research conducted across India.

Specific clauses on Consumer privacy and confidentiality of information are incorporated in documents like Questionnaires and Discussion guides. Compliance with these clauses is ensured by agreements with agencies, which require complete confidentiality of information gathered from the consumer. Access to consumer information is restricted and information cannot be traced back to specific individuals.

In the **Leaf Tobacco Business**, all customer-related data is treated as private and confidential. The data is made available only to the authorised Managers, who are all bound by the confidentiality clause. Further, the business has a CRM (B2B Portal) website targeted at its customers. This serves both as an information and transaction Portal. Access to all relevant data pertaining to customers – sample requirements, order, processing, shipment and other quality-related information is made accessible through a secured account (specific Login ID and Password) only.

In the **Hotels Business**, policies & procedures have been clearly laid down to protect the privacy of guests. The systems and procedures are also regularly audited.

In the **Foods Business**, consumer information/feedback is gathered by nominated external agencies on behalf of ITC. In the process of collecting this information, all contact with the consumer for market research is conducted with complete adherence to the code of conduct stipulated by MRSI (Market Research Society of India). This policy applies to all market research conducted across India. The Kitchens of India and Candyman websites state the privacy policy for the consumer.

The **Lifestyle Retailing Business** ensures that all consumer-related information is kept private and confidential. Access to the same is available only to authorised Managers in the organisation and nominated agencies who interface with the consumer.



Against the grain of conventional thought, ITC believes that there is no inherent contradiction between improving competitive ability and making a sincere commitment to bettering society; that it is possible to create business models which enmesh these goals in a synergistic manner; that the uniqueness of strategy lies in conceiving such integrated business models; that linking business purpose with a larger societal purpose serves to align the human resource in a multi-dimensional organisation like ITC; and, most importantly, that such an approach can be consciously designed to induce competitiveness across the value chain, thus creating a much higher order of value for all stakeholders, including the shareholders.



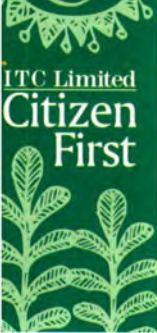
Y. C. Deveshwar
Chairman

A N N E X U R E S



- Awards and Certificates
- Memberships and Affiliations
- ITC's EHS Policy
- GRI Core Indicators – Index
- Assurance Statement from PwC





Awards and Certifications

Awards

The following awards, received during 2004-05, bear testimony to the highest standards maintained in the various units of the Company and significant achievements in all the three areas of sustainability.

Development Gateway Award 2005

This award recognises ITC e-Choupal as an exemplary contribution towards development and poverty alleviation leveraging Information and Communication Technologies (ICT).

Corporate Social Responsibility Award from The Energy and Resources Institute (TERI) 2005

ITC has won this prestigious award from TERI for its celebrated e-Choupal initiative. It provides impetus to sustainable development and encourages ongoing social responsibility processes within the corporate sector.

Greentech Safety Gold Award in the Manufacturing Category 2004-05

ITC's leaf processing plant at Chirala has won this award for the third time, in recognition of ITC's outstanding track record in the areas of Occupational Health and Safety.

Greentech Safety Gold Award 2004-05

ITC's leaf processing plant at Anaparti has won this award for the first time in the year 2004-05.

Golden Peacock Global Award for CSR in Emerging Economies 2005

ITC has won this award for two of its unique initiatives that are impactfully transforming lives and landscapes in rural India: e-Choupal and social and farm forestry.



Wharton-Infosys Business Transformation Award 2004

Instituted by Infosys Technologies and the Wharton School of the University of Pennsylvania, ITC's e-Choupal has won the award for the Asia Pacific region.

Inaugural 'World Business Award' 2004

ITC e-Choupal won the inaugural award instituted in support of the United Nation's Millennium Development Goals.

British Safety Council's Sword of Honour and Star Ratings

• 5 Star Rating & Sword of Honour

Saharanpur, Bangalore and Kidderpore cigarette factories; Chirala leaf processing plant and Munger printing factory



• 5 Star Rating

Tiruvottiyur packaging factory

• 4 Star Rating

Anaparti leaf processing plant

Royal Society for the Prevention of Accidents (ROSPA): Gold Awards

Bangalore, Saharanpur, Munger and Kidderpore cigarette factories, and ITC Group Research & Development Centre.

Ministry of Power, Govt. of India: National Energy Conservation Award 2004 (Pulp & Paper Sector)

The Paperboards unit, Bhadrachalam received the Second prize.

Bihar State Pollution Control Board, Patna, Bihar: Industrial Pollution Control Award (2003-04)

Cigarette factory, Munger

CII: National Award for Excellence in:

Energy Management 2004

• Paperboards unit, Bhadrachalam

Water Management 2004

• Cigarette factory, Saharanpur

The U.S. Green Building Council (Leadership in Energy and Environment Design, Green Building Rating System) – LEED V2 Platinum Rating

ITC Centre – Gurgaon. The only building in the world of this size to win the Platinum Rating.



CII & Hyderabad Metropolitan Water Supply & Sewerage Board
 Hyderabad Water Conservation Award 2005

ITC Hotel Kakatiya Sheraton & Towers

Centre for Science & Environment – Green Rating

The Paperboards unit, Bhadrachalam was ranked First in the Indian Pulp & Paper sector and presented the 3 Leaves Award for eliminating the use of elemental chlorine.



Federation of Hotel & Restaurant Association of India: Environment Champion of the Year 2004

Winner

- ITC Hotel Grand Maratha – Mumbai

Runner up

- Fortune Resort Bay Island – Port Blair

Greentech Foundation

- Safety : Platinum Award 2003-04

ITC Hotel Maurya Sheraton – New Delhi

- Safety : Gold Award 2003-04

Cigarette factories at Munger and Kidderpore; leaf processing plant at Chirala

- Safety : Silver Award 2003-04

WelcomHotel Rajputana Palace Sheraton, Jaipur
 Welcomgroup Mughal Sheraton, Agra

- Environment Excellence : Gold Award 2003-04

Cigarette factories at Saharanpur and Munger; leaf processing plant at Chirala; paperboards unit, Bhadrachalam

- Environment Excellence : Silver Award 2003-04

ITC Hotel Grand Maratha
 Printing factory at Munger

Golden Peacock Awards: Environment Management Award 2004

- Mughal Sheraton
- ITC Group Research & Development Centre

Certifications

The following certifications clearly demonstrate that EHS management systems in the various units of the Company are in line with best international practices.

ISO 14001: Environment Management System

- All manufacturing units and all major hotels of ITC have this certification.
- The ITC Corporate EHS Department and the ITC Group Research & Development Centre received this certification in 2004-05.

OHSAS 18001: Occupational Health & Safety Management System

- Leaf processing plants at Chirala and Anaparti were already certified.
- All the other manufacturing units of ITC and the Corporate EHS Department received the OHSAS 18001 certification in 2004-05.

SA 8000: Social Accountability System

- Leaf processing plants at Chirala & Anaparti already had this certification.
- The cigarette factory at Kolkata has been certified in 2004-05.



Memberships and Affiliations

ITC Limited is an active member of (or registered with) a number of industry/ Business Associations/ professional bodies, some of which are listed below:

- Agricultural & Processed Foods Export Development Authority
- All India Management Association
- Andhra Pradesh Chamber of Commerce
- Andhra Pradesh Oil Millers Association Limited
- Apparel Export Promotion Council
- Asian Packaging Federation
- Associated Chambers of Commerce & Industry
- Bangalore Chamber of Commerce & Industry
- Bihar Chamber of Commerce
- Bihar Industries Association
- Bihar State Productivity Council
- Bombay Chamber of Commerce & Industry
- Calcutta Management Association
- Chemicals & Plastics Export Council of India
- Central Food Technological Research Institute
- Coal Consumers Association
- Cochin Chamber of Commerce
- Coffee Board
- Coffee Exporters Association
- Coffee Futures Exchange of India
- Coimbatore Management Association
- Coimbatore Productivity Council
- Confederation of Indian Industry
- Council for Fair Business Practices
- Eastern India Shippers Association
- Federation of Andhra Pradesh Chambers of Commerce & Industry
- Federation of Hotels & Restaurants Association of India
- Federation of Indian Chambers of Commerce & Industry
- Federation of Indian Export Organisations
- Federation of Industries and Commerce of North Eastern Region
- Federation of Jharkhand Chambers of Commerce & Industry
- Federation of Karnataka Chambers of Commerce & Industry
- Federation of Madhya Pradesh Chambers of Commerce & Industry
- Gujarat Chamber of Commerce
- Hotel Association of India
- Indian Chamber of Commerce
- Indian Coffee Trade Association
- Indian Confectionery Manufacturers Association
- Indian Industries Association
- Indian Institute of Packaging
- Indian Merchants Chamber
- Indian Oil & Produce Exporters Association
- Indian Paper Manufacturers Association
- Indian Society of Advertising
- Indian Tobacco Association
- Indian Vegetable Oil Processors Association
- Indo-American Chamber of Commerce
- Indo-Australian Chamber of Commerce
- Indo-German Chamber of Commerce
- International Chamber of Commerce
- International Life Science Institute
- Jammu & Kashmir Chamber of Commerce
- Kerala Management Association
- Leatherhead Food International, UK, Research Organisation
- Loss Prevention Association of India
- Madras Chamber of Commerce & Industry
- Madras Management Association
- Madras Printers and Lithographers Association
- Maharashtra Chamber of Commerce & Industry
- Maharashtra Economic Development Council
- Marine Products Export Development Authority
- Nagpur Vidharbha Cochin Chamber of Commerce
- National Council of Applied Economic Research
- National Safety Council
- Pacific-Asia Travel Association
- Paper, Film, Foil Convertors Association
- PHD Chamber of Commerce
- Seafood Exporters' Association of India
- Snack Foods Association
- Solvent Extractors Association of India
- Soyabean Processors Association of India
- Spice Board
- The Bengal Chamber of Commerce & Industry
- The Central Organisation for Oil Industry and Trade
- The Energy & Resources Institute
- The Groundnut Extractions Export Development Association
- The Utkal Chamber of Commerce & Industry
- The Visakhapatnam Chamber of Commerce & Industry
- Tamil Nadu Electricity Consumers Association
- Uttar Pradesh Chamber of Commerce
- West Bengal State Productivity Council

ITC's EHS Policy

ITC's mission is to sustain and enhance the wealth-generating capacity of its portfolio of businesses in a progressively globalising environment. As one of India's premier corporations employing a vast quantum of societal resources, ITC seeks to fulfil a larger role by enlarging its contribution to the society of which it is a part. The trusteeship role related to social and environmental resources, aligned to the pursuit of economic objectives, is the cornerstone of ITC's Environment, Health and Safety philosophy. ITC's EHS philosophy cognises for the twin needs of conservation and creation of productive resources.

In the multi-business context of ITC, Corporate Strategies are designed to create enduring value for the nation and the shareholder, through leadership in each business and the attainment of world-class competitive capabilities across the value chain. The objective of leadership extends to all facets of business operations including Environment, Health and Safety.

ITC is, therefore, committed to conducting its operations with due regard for the environment, and providing a safe and healthy workplace for each employee. Various international and national awards and accreditations stand testimony to ITC's commitment to EHS. Such external recognition further reinforces the need to direct the collective endeavour of the Company's employees at all levels towards sustaining and continuously improving standards of Environment, Health and Safety in a bid to attain and exceed benchmarked standards, whether regulatory or otherwise.

- To provide appropriate training and disseminate information to enable all employees to accept individual responsibility for environment, health and safety, implement best practices, and work in partnership to create a culture of continuous improvement.
- To instil a sense of duty in every employee towards personal safety, as well as, that of others who may be affected by the employee's actions.
- To provide and maintain facilities, equipment, operations and working conditions which are safe for employees, visitors and contractors at the Company's premises.
- To ensure safe handling, storage, use and disposal of all substances and materials that are classified as hazardous to health and environment.



- To reduce waste, conserve energy, and promote recycling of materials wherever possible.
- To institute and implement a system of regular EHS audit in order to assure compliance with laid down policy, benchmarked standards, and requirements of laws, regulations and applicable codes of practice.
- To proactively share information with business partners towards inculcating world-class EHS standards across the value chain of which ITC is a part.

All employees of ITC are expected to adhere to and comply with the EHS Policy and Corporate Standards on EHS.

ITC's EHS Policy extends to all sites of the Company. It will be the overall responsibility of the Divisional/SBU Chief Executives, through the members of their Divisional Management Committees, General Managers and Unit Heads, to ensure implementation of this Policy and Corporate Standards on EHS, including formation of various committees and designating individuals for specific responsibilities in respect of their Division/SBU.

The Corporate EHS Department is responsible for reviewing and updating Corporate Standards on EHS, and for providing guidance and support to all concerned.



In particular, it is ITC's EHS policy:

- To contribute to sustainable development through the establishment and implementation of environment standards that are scientifically tested and meet the requirement of relevant laws, regulations and codes of practice.
- To take account of environment, occupational health and safety in planning and decision-making.

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3.8	Mechanisms for shareholders to provide recommendations to Board of Management	10	
Stakeholder Engagement			
3.9	Basis for identification and selection of major stakeholders	9	
3.10	Approaches to stakeholder consultation in terms of frequency of consultations by type	10-11	
3.11	Type of information generated by stakeholder consultations	10-11	
3.12	Use of information resulting from stakeholder engagements	10-11	
Overarching Policies and Management Systems			
3.13	Explanation of how the precautionary principle is addressed by the organisation's policies	21	
3.14	Subscription to externally developed/voluntary charters/principles/initiatives	43, 47	
3.15	Principal industry and business association membership	56	
3.16	Policies/systems for supply chain management and product stewardship	21, 43	
3.17	Approach to managing indirect impacts resulting from activities	25-42	
3.18	Major decisions regarding locations or changes of operations	NA	
3.19	Programmes and procedures for improvement programmes/actions	17-21, 47, 49	
3.20	Status of certification of environment, labour, social accountability management systems	54-55	
Economic Performance Indicators			
Customers			
EC1	Net sales	25-26	
EC2	Geographic breakdown of key markets	NA	
Suppliers			
EC3	Cost of all goods, materials and services purchased	27	
EC4	Percentage of contracts paid in accordance with agreed terms	27	
Employees			
EC5	Total payroll and benefits broken down by country/region	26	
Providers of Capital			
EC6	Distribution to providers of capital broken down by interest/dividends on all classes of shares	27	
EC7	Increase/decrease in related earnings at end of period	27	
Public sector			
EC8	Total sum of taxes per geographic region	21	
EC9	Subsidies received per geographic region	Nil	
EC10	Donations to community/civil society, broken down in terms of cash/in-kind	25	

Indicator Number	Page/Remarks	Indicator Number	Page/Remarks
Environmental Performance Indicators		Diversity and Opportunity	
Materials		LA10	Description of equal opportunity policies or programs 43
EN1	Total materials used, other than fuel and water, by type 38	LA11	Composition of senior management and corporate governance bodies (including board of directors) 17-20
EN2	Percentage of materials used that are waste from sources external to the reporting organisation 38	Human Rights	
Energy		Strategy and Management	
EN3	Direct energy use segmented by primary source 29	HR1	Description of policies, corporate structure on human rights and monitoring mechanism and results 43
EN4	Indirect energy use 29	HR2	Evidence of consideration of human rights (investment/procurement/ suppliers/contractors) 21, 43
Water		HR3	Description of policy on human rights for supply chain and contractors; monitoring systems/results 43
EN5	Total water use 32	Non-Discrimination	
EN6	Location and size of land owned, leased or managed in bio-diversity rich habitats 37	HR4	Description of global policies preventing all forms of discrimination and monitoring systems/results 43
EN7	Description of the major impacts on biodiversity in terrestrial, freshwater and marine environments 37	Freedom of Association/Collective Bargaining	
Emissions, Effluents and Waste		HR5	Description of policies on freedom of association and programs 44
EN8	Greenhouse gas emissions 31	Child Labour	
EN9	Use and emissions of ozone-depleting substances 37	HR6	Description of policy excluding child labour, monitoring systems and results 44
EN10	NOx, SOx and other significant air emissions by type 37	Forced and Compulsory Labour	
EN11	Total amount of waste by type and destination 35-36	HR7	Description of policies on forced and compulsory labour, monitoring systems and results 44
EN12	Significant discharges to water by type 34	Society	
EN13	Significant spills of chemicals/oils/fuels in terms of total number and total volume 34	Community	
Products and Services		SO1	Description of policy on community impact, programs and monitoring systems and results 40-42
EN14	Significant environmental impact of principal products and services NE	Bribery and Corruption	
EN15	Percentage of weight of products sold reclaimable/reclaimed after use NE	SO2	Description of policy on bribery and corruption, and compliance mechanisms 44
Compliance		Political Contributions	
EN16	Incidents of and fines for non-compliance associated with environmental issues 38	SO3	Description of policy for managing political and lobbying contributions, and compliance mechanisms 44
Social Performance Indicators - Labour Practices and Decent Work		Customer Health and Safety	
Employment		PR1	Description of policy on customer health and safety through products and services, and results 50-51
LA1	Geographical breakdown of workforce, where possible by region/country/status 45	Products and Services	
Labour/Management Relations		PR2	Description of policy on product information and labelling, and compliance mechanisms 50
LA2	Net employment creation and average turnover segmented per region/country 45	Respect for Privacy	
Health & Safety		PR3	Description of policy and management system for consumer privacy, and compliance mechanisms 51
LA3	Percentage of employees represented by independent trade union per region/country 45		
LA4	Policy and procedure on information, consultation with employees (e.g. restructuring) 45		
LA5	Practices on recording/notification of occupational accidents/diseases (relation to ILO) 46-47		
LA6	Description of formal joint hands committees/ proportion of workforce represented in committees 47		
LA7	Standard injury, lost day and absent rates and work-related fatalities 46		
LA8	Description of policies or programmes (for the workplace and beyond) on HIV/AIDS 48		
Training & Education			
LA9	Average hours of training per year per category of employee 49		

NA: Not Applicable NE: Not Evaluated

Independent Assurance Report

Objective of Review

We were asked by the Management of ITC Limited ("ITC") to provide an "Independent Assurance" for its Corporate Sustainability Report ("Report") for the period April 1, 2004 to March 31, 2005. The review was carried out in line with current and emerging expectations for sustainability reporting as outlined in Global Reporting Initiative's ("GRI") 2002 Guidelines ("Guidelines") and embodied in the eleven Reporting Principles of Part B of GRI ("Reporting Principles").

Responsibilities during Review

The Management of ITC is responsible for the collection and presentation of the financial and non-financial information in the Report. Our responsibility, as agreed with the Management, is to express conclusions with limited assurance on select data and information contained in the Report in accordance with the International Standard on Assurance Engagements 3000 ("ISAE 3000").

The Report and its contents are the responsibility of the management of ITC, while the Independent Assurance Report is the responsibility of PricewaterhouseCoopers Private Limited.

Scope of Review

The scope of the review included:

- a) Review of certain statements and data relating to ITC's operations and to provision of limited assurance in respect of these statements and data;
- b) Checking of monitoring and reporting procedures to support reliable disclosure in the Report;
- c) Assessment whether the Report provides an appropriate representation of existing policies in the areas of human resources, environment and community involvement;
- d) Checking of the data stated at the following indicators:
 - Total amount of waste by type and generation (EN 11)
 - Environmental Performance of suppliers (EN 33)
 - Policies and Programs for HIV/AIDS (LA 8)

- Average hours of training (LA 9)
- Human rights during investment/procurement (HR 2)
- Human rights performance within the supply chain (HR 3)
- Non-discrimination in operations (HR 4)
- Freedom of Association (HR 5)
- Child Labour (HR 6)
- Forced and Compulsory Labour (HR 7)
- Impact on Communities (SO 1)
- Political Contributions (SO 3 and SO 5)

Basis for Assurance

We planned and performed our work in accordance with the ISAE 3000 to obtain limited assurance.

Since the Report has been prepared in line with GRI 2002 guidelines, hence these Guidelines and the Reporting Principles formed the basis for providing assurance.

We sought all information and explanations that we considered necessary to provide sufficient evidence for us to ascertain that the above indicators were consistent with the activities in the units for the financial period; and were documented and stated in accordance with the guidelines stated under their environmental and social policies.

Assurance procedures carried out

Our work consisted of:

- a) a desktop review of external economic, environmental and social issues facing ITC;
- b) interviews with senior management responsible for environmental, marketing, safety, suppliers/partners, legal, human resource and finance related issues;
- c) examination of documentation on economic, environmental and social policies, practices, performance, governance etc.;
- d) an understanding and assessment of systems for data generation, collection, analysis, consolidation and reporting at business unit, divisional and group level;

- e) review and sample testing across five sites of twelve indicators and associated statements presented in the Report at EN11, EN 33, LA 8, LA 9, HR 2, HR 3, HR 4, HR 5, HR 6, SO 1, SO 3 and SO 5 as mentioned above in light of the findings from the desktop review, site visits, and our cumulative knowledge of the industry and the Group's operations;
- f) review of conclusions drawn from data and corresponding statements for select indicators in the context of completeness and reliability.

However, the assurance process did not include the involvement of any of the major stakeholder groups.

The data and graphs on financial performance, as specified in the report under Economic indicators, are properly derived from the audited 2005 financial statements of ITC Limited.

Parties responsible for Assurance Engagement

Our engagement was carried out by a multi-disciplinary team of requisite skills and experience.

The assurance engagement was led by Dr. P. Ram Babu, employed with PwC with over 25 years experience in Corporate Sustainability Management and Reporting Systems. The engagement execution was coordinated by Dr. Muna Ali and executed by PwC's sustainability team.

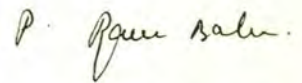
Conclusion

- a) On the basis of the work undertaken, nothing has come to our attention that would cause us not to believe that:
 - The information cited at indicators EN11, EN 33, LA 8, LA 9, HR 2, HR 3, HR 4, HR 5, HR 6, SO 1, SO 3 and SO 5 in the Report has been fairly stated.
 - The Report presents a fair and balanced account of ITC's material sustainability performance.
 - ITC has established a clear business planning process which is being cascaded from the corporate to its multi-business units. Objectives and targets have been set to articulate ITC's business priorities, which include sustainability issues.

- The Corporate Management Committee reviews the sustainability policies, aspects and performance; and sets the tasks for the executive management. The Corporate Management Committee reports directly to the Board of Directors of ITC.

- b) ITC has shown leadership and commitment in developing the rural economy. Significantly, this has been reflected in ITC's e-Choupal and Choupal Sagar initiatives that employ information technology to align farm outputs with market demands.
- c) ITC is working towards becoming a zero solid waste organisation. In order to realise this goal, it is recommended that ITC ensure the following:
 - Uniformity in waste categorisation within all its units in the Hotels business
 - Subsequent destinations and uses (including end of life) for the solid waste leaving the premises of its units.
- d) Whilst ITC has formulated social policies as required by the Guidelines, its transmission, and articulation of associated programmes for all its units needs to be further strengthened.

Signature:



Name: Dr. P. Ram Babu

Sustainable Business Solutions
 PricewaterhouseCoopers Pvt. Ltd.



ITC Limited

Enduring value.

For the nation. For the shareholder.



We owe this global award* to 3.5 million Indian farmers

ITC is the first Indian company and the second in the world to win the prestigious Development Gateway Award 2005. For its path breaking 'ITC e-Choupal' initiative. Chosen from 135 nominations, e-Choupal stands out as a

transformational model that fosters inclusive growth and enhances the wealth creation capability of India's rural communities. Empowering 3.5 million farmers in 31,000 villages across 7 states through 5,200 installations.



This award reaffirms ITC's commitment to poverty alleviation and sustainability. A commitment beyond the market. A conviction that country must come before corporation. Of a true pride in being Citizen First.

Let's put India first

ITC Limited
**Citizen
First**

*The Development Gateway Award, previously known as the Petersberg Prize, is given by the Development Gateway Foundation, Washington, an independent not-for-profit organisation which helps improve people's lives in developing countries by building partnerships and information systems that provide access to knowledge for development. It was conceived by the former World Bank President James Wolfensohn and initially developed under the aegis of the World Bank.