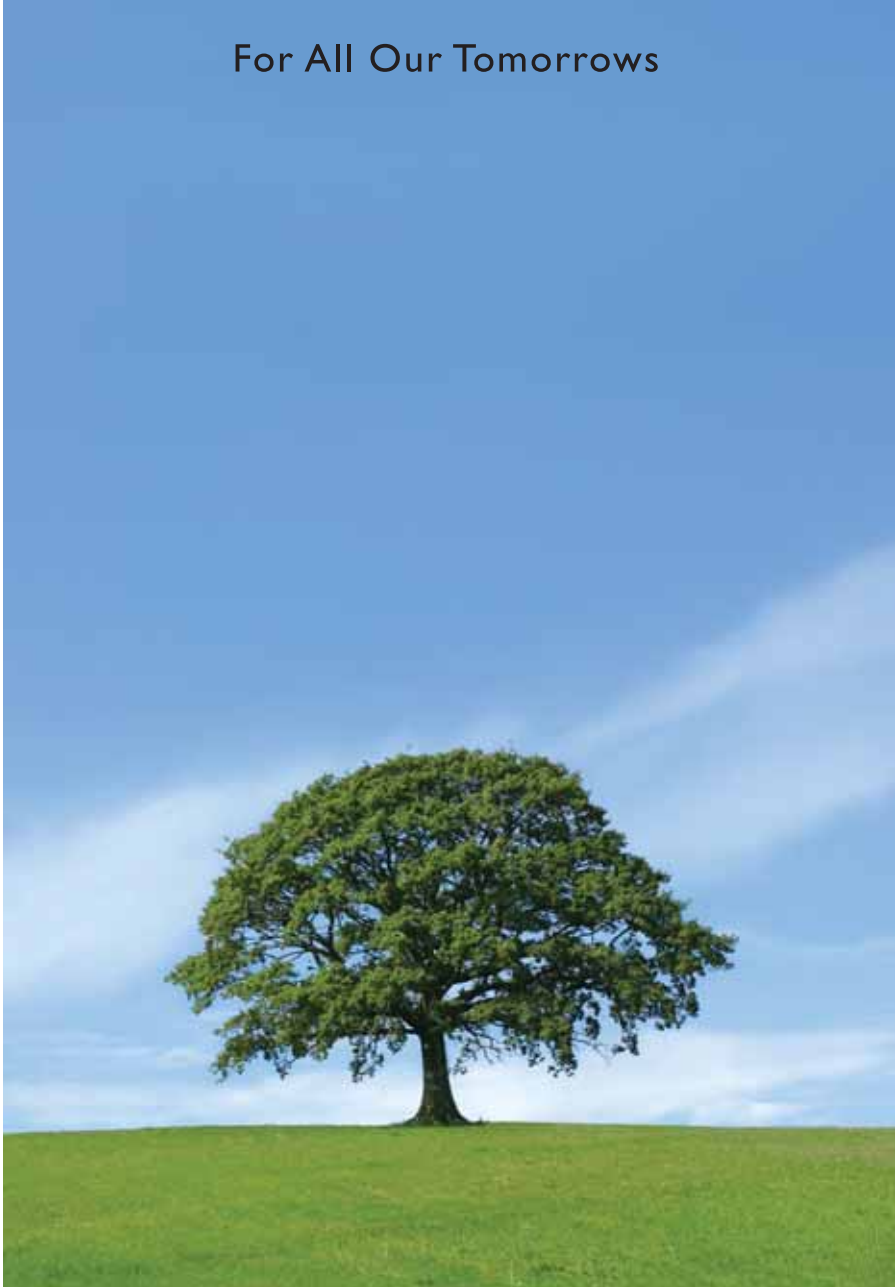


GRI - G3 Compliant
Application Level A+



SUSTAINABILITY REPORT 2008

For All Our Tomorrows





ECONOMIC

- A growing portfolio of businesses encompassing FMCG, Paperboards & Packaging, Agri & Foods Business, Hotels and Information Technology.
- A turnover of over US\$ 5 billion and a market capitalisation of nearly US\$ 19 billion.
- Total Shareholder Returns, measured in terms of increase in market capitalisation and dividends, grew at a compound rate of over 26% per annum over the last 13 years.
- The new FMCG businesses support the competitiveness, technology upgradation and market reach of over 150 Small and Medium Enterprises (SMEs).













ENVIRONMENTAL

- ITC has been 'Carbon Positive' three years in a row (sequestering/storing twice the amount of CO₂ than the Company emits).
- 'Water Positive' six years in a row (creating three times more Rainwater Harvesting potential than ITC's net consumption).
- Close to 100% solid waste recycling.
- All Environment, Health and Safety Management Systems in ITC conform to the best international standards.

SOCIAL

- ITC's businesses generate livelihoods for over 5 million people.
- ITC's globally recognised e-Choupal initiative is the world's largest rural digital infrastructure benefiting over 4 million farming families.
- ITC's Social and Farm Forestry initiative has greened over 80,000 hectares creating an estimated 35 million person days of employment among the disadvantaged.
- ITC's Watershed Development Initiative brings precious water to nearly 35,000 hectares of drylands and moisture-stressed areas.
- ITC's Sustainable Community Development initiatives include women empowerment, supplementary education, integrated animal husbandry programmes.

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“ITC has forged unique business models that synergise long term shareholder value creation with the superordinate purpose of enhancing societal capital.”

CHAIRMAN'S STATEMENT

ITC's Vision and Strategy

It is a great pleasure to present ITC's fifth Sustainability Report.

This Report, independently verified by Ernst & Young, is a transparent and voluntary disclosure of ITC's endeavours to achieve higher levels of Triple Bottom Line performance as our contribution to creating an inclusive and sustainable future for India.

India mirrors the world in the myriad challenges it faces on account of the growing income inequities and environmental degradation. Economic models that have led businesses, over many decades, to focus only on the uni-dimensional objective of creating financial value, with scant attention to the depletion of natural resources and the increasing disparities in incomes, have led to an imminent crisis that has the potential to seriously destabilise growth and progress. Global warming is a clear manifestation of this reality. Widespread acts of violence and social unrest arising out of the growing marginalisation of large populations is yet another expression of this crisis. As responsible corporates, we cannot ignore these unfolding threats which can seriously impact the future of our businesses, the economy and indeed the nation. It is in our enlightened self-interest to take proactive action, and to take it now.

Whilst global challenges of this dimension can be met only by all sections of society joining and aligning forces, we strongly believe that business and industry are uniquely positioned to make an invaluable

contribution. Private enterprises have created assets and facilities that constitute a front line engagement with civil society. Their physical presence in communities around their catchments gives them an opportunity to directly engage in synergistic business activities that can create livelihoods and add to preservation of natural capital. More than financial capital, private enterprises possess the crucial managerial capability to ensure efficient delivery of social projects at lower incremental costs.

ITC has forged unique business models that synergise long term shareholder value creation with the superordinate purpose of enhancing societal capital. Accordingly, we measure our accomplishments not only in terms of financial performance but also by the transformation we have consciously triggered to augment the natural and societal capital of the nation. This aspiration to achieve Triple Bottom Line benchmarks springs from our vision to contribute to the national goal of sustainable and inclusive growth. This commitment finds expression in our 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 our employees.

ITC's globally acknowledged e-Choupal initiative enhances farm productivity, provides market linkages and enables the creation of a virtual co-operative that empowers small and marginal farmers through higher incomes and freedom from exploitative intermediaries. Today, 6500 e-Choupals covering 40,000 villages benefit over 4 million farmers. Similarly, our Social Forestry initiative has greened over 80,000 hectares and created cumulative employment of 35 million man days. At the same time, these plantations provide a reliable source of wood pulp for the long term competitiveness and sustainability of our Paper business.

Our valued stakeholders will be happy to know that for six years in a row, ITC has been a 'Water Positive' Company, and for three consecutive years to date, we have sustained our 'Carbon Positive' status, notwithstanding the large growth in our businesses. Today, we have generated three times more freshwater harvesting potential than what we consume and sequester almost twice the amount of carbon we emit. This year, we have also achieved the 100% benchmark in recycling solid waste in several of our operations. This makes us the only company in the world, of our size and diversity, to have achieved these three milestones. We also draw immense pride that ITC's businesses today help in generating more than 5 million livelihoods across value chains that touch the lives of many who live at the margin. Over the last three years, Total Shareholder Returns, measured in terms of increase in market capitalisation and dividends, grew at a compound rate of 34% per annum, placing ITC among the foremost in the country in terms of efficiency in servicing financial capital.

Our strategy to embed a direct linkage between business objectives and societal goals has received worldwide acclaim, be it in the form of awards (listed elsewhere in this Report) or in the recognition ITC has received as an exemplar in the implementation of sustainable development practices. We believe our efforts to facilitate the transformation of Rural India by empowering small and marginal farmers and by improving the quality of life of rural communities, particularly women and children, will contribute to achieving many of the Millennium Development Goals enunciated by the United Nations. ITC's 'Mission Sunehra Kal', which encompasses our sustainable development initiatives, will continue to provide thrust to the three identified areas of intervention, namely, (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, health and sanitation.

Recognising the need to encourage more corporates to embrace sustainability, provide thought leadership and build capacity, ITC together with the Confederation of Indian Industry, has launched the CII-ITC Centre of Excellence for Sustainable Development. The Centre seeks to address the institutional void

in developing the requisite capability among Indian industry to pursue sustainability goals. This year, ITC joined the United Nations Global Compact, the world's largest global corporate citizenship initiative and I am happy to state that our initiatives and practices support the principles of the Global Compact.

In an increasingly connected and global world, stakeholders including consumers and investors, have raised the bar of expectation from corporates not only in terms of world-class quality of products and services, but also in terms of their response to issues of ethics, transparency and sustainability concerns.

The cornerstones of ITC's governance philosophy are trusteeship, transparency, empowerment and accountability, control and ethical corporate citizenship. We believe in setting exemplary standards of ethical behaviour, both internally within the organisation, as well as in external relationships. In addition, given the primacy of the

The cornerstones of ITC's governance philosophy are trusteeship, transparency, empowerment and accountability, control and ethical corporate citizenship.

consumer in our business strategies, ITC has invested significantly in cutting edge R&D, continuous technology upgradation, intensive consumer engagements to gain insights and a relentless focus on quality to build trusted consumer brands which stand among the 'best in class'. These will not only enhance the competitiveness of our businesses, but also create strong foundations for a secure and sustainable future for the Company.

We believe that we must lead by example, and therefore, are constantly engaging with stakeholders and

communities in India and abroad to help shape a larger Sustainability Agenda for Business. Last year, at the Annual General Meeting of the Company, I had proposed the creation of an institutional framework to develop, measure and rate the CSR impact made by companies (see AGM Speech 2007 at www.itcportal.com). This would not only encourage transparent sustainability reporting, but would also create a visible rating symbol in the form of 'Trustmarks' which would enable consumers to make a preferred choice for the products and services of companies that have put in place meaningful corporate action for social development. Such a strong and positive market response to corporate sustainability practices will encourage more and more companies to join the movement. I am happy to see a concerted action by many organisations to mainstream sustainability practices through voluntary guidelines, creation of environmental, social and governance ratings and through the institution of awards to recognise such efforts.

ITC's Sustainability journey has inspired us to renew our commitment to consciously direct the collective endeavours of our employees across all businesses, functions and locations to continuously improve sustainability practices to ultimately attain and exceed global standards.

Viewed from a global perspective, the sustainability challenges indeed look daunting. However, they are not insurmountable. Our own experience gives me the confidence to say that we can all make a big difference. Every small step in this journey, made collectively, is a giant stride that will secure our future generations. Surely, that goal itself makes every bit of this journey worthwhile.

ITC dedicates this Report as a tribute to our Prime Minister Dr Manmohan Singh's vision of building public-private partnerships for the sustainable and inclusive growth of the nation.

(Y C DEVESHWAR)
Chairman

KEY IMPACTS, RISKS & OPPORTUNITIES

Economic Impact

It is increasingly evident today that the security of future generations can be at significant risk unless economic growth models are sustainable and inclusive. Rapid progress, with callous depletion of natural resources and disparities in wealth, will have consequences that will not only impact the sustainability of business, but also that of the economy and the nation. It is for this reason that ITC aspires to contribute to a larger national goal of building societal capital through a commitment that goes far beyond the market.

ITC's abiding vision to be an exemplar in Triple Bottom Line performance provides the driving force to sustain growing shareholder value with the superordinate goal of creating value for society. We practice this philosophy by not only driving each of our businesses towards international competitiveness, but also by building the competitiveness of the larger value chain of which we are a part.

With the rapid changes in the Indian marketplace, aspirations of consumers are increasingly getting aligned to global standards. The wide array of choices now available to the Indian consumer, in terms of national and international brands, has put immense pressure on manufacturers to deliver world-class products and services. ITC's diverse internal competencies together with its deep consumer insights, state-of-the-art technology and strong R&D capabilities have enabled it to constantly deliver superior value to customers in terms of world-class products and services. ITC has gained significant marketshare over the years in all sectors that it has forayed into. This bears testimony to the continued trust reposed in the Company by consumers. It is a matter of pride that our brands today account for three of the top five FMCG brands in the country.

Realising the close linkages between the agricultural sector in India with ITC's businesses, the Company has over the years engaged in several initiatives that transform the quality of life of the farming community. To enhance farm productivity and raise incomes, ITC launched the pioneering e-Choupal network, which today covers 40,000 villages and reaches out to 4 million farmers. In addition, the Company has recently launched large scale agri-extension services through the 'Choupal Pradarshan Khet' initiative.

This far reaching programme has been implemented to ensure larger productivity gains in agriculture and higher returns to farmers. ITC has also contributed to creating sustainable livelihoods through social and farm forestry, integrated watershed development and animal husbandry programmes. Favourable and stable Government policies will be critical in ensuring long term involvement of corporates in agriculture and rural development. Given the wide ranging benefits to farmers, such public-private partnerships need to be encouraged through a concerted policy framework.

ITC's agri-sourcing has not only enhanced the competitiveness of the entire agri value chain but has also led to efficient sourcing for its businesses. Linking the Indian farmer to world markets, ITC's Agri exports constituted nearly 60% of the foreign exchange earnings of \$3.2 billion.

Over the years, ITC has consistently created significant shareholder value. Total Shareholder Returns, measured in terms of increase in market capitalisation and dividends, grew at a compound rate of over 26% per annum (compounded annual average), over the last 13 years.

In response to the emerging challenges and impact of climate change, ITC has initiated innovative measures that contribute to climate change mitigation. ITC is making efforts to combat climate change by adopting strategies which achieve energy efficiency benchmarks, de-risk various businesses and benefit from the opportunities offered by climate change mitigation and adaptation mechanisms. A 'Carbon Committee' has been set up comprising senior managers from Finance, Environmental, Health and Safety and Legal. The 'Carbon Committee' plays an important role in implementing the above strategies.

ITC's investments of nearly Rs 8,000 crores in the last decade to enhance the competitiveness of its businesses support direct employment to the tune of over 25,000 and indirect employment across the value chains of nearly 5 million people, whose livelihoods are substantially linked to their association with ITC. The Company's new FMCG businesses alone support the competitiveness of over 150 vendors in the SME sector thereby enabling them to adopt best practices, induct superior capabilities, and eliminate reprehensible practices like child labour.

With increasing demand for skilled expertise and talent, talent management remains one of the vital challenges that confront industry today. To address this issue, ITC has engaged extensively in creating a responsive, stakeholder-centric and market-focused culture that enhances organisational capability and vitality. It has also constantly strived to attract and nurture quality talent by making significant investments in learning and development, providing a culture of care and concern as well as systems and processes that encourage engagement and involvement.

Environmental Impact

Our business operations primarily impact the environment in three areas -

- Green House Gas (GHG) emissions
- Water use and emissions
- Solid wastes.

We have implemented innovative strategic initiatives to not only minimise the environmental impact but also create a positive footprint in each of these areas of global concern.

GHG Emissions - In order to mitigate any adverse impacts resulting from our activities, we follow a two-fold strategy -

- **Minimise specific energy consumption in each of our businesses through improved technology and processes** - Most ITC businesses, as detailed in relevant parts of this Report, are among the best in their class of business and continue to further lower their energy intensity. Over 24% energy in ITC is produced from renewable resources.
- **Carbon dioxide Sequestration through large-scale forestry programmes** - Over 80,000 hectares of tree plantations, created by our efforts to date sequester 1.95 times the total carbon dioxide emitted by our operations thereby ensuring our status as a 'Carbon Positive' Company for the third year in a row. Within the next five years, we plan to green 100,000 hectares, which would not only lead to sustainable sources of raw materials for our expanding Paperboards business and provide millions of man-days of employment to marginalised farmers, but also help consolidate ITC's 'Carbon Positive' status.

Water Responsibility - India accounts for 18% of the world's population but has only 4% of global fresh water resources. In order to create a positive impact in the area of water we have adopted a three-fold strategy -

- **Minimise the consumption of fresh water per unit of output in all the businesses** - Through water audits, conservation and use of next practices/latest technologies, our businesses have not only brought down the specific consumption of water substantially. These achievements are comparable to international benchmarks.
- **Minimise/recycle the treated effluents** - A large number of our units now recycle all the treated effluents, thereby not only minimising fresh water intake and also preventing pollution. The details are provided in the relevant sections of this Report. The number of such units has been increasing over the years.
- **Create rainwater harvesting potential within our units and in socially relevant areas** - We have systematically invested in creating additional rainwater harvesting potential in the Company units and through external watershed development projects in water stressed areas. This recognises the critical need to ameliorate water scarcity in rural India which is home to more than 72% of our population with agriculture as their mainstay. Nearly 67% of the cultivated area face severe moisture stress for 5 to 10 months a year.

ITC's watershed development projects now assist farmers in 24 districts, benefiting 33,311 farmers. A total of 2,178 water harvesting structures have been created, providing critical irrigation to 18,483 hectares of farmland.

As a result of these measures, ITC has sustained its status as a 'Water Positive' Company for the six consecutive years. Our endeavour to sustain our 'Water Positive' status and contribute meaningfully to the country's effort in mitigating water scarcity problems gives us the stimulus to envisage a goal of bringing a total of 50,000 hectares under soil and moisture conservation in the next five years.

Solid Waste Management - A three-pronged strategy guides the Company's endeavour to reduce solid waste and achieve a 'Zero Solid Waste' status through 100% recycling -

- Reduction of waste per unit of output
- Ensure recycling of all wastes generated by our operations
- Maximise reuse of the wastes as raw material

As a result of these initiatives, 98.95% of all solid wastes generated was recycled in 2007-08. Several of our units have already achieved nearly 100% recycling of all solid wastes.

We also used 163,250 tonnes of waste paper as raw materials in our Paperboards business, thereby creating a 'Positive Foot-print' even in the area of solid waste.

Social Impact

In line with ITC's abiding vision to contribute to a larger societal purpose, several initiatives have been implemented to bring in social equity and create a better future.

Our social initiatives support the Millennium Development Goals (MDGs) enunciated by the United Nations. The goals, which target reduction of poverty by half, promote gender equality and provide universal education form a blueprint agreed to by all the nations of the world and leading development institutions.

Millennium Development Goal - Poverty Eradication and Hunger - ITC's initiatives which support the MDG - Poverty Eradication and Hunger are listed below -

- **e-Choupal** - The ITC e-Choupal initiative is a powerful illustration of the Company's commitment to empower the small farmer and thus engender rural transformation. Through these rural partnerships, ITC touches the lives of nearly 4 million farmers across India.
- **Social and Farm Forestry Programme** - ITC innovatively leveraged its pulpwood requirements to provide sustainable livelihood opportunities to poor tribals and marginal farmers, by assisting them to convert their private wastelands into productive pulpwood plantations.
- **Integrated Watershed Development** - ITC's watershed development programme facilitates village-based participation in building, reviving and maintaining micro-water-harvesting structures and management of water resources to reverse land degradation, ensure soil and water conservation, provide critical irrigation and raise agricultural productivity.
- **Integrated Agriculture Development Programme** - This initiative facilitates a combination of solutions for optimising water management and enhancing farm productivity. Farmers are also encouraged to form agri-business centres, enabling them to pool knowledge and resources, have access to quality inputs on time and improve productivity and quality.

- **Livestock Development Programme** - This initiative assists small and landless farmers to upgrade livestock quality through cross-breeding by artificial insemination to boost milk productivity by a factor of 6 to 9 times, leading to a threshold increase in household incomes and thereby an improvement in their poverty status.

Millennium Development Goal - Promote Gender Equality and Empower Women - ITC's initiative to empower women include the setting up of Self Help Groups (SHGs) facilitating the promotion of micro-credit groups which is the first step towards the economic empowerment of women. Mature SHGs are linked with micro-enterprises like incense stick rolling and embroidery to provide diversified sources of income for poor rural households.

This programme is in line with the MDG of Promoting Gender Equality and Empowering Women.

Millennium Development Goal - Achieve Universal Education - ITC's supplementary education programme provides infrastructural support to Government-run primary schools and learning through Supplementary Learning Centres to stem drop-outs and enable more children to complete school and move on to higher standards. All these programmes are implemented around our production sites situated in rural hinterlands or semi-urban locations.

This initiative supports the MDG - Universal Education.

Millennium Development Goal - Improve Maternal Health - In line with this goal, initiatives in building low cost sanitary toilets improve hygiene in villages, improving access to such basic facilities for women, while backyard horticulture provide nutritional supplements. Our health camps address the curative needs of villagers.

Details of these initiatives are presented in the various chapters of this Report, and reflect our commitment and pride in being 'Citizen First'.

ITC: ORGANISATIONAL PROFILE

ITC is one of India's foremost private sector companies with a market capitalisation of nearly US\$ 19 billion and a turnover of over US\$ 5 billion. ITC has been rated among the World's Best Big Companies, Asia's 'Fab 50' and the World's Most Reputable Companies by Forbes magazine, and among India's Most Valuable Companies by Business Today.

ITC has a diversified presence in FMCG, Hotels, Paperboards & Packaging, Agri Business and Information Technology. It is ITC's strategic intent to create multiple drivers of business growth by leveraging its diverse competencies in agri sourcing, world-class manufacturing, branding, packaging, hospitality, trade marketing and distribution. By blending internal competencies to meet the emerging business opportunities of a growing economy, ITC has forayed into Lifestyle Retailing, Branded Packaged Foods, Personal Care products, Education & Stationery products, Incense Sticks and Safety Matches, apart from consolidating its traditional businesses of Cigarettes and Leaf Tobacco, Hotels, Paperboards & Packaging and Agri Business.



ITC's strategic intent is to create multiple drivers of business growth by leveraging its diverse competencies in agri sourcing, world-class manufacturing, branding, packaging, hospitality, trade marketing and distribution.



“The Branded Packaged Foods business grew by over 57% during the previous year.”

FMCG

Foods

ITC's foray into the Foods business is based on strong foundations that leverage ITC's proven strengths in the areas of branded cuisine, competitive sourcing of agricultural commodities, contemporary packaging as well as large distribution infrastructure. The Foods business of ITC is a unique example of the synergy that different businesses of ITC bring to create new competencies and a superior market standing.

The Branded Packaged Foods business continued to expand rapidly with sales growing by 57% over the previous year. The unwavering commitment to benchmarked high quality standards has enabled 'Aashirvaad' and 'Sunfeast' to command annual consumer spends of nearly Rs 1,000 crore each in a short span of time.

Enthusiastic consumer response has enabled the 'Bingo!' range of potato chips and finger snack

foods to acquire a double-digit market share within just one year of launch. In the staples category, 'Aashirvaad' further built on its leadership position. Aashirvaad MP Chakki atta was launched in target markets. The 'Sunfeast' range of biscuits was further expanded with the launch of 'Coconut' and 'Nice' variants as well as 'Sunfeast Benne Vita' flaxseed biscuits, Special Edition of 'Sachin's Fitkit' multi grain biscuits and 'Golden Bakery' premium cookies.

The confectionary category recorded robust sales with revenues growing by 40% over last year mainly driven by 'Deposited Mint' and 'Eclairs'. New variants in the 'Minto' and 'Candyman' range were launched during the year. In the Ready-to-Eat (RTE) group, 'Pasta Treat' also created a new category. 'Kitchens of India' products witnessed robust growth and is now well established in the US market in over 4,500 stores.



Cigarettes

Despite the unprecedented increase in the incidence of taxation, the Company retained its leadership position in the market and improved its market standing in the consumer mind-space in key competitive markets across the country evidencing the resilience of its brands and the superiority of its competitive strategies.

The unique IT-enabled 'Six Sigma' based product development process and the deep consumer insights nurtured by the Cigarettes business were leveraged during the year for a series of key initiatives such as contemporary, internationalised packaging for multiple Limited Edition Packs and flavour variants for some of the key premium brands.

Lifestyle Retailing

In the premium segment, 'Wills Lifestyle' continues to be a leader with a classy and contemporary range styled to give discerning customers the look of the season, in tune with the international fashion mood. 'Wills Lifestyle' was rated amongst the top 5 Luxury brands in the country in a Global Luxury Survey conducted by TIME Magazine. During the year, the business launched its new brand 'Miss Players'. The brand brings to the market trendy fashion wear for young women. The business re-launched its customer privileges programme, 'Club Wills', by incorporating

a Platinum category, which offers more personalised services.

Personal Care Products

The Personal Care Products business was expanded during the year with the introduction of a range of shampoos, soaps, shower gels and conditioners under the brand names of 'Fiama Di Wills', 'Vivel Di Wills', 'Vivel' and 'Superia'. Anchored on meticulous consumer research, these products are formulated with a unique blend of nature and science. Each of these brands offers the discerning consumer differentiated value benefits.

Education and Stationery Products

The flagship brands, namely 'Classmate' for the student community and 'Paperkraft' for the discerning working executives have established a strong presence in the Indian stationery market. The rechristened education and stationery business has expanded its range of products with the launch of scholastic products such as geometry boxes. The business has effectively leveraged the Company's world-class environment friendly Elemental Chlorine Free (ECF) paper manufacturing capability to impart unmatched quality to its product range. The business has played a pioneering role in partnering over 15 small scale units to upgrade their quality, delivery capability and business processes. 8 of these units were awarded the ISO 9001:2000 certificate, which

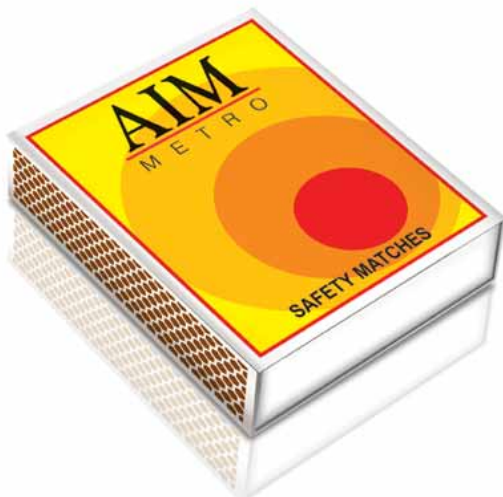


is a first for the stationery industry. This accomplishment underscores the mutual benefits of a marketing partnership between a large marketing company and small scale manufacturers.



Safety Matches and Incense Sticks

In the Matches segment, new value added offers such as 'Aim Mega' and 'Aim Metro' have resulted in the combined portfolio delivering a topline growth of 8% in a mature category. The business continues to source significantly from the small scale sector, working closely with these units to improve their competitive capability through the induction of technology and best practices.



The Agarbattis business recorded an impressive 28% growth in revenues, riding on the success of 'Mangaldeep' and its two key sub brands – Madhur 100 and Yantra. The business continues to work in conjunction with NGOs and Self Help Groups in Tripura, Bihar, Andhra Pradesh, Tamil Nadu etc.,



extending support to them by training village women in rolling agarbattis, thereby creating income streams for women from poor rural households. Livelihood opportunities have been created for 5000 people so far. The business continues to collaborate with Small and Medium Enterprises to harness the best of their entrepreneurial skills and raise their process and quality standards. 7 out of 10 agarbatti manufacturing units have received ISO 9001:2000 certification with our support. The business has commenced export of premium perfumed candles to the US. The business has also launched a range of premium aromatic candles in the Indian market under the brand 'Expressions'!



“The business posted yet another impressive performance with revenues growing by 12% this year.”



HOTELS

ITC's Hotels business is one of the premier hospitality chains in the country which encompasses hotels, resorts and palaces. The business posted yet another impressive performance with revenues growing by 12% this year. Consequent to the exclusive tie-up with its partner Starwood, seven of the finest 'ITC Hotel' properties, representing the true essence of Indian hospitality, were repositioned and associated with the premium 'Luxury Collection' franchise.

ITC-Welcomgroup has emerged as the country's 2nd largest hotel chain offering a choice of over 90 hotels across 77 destinations in India under 4 different brand propositions - 'ITC Hotels', 'WelcomHotel', 'Fortune' and 'WelcomHeritage'

and 4 properties carrying the Sheraton franchise, aggregating to an inventory of 6,000 plus rooms.

Recently 'Kaya Kalp - The Royal Spa' was launched at ITC Mughal, Agra. Spread over 99,000 sqft and Asia's largest, it blends elements of Mughal architecture and opulence for a meaningful experience.

The WelcomEnviron programme of the Hotels business propagates environmental causes in the cities where the hotels are located. Each hotel has its own programme, encompassing local participation, creating awareness among employees and internal conservation through best practices.



PAPERBOARDS, SPECIALTY PAPERS & PACKAGING



The business reinforced its market leadership during the year and is the only significant player in the premium value added paperboard segment with integrated pulping operations. Sales of Value Added Paperboards grew by 15%.

With the recent commissioning of the new pulp mill, the capacity at the Bhadrachalam unit stands enhanced from 1 lakh tonne per annum to 2.22 lakh tonnes. The new pulp line is the first in the country with ozone bleaching capability and reinforces the Company's commitment to a better environment. The business is at an advanced stage of commissioning a new paper machine at its Bhadrachalam unit with a capacity of 1 lakh tonne per annum, to cater to the growing demand for fine printing paper, premium quality coated paper and branded copier paper. The business continues to source wood pulp from plantations facilitated by ITC's clonal propagation initiatives.

The Packaging & Printing business expanded its range of offerings to consolidate its position as a leading provider of high quality paperboard and flexibles packaging in the country. The business provided strategic support to the Cigarettes and other FMCG businesses by ensuring security of supplies and sustaining international quality at competitive prices.

Deliveries from the flexibles and carton lines, commissioned at Haridwar and Chennai,

respectively during the year, are being scaled up to cater to the distinctive and innovative packaging requirements of the Branded Packaged Foods and Personal Care businesses. The business also built up critical volumes in the supply of value added packaging to the consumer electronics industry from its Chennai facility.



The new pulp line is the first in the country with ozone bleaching capability and reinforces the Company's commitment to a better environment.

AGRI BUSINESS

The Company's commodity trading operation was accredited with ISO 9001:2000 certification, testifying to the high quality process standards resident in the system.

The business is progressively aligning its commodity portfolio with the sourcing needs of the Company's Foods Business to generate higher order value from its agri procurement infrastructure. The acquisition of Technico, an Australian company with technology leadership in the production of early generation seed potatoes, helped the business access a ready pipeline of new high-yielding varieties of chipstock potato seeds.

It is a matter of great pride that the e-Choupal network found special mention in the World Development Report 2008 published by the World Bank.

24 Choupal Saagars - Integrated rural hubs that complement the e-Choupal are now operational

The 'Choupal Pradarshan Khet' (CPK), aimed at enhancing farm productivity through adoption of best practices in agriculture, now covers 43,500 hectares.

in the states of Madhya Pradesh, Maharashtra and Uttar Pradesh.

The 'Choupal Pradarshan Khet' (CPK), a collaborative and paid agri extension service, aimed at enhancing farm productivity through adoption of best practices in agriculture, now covers 43,500 hectares. The business has also taken up a project jointly with the Government of Madhya Pradesh under the Agriculture Technology Management Agency (ATMA) initiative, wherein both classroom and on-field training would be provided to farmers by experts from various areas of agriculture including lead farmers.

The Leaf Tobacco business achieved a new high in tobacco exports for the 3rd consecutive year, and despite the sharp appreciation of the rupee, recorded a 21% increase in export revenues over the previous year. In volume terms, exports for the year stood at 62 million kgs, representing a 27% growth.



INFORMATION TECHNOLOGY

ITC Infotech India, a fully owned subsidiary of ITC Limited, is one of the leading India based global IT and IT enabled services Company. In a survey conducted by Global Services in association with neoIT, the Company was placed among the Top 100 service providers across four continents, in terms of operations, service offerings, client relationships and human capital.

ITC Infotech has continued to enhance its operations in US and UK and has posted a 47% increase in total income. With a view to enhancing focus on the Nordic markets, the Company has opened branches at Denmark, Finland and Norway. In the course of the year, the Company added a new vertical, Media and Entertainment, to the existing collection of verticals, namely Banking, Financial Services & Insurance, Travel, Hospitality & Transportation, Manufacturing and Consumer Packaged Goods & Retail. In line with our Triple Bottom Line philosophy, the Company has devised a holistic approach to deliver value to its customers through greener solutions including those aimed at increasing efficiency of clients' data centres.



“In a survey conducted by Global Services in association with neoIT, the Company was placed among the Top 100 service providers across four continents.”

OVERSEAS SUBSIDIARY

Surya Nepal Private Limited (SNPL) is an Indo-Nepal UK joint venture which commenced operations in Nepal in 1986. SNPL is the largest private sector enterprise in Nepal and is the single largest contributor to the Exchequer accounting for about 3.7% of total revenues of the Government of Nepal.

With a profit after tax of Nepalese Rupees 92 crores, SNPL consolidated its position with new launches in cigarettes as well as export of readymade garments for the 'Wills Lifestyle' and 'John Players' range of apparel.

CERTIFICATIONS, HONOURS & AWARDS



Certifications

All the Environment, Health and Safety (EHS) Management systems & Sustainability Reporting in ITC conform to the best international standards.

ISO 14001- Environment Management Systems

All manufacturing units of ITC, all the major hotels, Corporate EHS Department & ITC R&D Centre at Bengaluru have achieved this certification.

OHSAS 18001- Occupational Health & Safety Management Systems

All the manufacturing units of ITC and Corporate EHS Department have achieved this certification.

SA 8000 - Social Accountability

Leaf processing plants at Chirala and Anaparti, Cigarette factory at Kolkata and SNPL factory at Simra have achieved this certification.

HACCP - Food Safety

ITC Hotels Sonar, Grand Central, Maratha, Kakatiya, Sheraton Rajputana and Chola have received this certification. ITC Hotel Maurya had already been certified in 2004-05.

Honours 2007-08

The following awards received during 2007-08 bear testimony to the highest standards of excellence maintained in the various units of the Company and significant achievements in the areas of EHS -

Five Star Rating & Sword of Honour by British Safety Council, UK

- Leaf Processing plants at Chirala and Anaparti
- Packaging & Printing unit at Tiruvottiyur
- Specialty Papers division unit at Tribeni

Five Star Rating (Safety) by British Safety Council

- Cigarette factories at Bengaluru, Kolkata, Saharanpur & Munger
- Packaging and Printing unit at Munger

Five Star Rating (Environment) by British Safety Council

- Leaf processing plants at Anaparti & Chirala
- ITC Sonar, Kolkata

Golden Peacock Occupational Health & Safety Award by Institute of Directors, New Delhi

- Cigarette factory at Kolkata

Greentech Environment Excellence Gold Award by Greentech Foundation, New Delhi

- Cigarette factories at Kolkata, Munger & Bengaluru
- ITC Grand Central, Mumbai
- Sheraton Rajputana, Jaipur

Greentech Environment Excellence Silver Award by Greentech Foundation, New Delhi

- Packaging and Printing unit, Munger
- ITC Kakatiya



Honours 2007-08

National Energy Conservation Award
by Bureau of Energy Efficiency, Government
of India

- ITC Maurya, New Delhi

Energy Conservation Award – 1st prize
by Confederation of Indian Industry, Eastern
Region

- Specialty Papers unit at Tribeni

FNCCI Business Excellence Award
(Federation of Nepal Chamber of Commerce
& Industries)

- SNPL, Simra

Greentech Safety Award – Gold by Greentech
Foundation, New Delhi

- Cigarette factories at Bengaluru, Munger,
Saharanpur and Kolkata
- Packaging & Printing factory at Munger
- ITC Grand Central, Mumbai

Greentech Safety Award – Silver
by Greentech Foundation, New Delhi

- ITC Mughal, Agra
- Packaging & Printing unit at Tiruvottiyur

Royal Society for Prevention of Accidents
(RoSPA) Gold Award

- Cigarette factories at Bengaluru, Munger,
Saharanpur and Kolkata
- Packaging & Printing factory at Munger



Awards & Accolades

ITC constantly strives to benchmark its products, services and processes to global standards. The Company's pursuit of excellence has earned it many national and international honours. Some of the significant laurels achieved during the year were -

- **FICCI Outstanding Vision Triple Impact Corporate Award 2007** for exemplary triple bottom line performance.
- **Sustainability Leadership Award 2007** conferred on **Chairman Y C Deveshwar** by the **Sustainability Forum, Zurich** and **SAM/SPG** at the **International Sustainability Leadership Symposium**.
- **Inaugural GRI Readers' Choice awards 2008, for the Sustainability Report**.
- **Business Today Award** for the **Best Managed Company – Retail and Consumer Products** in recognition of its outstanding initiatives in the consumer products segment.
- **Asian CSR Award 2007** for **Environmental Excellence** given by the **Asian Institute of Management**. The Award recognises and honours Asian companies for outstanding, innovative and world-class projects.
- **The National Award for Excellence in Water Management 2007** in the 'beyond the fence' category from the **CII Sohrabji Godrej Green Business Centre**.
- **Ryutaro Hashimoto Incentive Prize 2007** for **Environment & Development** from the **Asia Pacific Forum**.
- **Readers' Digest Pegasus Award for Corporate Social Responsibility**, recognising outstanding work done by socially conscious companies.
- **NDTV Profit Business Leadership Award** for being the **Best Food Company of 2007**. The Award has been instituted to recognise organisational excellence.
- **CNBC-TV18's International Trade Award 2008** for **Outstanding Exporter of the Year** in the **FMCG & Food** category.
- **Corporate Social Responsibility Crown Award for Water Practices** from **UNESCO** and **Water Digest** for ITC's distinguished work carried out in the water sector in India.
- **Golden Leaf Awards** in the categories of '**Most Committed to Quality**' and '**Most Impressive Public Service Initiative**' for **ITC-ILTD**. The awards were presented during **TABEXPO 2007** in Paris.
- **National Tourism Award** for '**Best Eco-Friendly Hotel**' for **ITC Maurya** from the **Ministry of Tourism**.
- **Wills Lifestyle** rated amongst the top 5 **Luxury brands** in the country in a **Global Luxury Survey** conducted by **TIME Magazine**.
- **ITC Infotech** ranked in the '**Leaders Category**' for the '**2008 Global Outsourcing 100**' by the **International Association of Outsourcing Professionals (IAOP)**.
- **National Award for Excellence in Printing** for **ITC's Packaging Business** by the **All India Federation of Master Printers**.
- **Best Indian Restaurant in Asia-2008** for **Bukhara** at **ITC Maurya** given by the **Restaurant magazine of UK**.



REPORT PARAMETERS

Report Profile, Scope & Boundary

This is our fifth Sustainability Report. The data and performance indicators for the period April 1, 2007 to March 31, 2008, are presented in this Report. However, Highlights, Awards & Certifications include more recent updates. We report our sustainability performance annually.

The last issue of our Sustainability Report was published in early 2008 covering the period April 1, 2006 to March 31, 2007.

The reporting principles and methodology continue to remain in accordance with GRI guidelines' 2006 version - G3. The relevant indicator protocols and technical protocols have been followed for reporting various indicators.

ITC is headquartered at Virginia House, 37 J L Nehru Road, Kolkata 700 071 (India).

For additional copies of this Report or any clarifications, please write to Corporate Communications Department at the above address or e-mail - enduringvalue@itc.in

Explanation of Processes

This Report covers performance of all the businesses and units directly under ITC Limited (as in the previous years) and from this year also includes performance of the units of four subsidiary companies. The information/data reported here reflect significant economic, environment and social impacts that can substantially influence assessments or decisions of our stakeholders. Our businesses/units continue to proactively engage with key stakeholders, who, either have a major interest or are largely affected by our performance in any of these businesses/units.

Sustainability and sustainable development are integral to ITC's ethos and find expression in our commitment to enhancing the Triple Bottom Line benchmarks of economic, social and environmental capital.



We continue to enlarge our Triple Bottom Line philosophy to other subsidiaries, joint ventures and outsourced manufacturing.

The Report on economic performance is drawn from the Company's Report & Accounts (R&A) 2008. The R&A 2008 was prepared in accordance with the Companies Act, 1956 and has been audited by independent External Auditors - M/s A F Ferguson and Sons.

The environment and safety data is compiled from actual operating data maintained by the various businesses, factories, hotels, etc. of the Company and the subsidiaries.

The social responsibility data has been collected on-site.

Reporting Boundary - This Report covers the following businesses and their corresponding units



FMCG

Cigarette units at Kolkata (West Bengal) | Bengaluru (Karnataka) | Munger (Bihar) & Saharanpur (Uttar Pradesh)

Hotels

ITC Hotels Maurya (New Delhi) | Maratha (Mumbai) | Grand Central (Mumbai) | Sonar (Kolkata) | Mughal (Agra) | Windsor (Bengaluru) | Sheraton Chola (Chennai) | Sheraton New Delhi (New Delhi) | Sheraton Rajputana (Jaipur)



Paperboards, Paper & Packaging

Units at - Munger (Bihar) | Tiruvottiyur (Tamil Nadu) | Tribeni (West Bengal) | Bhadrachalam (Andhra Pradesh) | Bollaram (Andhra Pradesh) | Kovai (Tamil Nadu)

Agri Business

Units at - Anaparti (Andhra Pradesh) | Chirala (Andhra Pradesh) | Research Centre, Rajahmundry (Andhra Pradesh)



Lifestyle Retailing & others

Units at - Design & Tech. Centre, Gurgaon (Haryana) | ITC R&D Centre, Bengaluru (Karnataka) | ITC Green Centre, Gurgaon (Haryana) | ITC Head Office, Kolkata (West Bengal)

Subsidiaries

ITC Infotech India Limited Units at Bengaluru (Karnataka) and Kolkata (West Bengal) | Surya Nepal Private Limited Cigarette Manufacturing Unit at Simra (Nepal) | Srinivasa Resorts Limited - ITC Kakatiya, Hyderabad (Andhra Pradesh) | Bay Islands Hotels Limited - Fortune Resort Bay Island Hotel, Port Blair (Andaman & Nicobar)



GOVERNANCE, COMMITMENTS & ENGAGEMENTS

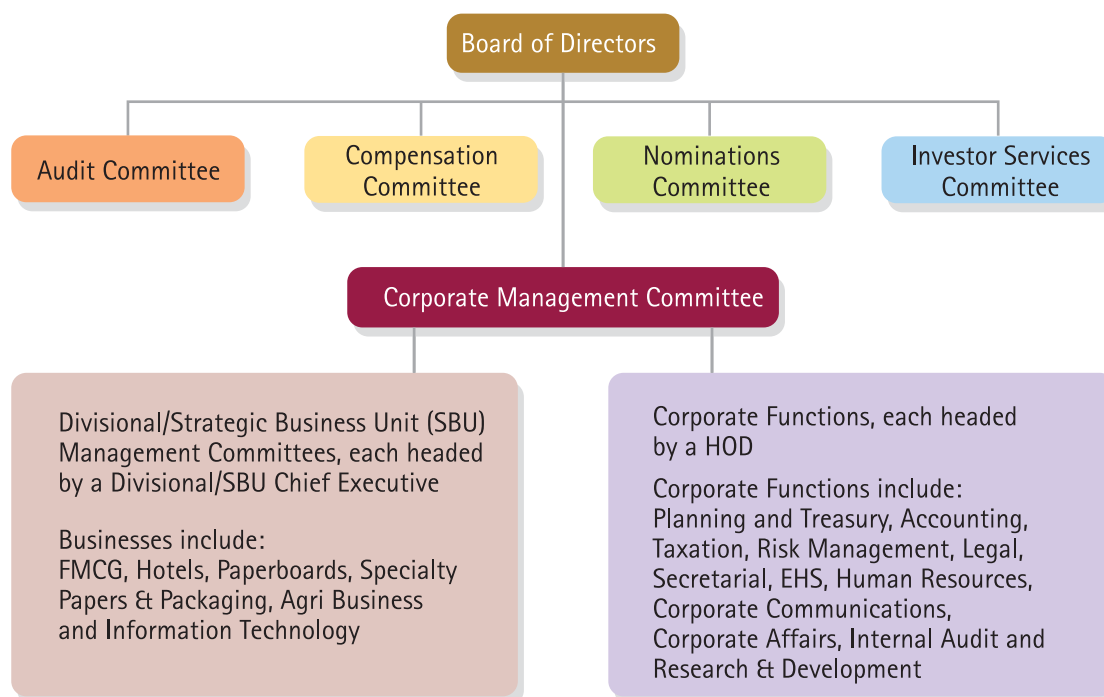


Our Corporate Governance processes are designed to support effective management of multiple businesses while retaining focus on each one of them. The practice of Corporate Governance in ITC takes place at three interlinked levels -

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

The role, powers and composition of the Board of Directors, Board Committees, Corporate Management Committee and Divisional Management Committees are articulated and available on the Company's corporate website.

Governance Structure



Chair of the highest governance body

The Chairman of ITC is the Chief Executive of the Company. He is the Chairman of the Board and the CMC. His primary role is to provide leadership to the Board and the CMC for realising Company goals in accordance with the charter approved by the Board.

We have a diversified business portfolio which demands of senior leadership an in-depth knowledge and understanding of the functioning of the Company, so as to enhance the value-generating capacity of the organisation and contribute significantly to stakeholders' aspirations and societal expectations. The Chairman of the Company, therefore, is chosen from the Executive management.

Board of Directors (Board)

The ITC Board is a balanced Board, comprising 4 Executive and 11 Non-Executive Directors

(including 9 Independent Directors) as on March 31, 2008.

Selection of Directors

ITC's Governance Policy stipulates 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 retirement guidelines as determined by the Board from time to time. All Directors are liable to retire by rotation unless otherwise approved by the shareholders. One-third of the Directors who are liable to retire by rotation, retire every year and are eligible for re-election.

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



Performance of the highest governance body

The role of the Board is to provide direction and exercise control to ensure that the Company is managed in a manner that fulfils stakeholders' aspirations and societal expectations. The Board evaluates Directors collectively to reinforce the principle of collective responsibility.

Compensation for members of highest governance body

Remuneration of the Chairman, Executive Directors and the seniormost level of management below the Executive Directors is determined by the Board, on the recommendation of the Compensation Committee comprising only Non-Executive Directors; remuneration of the Directors is subject to the approval of the shareholders. Such remuneration is linked to the performance of the Company inasmuch as the performance bonus is based on various qualitative and quantitative performance criteria. The quantum of such performance bonus for each financial year is determined by the Board on the recommendation of the Compensation Committee.

Remuneration to Non-Executive Directors is by way of commission for each financial year; such commission is determined by the Board within the limits approved by the shareholders. The remuneration is based, *inter alia*, on Company performance and regulatory provisions and is payable on a uniform basis to reinforce the principle of collective responsibility. Non-Executive Directors are also entitled to sitting fees for

attending meetings of the Board and Committees thereof, the limits for which have been approved by the shareholders.

The Corporate Management Committee determines the remuneration of other managers of the Company.

Stock Options are granted to Directors and managers to align their interest with those of the shareholders by creating a common sense of purpose towards enhancing shareholder value. Options are granted based, *inter alia*, on the employee's and Company's performance, the level/grade of the employee and such other criteria as determined by the Compensation Committee/Board.

The appointment of Executive Directors, who have all been drawn from amongst the management cadre, is covered by the terms and conditions of their Service Contract. In terms of the Articles of Association of the Company, a notice of one month is required to be given by a Director seeking to vacate office and the resignation takes effect upon the expiration of such notice or its earlier acceptance by the Board. In terms of the Service Contract applicable to the management cadre, employment may be terminated at any time by either party giving in writing the requisite notice.

Avoidance of conflicts of interest

In terms of the ITC Code of Conduct, as adopted by the Board, Directors, senior management and 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 guiding principle is that conflict, if any, or potential conflict must be disclosed to higher management for guidance and action as appropriate.

Contracts in which Directors are interested, if any, are required to be placed before the Board for approval. Further, senior management is also required to confirm on an annual basis that no material transaction has been entered into by them which could have potential conflict with the interest of the Company; such confirmations are placed before the Board.

The Company has a 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. Instances of violation of the ITC Code, if any, are reported to the Board and to the regulatory authorities.

Shareholder mechanisms

Detailed in Shareholders' section of 'Stakeholder Engagement'.

Precautionary approach

As a diversified enterprise, the Company has always had a system-based approach to business risk management. The annual business planning exercise

requires all businesses to clearly identify their top risks and set out a mitigation plan with agreed timelines and accountability.

Backed by strong internal control systems, the current risk management framework of the Company consists of the following elements -

- The Corporate Governance Policy has laid down the roles and responsibilities of the various entities in relation to risk management. A range of responsibilities, from the strategic to the operational, is specified in the Governance Policy. These role definitions, *inter alia*, are aimed at ensuring formulation of appropriate risk management policies and procedures, their effective implementation and independent monitoring and reporting by Internal Audit.
- A combination of centrally issued policies and divisionally-evolved procedures brings robustness to the process of ensuring that business risks are effectively addressed.
- Appropriate structures have been put in place to effectively address the inherent risks in business with unique/relatively high risk profiles.
- A strong and independent Internal Audit function at the Corporate level carries out risk-focused audits across all businesses, enabling identification of areas where risk management processes need to be



strengthened. The Audit Committee of the Board reviews Internal Audit findings, and provides strategic guidance on internal controls. The Audit Compliance and Review Committee closely monitors the internal control environment within the Company and ensures that Internal Audit recommendations are effectively implemented.

- At the business level, Divisional Auditors continuously verify compliance with laid down policies and procedures, and help plug control gaps by assisting Operating Management in the formulation of control procedures for new areas of operations.
- A robust and comprehensive framework of business planning and performance management ensures realisation of business objectives based on effective strategy implementation.
- All businesses confirm periodically that relevant business risks have been identified, assessed, evaluated and appropriate mitigation systems implemented.

The combination of policies and processes as outlined above adequately addresses the various risks associated with the Company's businesses. The senior management of the Company periodically reviews the risk management framework to maintain its contemporariness so as to effectively address the emerging challenges in a dynamic business environment.

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

The Corporate Management Committee (CMC) of the Company approves the relevant Financial, Environmental, Occupational Health and Safety, and Social policies of ITC.

The Corporate Internal Audit Function audits implementation of all systems and policies in all Company businesses and Corporate Headquarters.

The Corporate EHS Department, headed by an Executive Vice-President, is responsible for

laying down ITC's standards, preparing EHS Guidelines and ensuring effective implementation. EHS Performance of all Units/Factories/Hotels is audited, at least once annually, to ensure conformity to statutory requirements, Corporate EHS Guidelines and Standards.

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

Reports relating to Economic, EHS and Social performance are provided to the Corporate Management Committee on a monthly basis. In addition to the above, periodic presentations are made to the CMC to ensure performance in accordance with specified targets.

All Management Systems and standards in ITC conform to relevant national and international standards and benefit from internationally accepted Best Practices. Quality Management Systems in various businesses are certified in accordance with ISO 9001, International Quality Rating System (IQRS), Hazard Analysis and Critical Control Point (HACCP), TQM/TPM, Six Sigma and other internationally renowned standards as applicable to the respective businesses.

Environment Management Systems in all ITC manufacturing units, major hotels and Corporate EHS Department are certified in accordance with ISO 14001. Occupational Health & Safety Management Systems in all manufacturing units including Corporate EHS Department are certified in accordance with OHSAS 18001.

“ITC's Corporate Governance Policy lays down the roles and responsibilities of the various entities in relation to risk management. A range of responsibilities, from the strategic to the operational, is specified in the Governance Policy.”

STAKEHOLDER ENGAGEMENT



We continued to improve our systems to prioritise and address the needs and concerns of all our stakeholders, across all businesses and units as well as at the Corporate level.

Shareholders

We believe, as trustees of shareholders' wealth, it is our responsibility to protect and enhance their wealth and we continue to enjoy their trust.

Their primary concerns remain continued profitability and growth, communication and investor servicing.

As one of India's foremost private sector companies, we have performed consistently well and since inception of the Company, have rewarded our shareholders with uninterrupted dividend and issue of bonus shares from time to time.

Our Chairman addresses and provides clarifications to shareholders at least once a year, at the Annual General Meeting, the principal forum for face-to-face interaction, in the presence of the entire Board. The Board encourages open dialogue with all the shareholders—individuals, corporate or foreign investors.

Our corporate website www.itcportal.com provides comprehensive information and an exclusive section on 'Shareholder Value' serves to inform and service shareholders; an exclusive



e-mail ID has also been provided to the shareholders for direct interaction.

Our Investor Service Centre (ISC), accredited with ISO 9001:2000 certification for its investor servicing, provides high quality service to our 'providers of capital' through its dedicated and trained team of professionals supported by state-of-the-art infrastructure and systems.

Customers

Understanding our customers and addressing their needs and aspirations continued to be prime focus for all our business strategies and plans.

Both traditional tools and innovative approaches such as market surveys, ongoing personal contacts/visits, effective capture & prompt response to any complaints, key account managers, joint development/improvement projects, etc., were deployed to understand their needs and preferences.

During the year we continued to delight our customers through newer products, value added services and improvement in product quality. Our R&D experts and world-class laboratories supported newer products/variants and benchmarked quality.

We continued to make significant investments in infrastructure and IT to further improve the supply chain management thereby improving availability of our products.

Employees

We continued to advance our strategic agenda of making each of our businesses globally competitive and create new engines of growth by blending proven skills and capabilities drawn from different parts of the ITC Group.

During the year, the focus was on further strengthening the organisational vitality and competitiveness -

- Marshalling the energy of the team of over 25,000 employees towards achieving break-through performance.
- Developing the agility and creativity to speedily embrace change.
- Developing leaders who are architects of collectives of talented, passionate and diverse individuals.
- Creating a shared mindset across the organisation where employees are inspired, engaged and aligned to the Company's purpose, mission, vision, values and objectives.

Farmers

Farmers have been an integral part of ITC's value chain for nearly a hundred years now. Since most significant and principle raw materials in ITC are agri based, we partner the farmers in securing improved productivity, assured markets and better price realisation.

Our Agri Business (including the Leaf Tobacco division) and Paperboards & Specialty Papers business have used our R&D and innovation capabilities to improve the farmers' lives and livelihood through newer varieties and improvements in farm productivity.

Some of the important initiatives that have built capabilities and brought significant prosperity to a very large number of farmers are -

- Empowerment of farmers through our internationally acclaimed e-Choupals.

- Farm and social forestry initiatives covering over 80,000 hectares with superior, disease resisting clones.
- Watershed development.
- Livestock Development.
- Training and awareness building for adoption of integrated pest management, water & energy conservation measures and post harvest management.

For details of these programmes, please see relevant portions of this Sustainability Report or visit www.itcportal.com

Government

We comply with all the economic, environmental & social regulations, pay all relevant taxes and monitor and report all the relevant parameters/information to the regulatory bodies. We have also achieved 'beyond compliance' status by adopting international best practices.

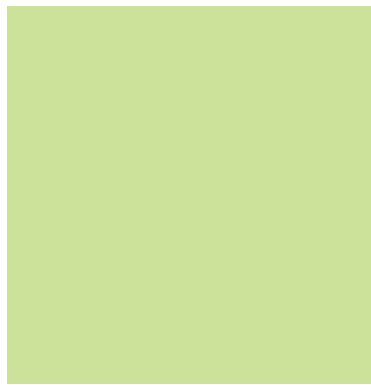
Our managers proactively participate in Government, statutory and business forums on issues relating to regulatory and public policy framework.

Community

We actively engage with the communities around our operations. Our unique social development initiatives, detailed elsewhere in this Report are closely aligned to the needs and concerns of these communities.

Suppliers

We believe our suppliers are our 'partners in progress' and are critical to ITC's value chain. Our businesses have periodic reviews and vendor audits resulting in ongoing development. Our managers are stationed in a number of important outsourced manufacturing sites, to support quality management systems, provide expertise and support in manufacturing technology which in turn results in improved vendor capabilities and competitiveness.



ITC'S TRIPLE BOTTOM LINE

ECONOMIC PERFORMANCE



We posted yet another year of impressive performance with healthy topline growth and high quality earnings testifying to the robustness of our corporate strategy of creating multiple drivers of growth. This performance is even more satisfying since it has been achieved despite severe taxation on cigarettes, the incubation costs of new FMCG businesses including the recently launched Personal Care portfolio, the upfront costs of rural marketing initiatives and the gestation costs of fresh investments in the Paperboards and Hotels businesses.

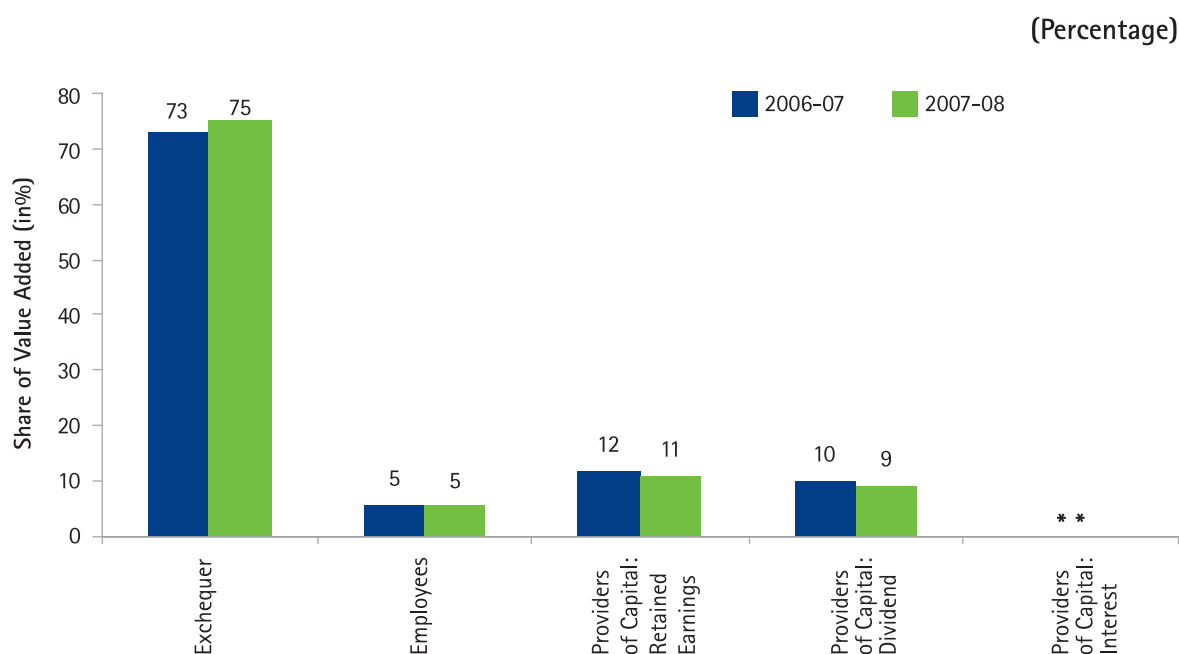
Gross Turnover for the year 2007-08 grew by 10.7% to Rs 21356 crores driven by good topline growth across all our businesses. Pre-tax profit increased by 16.4% to Rs 4572 crores, while post-tax profit at Rs 3120 crores registered a growth of 15.6%.

Direct Economic Impact

Key Economic Indicators	(Rs Crores)		
	2006	2007	2008
Gross Turnover	16224	19300	21356
Net Turnover	9790	12164	13948
Exports	1413	1926	1695
Taxes Paid/Contribution to Exchequer	7677	8455	10768
Cost of Goods	3983	5195	6017
Consumption of Raw Materials & Stores and Spares	2823	3861	4651
Payroll Expenses	541	630	733
Interest paid on Debts & Borrowings	12	3	5
Dividend Paid (including Tax on Dividend)	1135	1365	1543
Retained Profits	1101	1335	1577
Community Investments	65	64	57

* Detailed Financial performance available at www.itcportal.com

Analysis of Value Added



** as given in the above table



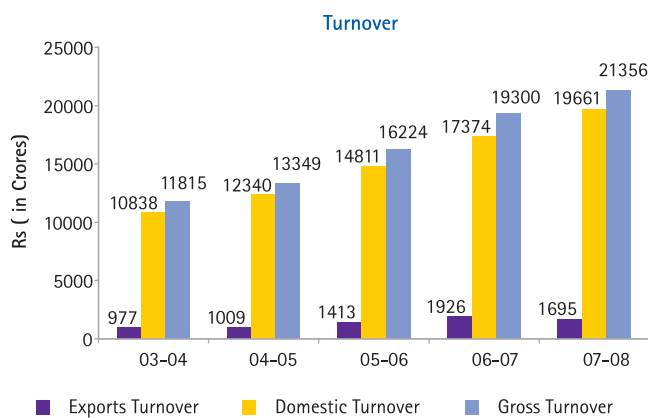
- Contribution to the exchequer - nearly 75% of Value Added.
- Direct Taxes - the highest tax payer in Eastern India and amongst the top tax payers in the country.
- Excise payments - over 5% of the country's total collection.

Rewarding Shareholders

	2004	2005	2006	2007	2008
Dividend Paid (Rs Crores)	559	882	1135	1365	1543
Dividend per share (Basic)-in Rs	2.0	3.1	2.65	3.1	3.5

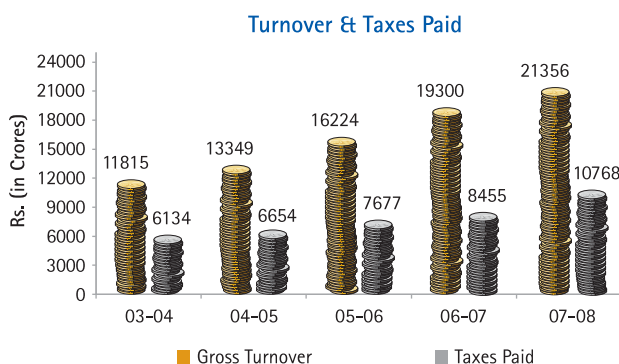
- Growth in Shareholder Returns - 26% (compounded annual average 1995-96 to 2007-08).
- ITC among the foremost in India in terms of efficiency of serving financial capital and 9th amongst listed private sector companies in terms of market capitalisation as at March 31, 2008.

Putting Customers First

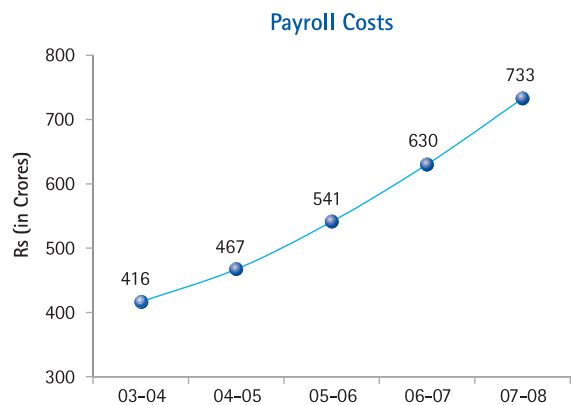


- ITC is sixth in gross sales (Indian Private Sector, 2007-08).
- Foreign exchange earnings (last 10 years) US\$ 3.2 Billion.

Contribution to the National Exchequer

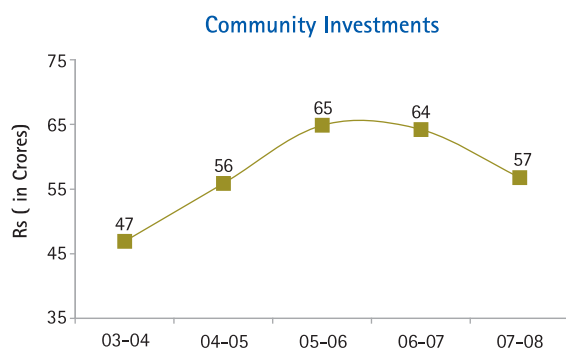


Engaging Talent



- Creating a responsive, stakeholder-centric and market-focused culture that enhances organisational capability and vitality.
- Attracting and nurturing quality talent supported by significant investments in learning and development, a culture of care and concern and systems and processes that encourage engagement and involvement.

Citizen First



ITC endeavours to create shareholder value while making a substantial contribution to society.

Climate Change & its Financial Implications

India, a vast country covering 3.28 million square km, with varied soils, climate, biodiversity and ecological regimes, is a party to the United Nations Framework Convention for Climate Change (UNFCCC) and attaches great importance to climate change issues. Subsequent to the Intergovernmental Panel on Climate Change (IPCC)'s 4th Assessment Report, India has initiated various processes to evaluate specific risks and mitigation/adaptation measures.

In line with our commitment to the Triple Bottom Line objectives of contributing to building economic, social and environmental capital of the nation, we have adopted strategies to remain on the cutting edge of awareness, support international initiatives in mitigating the adverse impacts of climate change, de-risk our various businesses and benefit from the emerging opportunities offered by climate change mitigation and adaptation.

Our 'Carbon Committee' comprises senior managers from Finance, EHS and Legal. The 'Carbon Committee' plays an important role in implementing the above strategies.

Although, based on the 4th Assessment Report, there are no immediate risks to our businesses, we are



seriously progressing the following initiatives to de-risk our businesses and support the national and global efforts on climate change mitigation/adaptation and simultaneously strengthen our competitiveness.

Climate Change and Agriculture

A large proportion of our raw materials are agri based. The impact of climate change on India's rainfed agricultural sector is quite complex, especially the adverse effect on soil, biodiversity and ecological regimes. Our R&D specialists are collaborating with expert study groups and examining agricultural productivity/adaptation issues related to climate change. Our water conservation, watershed development and rainwater harvesting projects contribute significantly in improving the sustainability of our agri-related businesses.

Coastal Vulnerability

ITC has two large manufacturing units in the coastal areas. Preliminary studies have already been completed to evaluate the implications of climate change.

Minimising Carbon Intensity

We have consolidated our 'Carbon Positive' status over the years with each of our businesses achieving significant reductions in specific energy consumption. Our Paperboards & Specialty Papers business is the first in India to manufacture Elemental Chlorine Free (ECF) pulp. Our Green

Centre at Gurgaon, one of the largest 'Platinum' rated LEED (Leadership in Energy and Environmental Design) Green buildings certified by US GBC (Green Business Council), is a benchmark for both our own projects as well as for other similar projects in India.

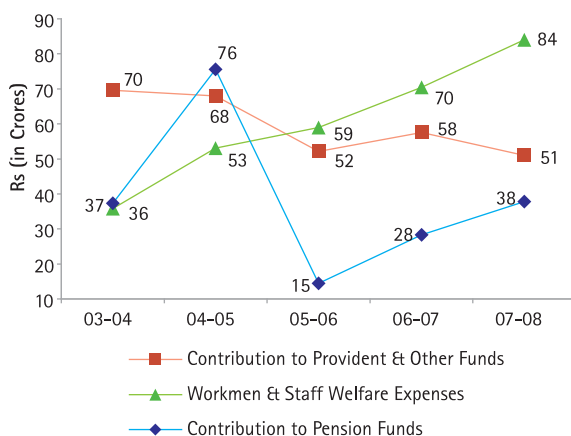
Kyoto Protocol & Clean Development Mechanism (CDM)

Our businesses have actively pursued Green House Gas (GHG) emission reductions through energy conservation and sequestration through large-scale farm and social forestry programmes. Seven of our CDM projects, involving clean technology and energy conservation initiatives have already been registered, and a large number of projects, including one on social forestry, are in various stages of registration.

Enlisting Consumer Support

We encourage our consumers to partner our efforts in mitigating the adverse effects of climate change and also support our endeavour to create more sustainable livelihoods. By choosing to buy an ITC product, the consumer also makes a positive contribution as a share of the proceeds is utilised for various social and environmental initiatives including watershed development, children's education and social forestry.

Pension Obligations

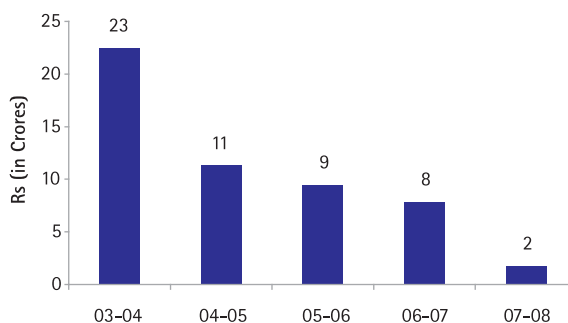


- Employees' Retirement Benefit Schemes funded through duly constituted and approved independent trusts.

- Provident Fund and Family Pension contributions in respect of unionised staff, as required by the statutes, deposited with the Government.
- There are different pension plans and obligations and these plans cover over 17,000 employees. These plans are fully funded in accordance with annual actuarial valuation. The expected rate of return on plan assets is based on the current portfolio of assets, investment strategy and market scenario. In order to protect the capital and optimise returns within acceptable risk parameters, the plan assets are well diversified. The funds are consistently sustained to meet requisite superannuation commitments.

Financial Assistance from Government

Subsidies Received

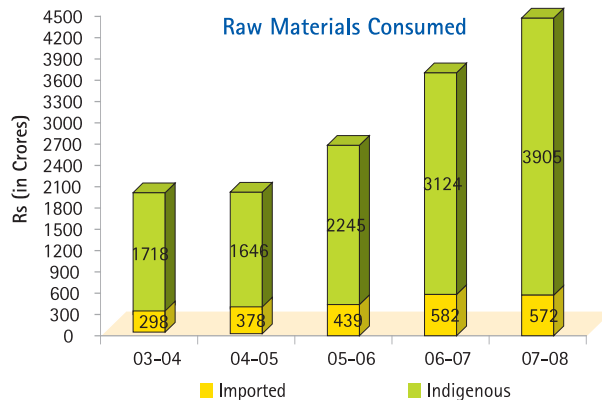


We support a large number of national priorities. The Governments of Andhra Pradesh and Tamil Nadu offer incentives such as deferment of sales tax for setting up new unit or for the modernisation/expansion/diversification of existing units. Our Paperboards & Specialty Papers Division (PSPD), has received such assistance for the Bhadrachalam and Bollaram units in Andhra Pradesh and for expansion of Kovai unit in Tamil Nadu.

Locally Based Suppliers

Our businesses have state-of-the-art facilities and use the best relevant technologies to ensure benchmarked quality and value. We source specialised production machinery globally as well as from reputed Indian manufacturers. High-class

utility machinery such as boilers, gensets, air-conditioning and refrigeration machinery, electrical & electronic systems are sourced largely from Indian or India based suppliers. Competent Indian contractors carry out construction of new factories, hotels and large-scale upgrades.



Nearly 87% of our raw materials are local/agri based.



Local Hiring and Senior Management

We believe that our mission to create enduring value for all stakeholders can only be actualised by the dedication and commitment of our people. We recruit quality talent from premier campuses across the country. The selection process is objective and robust. A range of selection tools are used. These include assessment centres, group tasks and in-depth personal interviews.

New employees are assigned to various businesses of the Company and are expected to be competent enough to work in any part of the country.

We encourage local employment in the workforce in manufacturing and hotels and depending primarily on the availability of requisite skills.

Infrastructure investments & services

Our multipronged social sector investments are complemented by our endeavor to create enduring symbols of excellence be it in the field of culture or sustainable development.

ITC Sangeet Research Academy

ITC Sangeet Research Academy was set up to preserve and promote Indian cultural heritage. ITC-SRA plays a major role in reviving and nurturing India's rich heritage of Hindustani classical music. It has created a residential learning centre in Kolkata which captures the mood and ambience of the traditional gurukul. For details of this unique institution please visit www.itscra.org.

CII-ITC Centre of Excellence for Sustainable Development

'CII-ITC Centre of Excellence for Sustainable Development' was launched on January 18, 2006 along with the Confederation of Indian Industry. This centre aims to create a conducive, enabling climate for Indian businesses to pursue sustainability goals. It seeks to create awareness, promote thought leadership and build capacity to achieve sustainability across a broad spectrum of issues (for further details please visit www.cii-sustainability.org or www.sustainabledevelopment.in).



Other 'infrastructure' initiatives

Information on e-Choupals (Web enablement of farmers), watershed development etc. are detailed elsewhere in this Report.

ENVIRONMENTAL PERFORMANCE

ITC A CARBON POSITIVE CORPORATION – THIRD YEAR IN A ROW



The 4th Assessment Report of the Intergovernmental Panel on Climate Change forecasts serious consequences for the planet if Green House Gases (GHG) emissions are not reduced drastically.

India, with its high growth trajectory, a large population, significant dependence on agriculture and with an extensive coastline is likely to be adversely impacted by climate change.

Our businesses continue to enlarge the Company's positive carbon footprint through energy conservation, use of renewable sources of energy and identifying ways of mitigating the adverse effects of climate change caused by Global Warming. We have ensured Carbon Dioxide (CO₂) sequestration through large-scale farm and social forestry initiatives which has enabled us to maintain a carbon positive status for 3 years in a row.

Sequestration through large-scale farm/social forestry initiatives creating a positive carbon footprint.

Our Climate Change strategies can be summarised as follows

- Conserving energy (through audit, benchmarking and use of next practices) to achieve the lowest specific energy consumption (energy required per unit of production).
- Using renewable resources of energy.
- Sequestration through large-scale farm/ social forestry initiatives creating a positive carbon footprint.
- Using Clean Development Mechanism (CDM) under Kyoto Protocol to identify/implement projects that would bring down the GHG emissions and help mitigate the adverse effects of climate change caused by global warming.

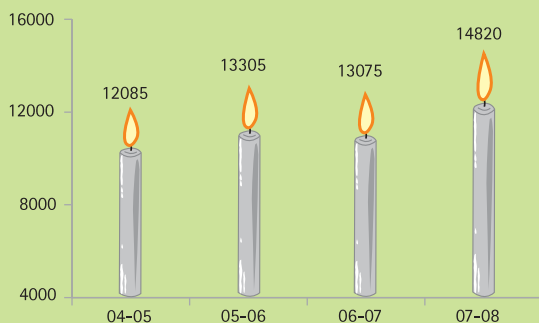
GHG emissions in ITC primarily result from energy consumption (whether bought from external sources or produced internally) in our manufacturing units, hotels and offices. Other sources of GHG emissions include transportation of raw materials and products and travel.

Energy Use

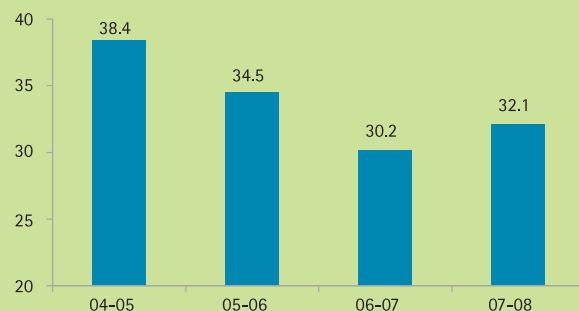
We utilised 14,820 Terra Joules (TJ) of energy in 2007-08 (13,075 TJ in 06-07). This increase was

in 2007-08 with the Bhadrachalam Paperboards unit alone consuming 64.8%.

Total Energy Consumption by ITC
(Terra Joules)



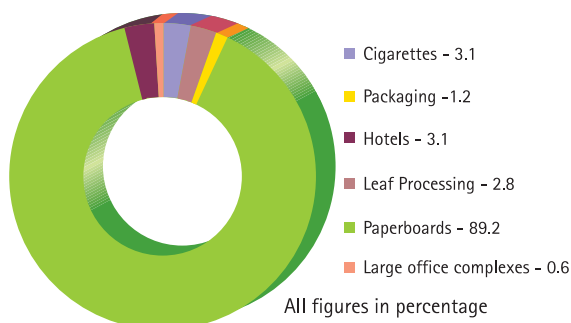
Specific Energy Consumption (Bhadrachalam)
(Giga Joules per tonne)



due to significant growth in almost all our businesses and inclusion of 4 subsidiary companies' performance in this Report.

Apart from a large number of project activities, production volumes in our Paperboards & Specialty Papers business grew by 6.6%, Cigarettes and Leaf volumes grew by 6.9% and 11.3%, respectively. The Packaging & Printing business recorded a growth of 20.4%.

Our Paperboards & Specialty Papers business accounted for 89.2% of total energy used in ITC



Energy Conservation

Bhadrachalam Paperboards unit, the pioneering producer of ECF (Elemental Chlorine Free) pulp in India, was adjudged the greenest paper mill in India in 2004 in a study by the Centre for Science and Environment, New Delhi.

Significant Achievements by other businesses

Our Cigarettes business reduced specific energy consumption by more than 18% this year from 7.34 Giga Joules (GJ) per million Cigarettes (equivalent) to 5.97 GJ per million Cigarettes (equivalent).

The Cigarette factories at Bengaluru, Munger and Saharanpur were able to bring down the specific energy consumption by 13.9%, 26.4% and 19.6%, respectively during the year.

The specific energy levels and the reductions are particularly commendable, given that our factories have always been very energy efficient.

(British American Tobacco's Sustainability Report 2007 has reported specific energy consumption of 17.48 GJ/million cigarettes equivalent).

The other ITC units that have achieved significant reductions in specific energy during the year include the Green Leaf Threshing unit at Anaparti (reduction of 11.2% from the previous year), Packaging & Printing unit at Munger (5.2%) and Cast coating unit at Bollarum (6.9%).



Some significant energy conservation initiatives during 2007–08

- Replacement of existing wet scrubber with Cold Plasma Odour Abatement System in Saharanpur cigarette manufacturing unit.
- Installation of a Rotary Uninterrupted Power Supply System in Munger cigarette manufacturing unit, thereby optimising the standby DG (Diesel Generator) set operation.
- Installation of spray Humidifiers in place of conventional Humidifiers in Munger cigarette manufacturing unit.
- Redesigning process flow arrangements in Anaparti tobacco leaf-threshing unit to eliminate five air lift transport stages, using innovative piggyback transport arrangement.
- Upgrading and optimising steam, condensate and cooling water systems at Bhadrachalam, Tribeni & Kovai paperboards/paper factories.
- Replacement of existing chillers with higher efficiency chillers in Bollarum factory.
- Replacement of old DG set by a Natural Gas fired electrical generating set with a waste heat recovery boiler in ITC Maurya, New Delhi.

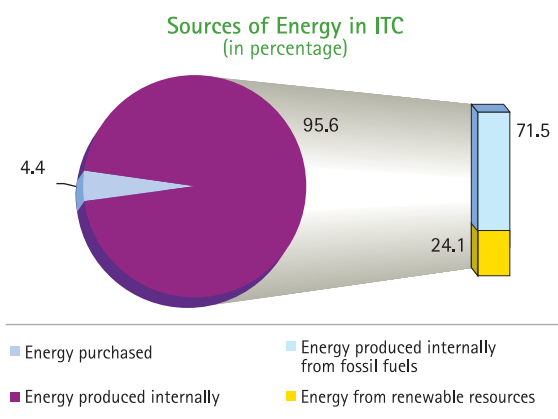
Some common measures taken in many businesses/units

- Installation of higher efficiency screw chillers in place of existing chillers.
- Installing higher efficiency Air Handling Units (AHU) with enthalpy control in place of existing AHUs.
- Replacement of old boilers, fans and motors with higher efficiency units.
- Replacement of reciprocating air compressor sets with screw air compressors.
- Replacement of incandescent lamps with high efficiency discharge lamps/CFLs (Compact Fluorescent lamps).
- Use of variable speed drives for various applications.
- Installation of 'energy saver' on lighting circuits.
- Installation of thermostatic controllers for cooling towers.
- Installation of solar water heating and lighting systems.

Almost a quarter of energy used in ITC is from Renewable Resources

Not only do we produce 95.6% of our energy requirements internally, 24.1% of the total energy is generated from renewable resources – as defined by IPCC.

In 2007-08, renewable component of energy improved from 3437 TJ to 3571 TJ (an improvement of 3.9% over the previous year). Better utilisation of black liquor at the Bhadrachalam unit contributed significantly to this improvement.



Renewable energy resources in ITC comprise

- Black liquor - waste from papermaking process in Bhadrachalam Paperboards unit.
- Locally sourced chip/sawdust and de-oiled bran in Kovai unit.
- Wind Energy for ITC Hotel Kakatiya.
- Solar thermal systems for preheating boiler feed water and canteen hot water in a number of our units.

A Positive Carbon footprint

We continued to enlarge our farm and social forestry programmes and added nearly 15,000 hectares of plantations in 2007-08. The total farm and social forestry plantations, as at March 31, 2008, covered an area of over 80,000 hectares.

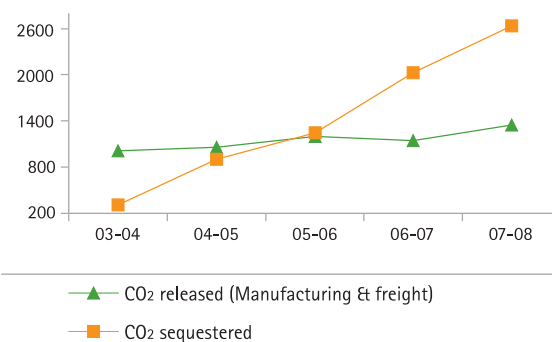
Apart from providing sustainable source of raw materials for our Paperboards business and



providing 35 million man days of employment to marginal sections of society, these plantations sequestered 2638 kilotonnes of CO₂, thereby consolidating our 'Carbon Positive' status for the third successive year.

	Unit	03-04	04-05	05-06	06-07	07-08
CO ₂ released (Manufacturing and Freight)	Kilotonne	1013	1058	1202	1143	1352
CO ₂ sequestered	Kilotonne	311	906	1244	2025	2638
	Percent	31%	86%	104%	177%	195%

Higher CO₂ emission in 2007-08 were due to significant growth in almost all the businesses, large scale project activities and inclusion of 4 subsidiary companies' performance in this Report.



Global Warming – Kyoto Protocol – Clean Development Mechanism

In line with our strategy to combat the impact of climate change, our Paperboards & Specialty Papers and Hotels businesses have implemented a number of CDM projects.

Seven of these projects have already been registered with the CDM Executive Board of UNFCCC. Many additional CDM projects, including one on 'social forestry plantations' are in various stages of registration.

ITC A WATER POSITIVE CORPORATION – SIX YEARS IN A ROW



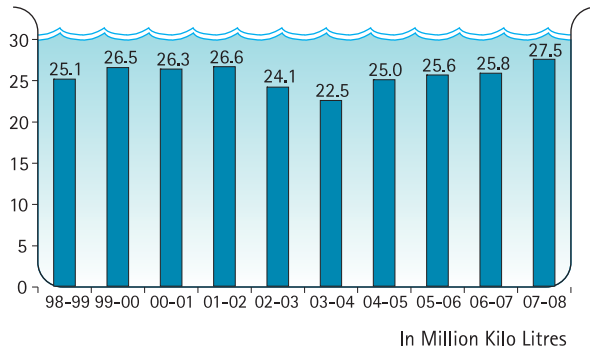
Water remains a very serious sustainability and environmental concern globally and India in particular, faces a turbulent water future. With over 16% of the global population having access to less than 3% of total land mass and less than 4% of global fresh water resources, water scarcity in India is likely to worsen over the years. Hence, efficient water management will continue to be one of the key imperatives for sustainable growth.

Our sustainability strategy on water includes the following initiatives

- Water conservation through audits, benchmarking & use of next practices - to achieve the lowest specific water consumption (water per unit of production).
- Zero Wastewater Discharge - treating & recycling all wastewater thereby not only reducing fresh water intake but also preventing pollution of fresh water resources.
- Enlarging a Positive Footprint through rainwater harvesting - both on the Company premises and socially relevant watershed projects.

Fresh Water Intake

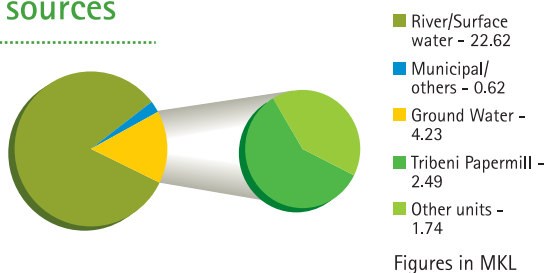
Total fresh water intake in all our units in 2007-08 amounted to 27.5 MKL (25.8 MKL in 06-07).



Our water conservation initiatives enabled us to contain fresh water intake to only 6.6% additionally over the previous year in spite of a 6.6% growth in the Paperboards & Specialty Papers segment and large project activities in Bhadrachalam, 6.9% increase in Cigarette production, 11.3% additional Leaf production and 20.4% growth in Packaging & Printing business.



Water sources

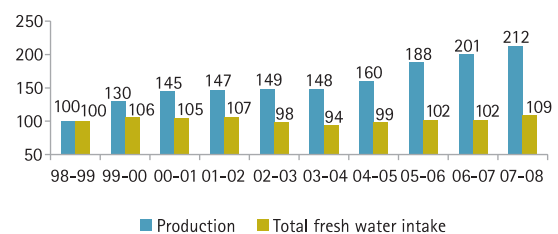


Of the total fresh water intake by ITC during the year, the 3 Paperboards & Specialty Paper mills (Bhadrachalam, Kovai and Tribeni) alone accounted for 91.4 % of the total intake. While Bhadrachalam and Kovai units use river water, the Tribeni unit is dependent on ground water for the production of specialty papers as there is high turbidity in the river water near the mill.



Water Conservation Efforts

Production versus freshwater intake of Bhadrachalam Unit



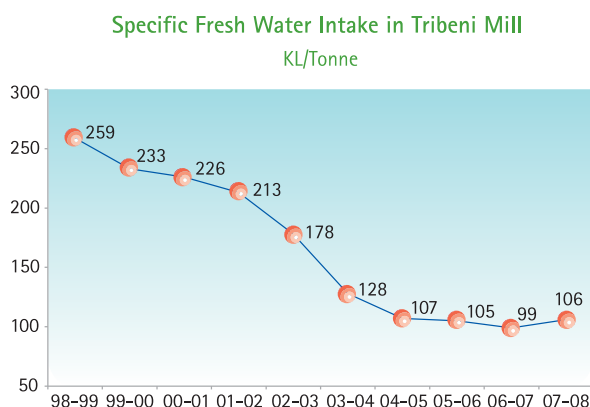
Bhadrachalam Unit

Bhadrachalam, the largest integrated paperboards mill in India, accounted for 76.7% of the total fresh water intake in ITC.

Even though production in this unit has more than doubled since 1998-99, fresh water intake by the unit has risen by a mere 9%.

In a paper or paperboards mill, water consumption is influenced by the production mix. Large-scale project activities and a shift towards a value added product mix have impacted the specific water requirement in the mill.

Tribeni unit



The Tribeni mill, where larger quantities of water are required for manufacture of specialty paper, has implemented significant water reduction initiatives to achieve a 59% reduction in specific fresh water intake since 1998-99.

Kovai unit

Our water conservation measures in the Kovai unit have yielded positive results. The mill consumed only 17.31 KL of fresh water per tonne of paperboards production in 2007-08 compared to 21.01 KL per tonne in 2006-07, a 17.6% reduction.

Other Businesses undertook proactive initiatives to minimise specific fresh water consumption through water audits and implementation of recommendations, deployment of best practices and technologies along with greater employee participation.

The Cigarettes business continued to improve specific water utilisation. The business used 4.9 KL of water per million cigarettes (equivalent), an improvement of 8.2% compared to 5.4 KL per million cigarette (equivalent) in the previous year. This compares favourably with the specific water consumption of 4.85 KL per million cigarette (equivalent) reported by British American Tobacco - *British American Tobacco - Sustainability Report 2007*.

In 2007-08, Munger, Bengaluru and Saharanpur Cigarette factories reduced specific water consumption by 14.1%, 8.4% and 7.4%, respectively over the previous year.

Other units with exemplary performance in reducing specific water consumption this year are the Packaging & Printing unit at Tiruvottiyur (35.5%), Leaf Processing unit at Anaparti (19.7%), ITC Hotels Maratha (17.1%) and Maurya (11.1%).

Zero Wastewater Discharge

Closing the water loop in a factory/hotel not only minimises fresh water usage, it also prevents pollution of the environment including that of fresh water sources. We strive to recycle the entire treated wastewater through use in flushing toilets, cooling towers, gardening, etc.

Our Cigarette factories at Bengaluru, Saharanpur, Leaf plants at Anaparti and Chirala, Packaging & Printing unit at Tiruvottiyur, Research Centres at Bengaluru and Rajahmundry, Paperboards units at Bollaram, ITC Green Centre at Gurgaon, ITC Sonar and Sheraton Rajputana reused/recycled entire treated effluent.

Enlarging A Positive footprint - Rainwater Harvesting

We continued to develop additional rainwater harvesting potential within our units as well through watershed projects in socially relevant areas.

The watershed projects cover nearly 35,000 hectares of land and support our 'Water Positive' status for the 6th year in a row. To date the total rainwater harvesting potential created by us is more than 3 times the net water consumption by all our operations.

The watershed projects cover nearly 35,000 hectares of land and support our 'Water Positive' status for the 6th year in a row.

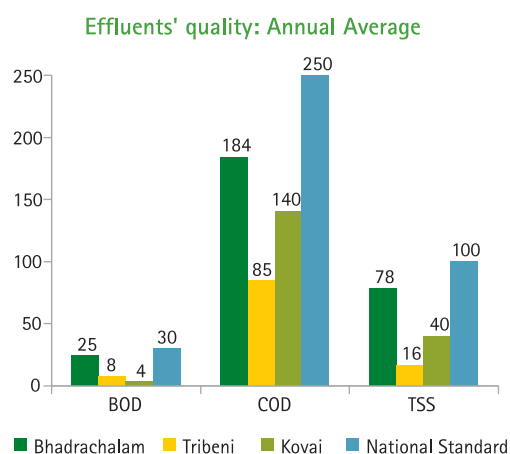
Water balance at ITC	02-03	03-04	04-05	05-06	06-07	07-08
Fresh Water Intake	24.1	22.48	24.98	25.58	25.79	27.46
Treated effluents discharged	14.64	14.04	19.55	20.96	19.58	18.92
Net water consumption	9.49	8.44	5.43	4.62	6.21	8.54
RWH potential created within ITC units	0.24	0.39	0.34	0.61	0.47	0.42
RWH potential created through watershed projects (till 31.3.08)	12.5	15.67	16.52	18.99	23.12	25.42
Total RWH potential created (till 31.3.08)	12.74	16.06	16.86	19.60	23.59	25.84

All units in Million KL

Effluent Quality

All our business units are required to have internal effluent quality targets, more stringent than the statutory standards. Our units, with their state-of-the-art effluent treatment facilities, have made significant progress towards international benchmarks on quality and quantity of treated wastewater discharge.

The issue of effluent quality is a serious challenge for our Paperboards & Paper units. The graph below reflects our efforts in improving effluent quality in these units in 2007-08, which is significantly better than the prescribed standards of the Central Pollution Control Board of India.

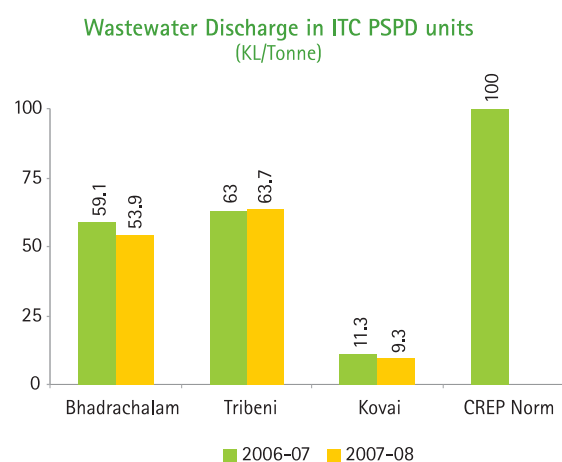


BOD – Biochemical Oxygen Demand | COD – Chemical Oxygen Demand | TSS – Total Suspended Solids.
All the above units are in mg/l. All figures rounded off to the nearest digit.

The voluntary charter on Corporate Responsibility for Environmental Protection (*by the Ministry of Environment & Forests and the Central Pollution Control Board*), has identified various measures to be adopted by seventeen industry sectors in India to effectively combat pollution. The charter for large Pulp & Paper mills requires the following compliance initiatives. Our performance vis-à-vis each of the requirements is stated below -

- Wastewater discharge to be less than 100 KL per tonne of paper

Our Paperboards & Specialty Paper units' performance in this regard has been exemplary.



The National Productivity Council (NPC) has recently studied various Indian Pulp & Paper industries and the available technologies. NPC report proposes 3 standards for the integrated Pulp & Paper mills on specific wastewater discharge in m³/tonne -

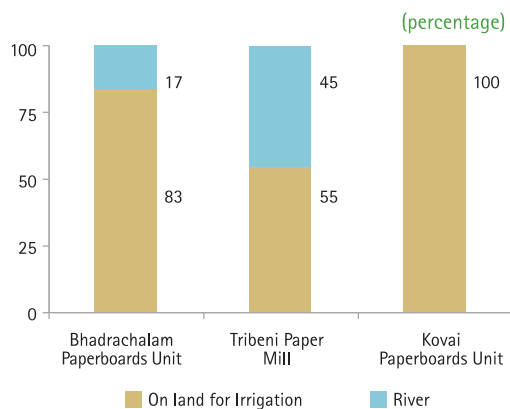
- Benchmark - 50
- Best achievable - 53
- Relaxed standard - 63

Our only integrated Pulp & Paper/Paperboards mill at Bhadrachalam has consistently reduced specific wastewater discharge. The current specific wastewater discharge at 53.9 m³/tonne is close to the best achievable standard and is progressing towards achieving the benchmark standard.



- **Utilisation of treated effluents for irrigation**

While the Kovai paperboards unit utilised its entire treated effluent for irrigation, Bhadrachalam and Tribeni units are progressing towards achieving this milestone in the near future.



- **Discharge of Adsorbable Organic Halides (AOX) to 1.0 Kg/tonne by March 2008**

Adsorbable Organic Halides (AOX), (applicable only to our Bhadrachalam unit) have been reduced to a mere 0.011 Kg/tonne of production during 2007-08.

	AOX (Kg/Tonne)
Bhadrachalam Mill	0.011
Indian Paper/Paperboards Mills*	0.46-0.8
European Paper Industries#	0.03
World Bank Standard**	0.2

* Average as per Comprehensive Industry Document for Large Scale Paper Mills, study conducted by Central Pulp & Paper Research Institute, 2007 | # CEPI (Confederation of European Paper Industries), Sustainability Report 2007 | ** World Bank Guideline for New Paper Mills.

- **Installation of Limekiln by March 2007**

Our Bhadrachalam unit, where this norm is applicable, has a Limekiln in operation for the last six years.

- **Odour Control**

The new pulp mill and lime plant are in the final stages of commissioning. With the completion of this project the non-condensable gases, responsible for odour will be burnt to minimise it.

- **Effluent Colour removal**

The Indian Paper Manufacturers Association has engaged the Central Pulp & Paper Research Institute to suggest measures for colour removal from effluents. At Bhadrachalam, several measures have led to significant improvement in this aspect.

ANOTHER ENVIRONMENTAL FOOTPRINT TURNS POSITIVE - ZERO SOLID WASTE DISCHARGE

Solid waste management is one of the major global environmental challenges faced within urban and semi urban areas.

Solid waste management, even in large and medium cities and towns in India, is far from satisfactory and significant proportions are disposed by land filling/dumping. Most dumping sites are serious health hazards to people living in the neighbourhood and are liable to contaminate ground water.

If the generation of solid waste cannot be eliminated due to the current state of raw materials, industrial processes or technology, waste recycling provides practical solutions for saving precious natural resources and energy. It also reduces costs and pollution. Recycling also prevents waste from reaching landfills and, in fact, creates significant employment opportunities.

We have made very significant progress since 2004, when we committed ourselves to become a 'Zero Solid Waste' company through 100% recycling.



100% fly ash utilisation

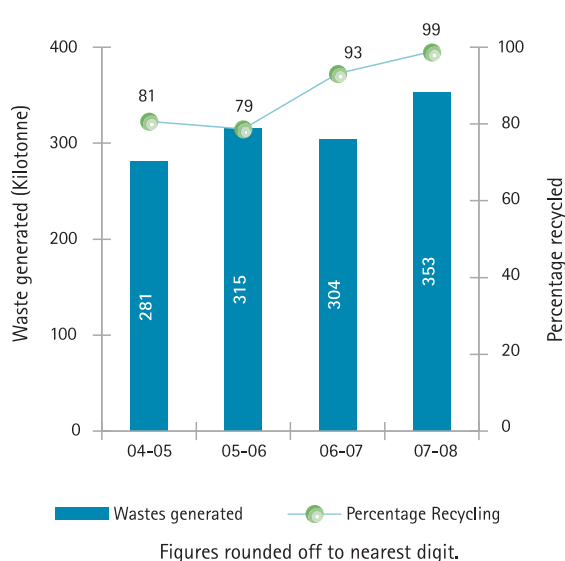
Our units at Bhadrachalam, Kovai, Tribeni, Chirala and Anaparti generated 149,334 tonnes of fly ash in 2007-08 (124,940 tonnes in 2006-07). The entire fly ash was used for brick making, road/embankment construction and as raw material in cement factories.

We achieved this milestone well ahead of the timeframe stipulated by the Ministry of Environment and Forests, Government of India.

Zero solid waste discharge units

The following units through adoption of world-class technology, focus on process improvements and benchmarked practices and development of competent third parties for waste recycling have achieved practically 100% recycling of all solid waste - Cigarette factories at Bengaluru, Saharanpur, Munger and Kolkata, Leaf Threshing

Waste generated vs. percentage recycled

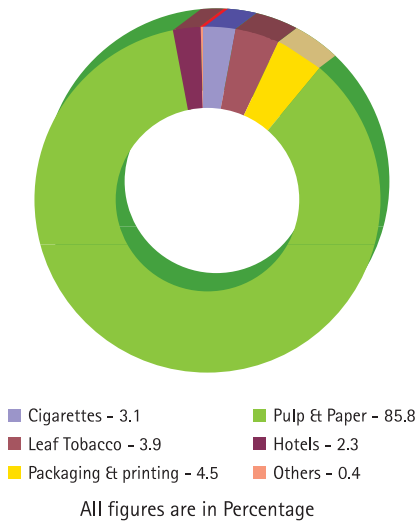


units at Chirala and Anaparti, Specialty Paper units at Kovai and Tribeni, the Green Centre at Gurgaon, Surya Nepal's Cigarette factory at Simra and ITC Hotels Maurya, Maratha, Grand Central, Sonar, Windsor, Mughal, Kakatiya, Sheraton Chola, Rajputana and New Delhi.

Classification & Recycling treatment of waste

Almost 86% of the Company's total solid waste is generated by our Paperboards & Specialty Paper business.

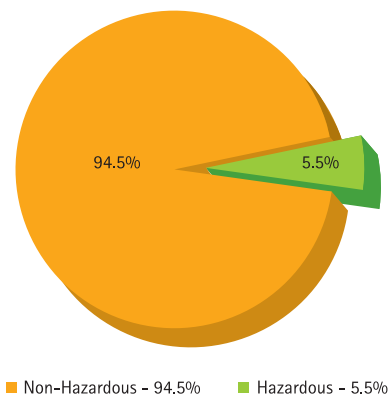
Breakup of solid waste generated by ITC Businesses



94.5% of total wastes generated in our units are non-hazardous.

Balance 5.5% of total waste, in accordance with the Indian statute, is categorised as hazardous waste.

Breakdown of hazardous and non-hazardous wastes in ITC



The table below, highlighting various hazardous waste items and their final disposal, clearly demonstrates that nearly 99% of such wastes is recycled and only a miniscule portion is incinerated.

Hazardous Waste item	Quantity (tonnes)	Disposal
Sludge from effluent treatment plant	18,799	Recycled to form trays, paperboards, etc. by third parties
Empty containers of hazardous chemicals	231	Decontaminated and returned to original suppliers
Used oil	164	Given to authorised recyclers
Spent solvents/waste ink/ink sludge	74	Recycled/ incinerated
Used batteries	95	Returned to original suppliers
Biomedical waste	1.9	Incinerated/ Autoclaved



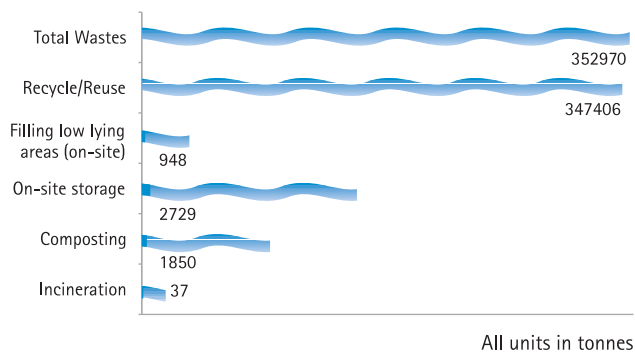
All our units have well-established processes to ensure that recycling of wastes through third parties is managed in compliance with legal norms and in a socially responsible manner. In addition to verifying authorisation/licenses, performance of these recyclers were closely monitored.

Corporate EHS experts verified compliance during the annual audit in each of the units.

Nearly 99% of hazardous wastes is recycled and only a miniscule portion is incinerated.

Waste Destination

The graph below summarises the final destinations of total waste -



Wastes used as Raw Materials

We used 163,245 tonnes of waste paper as raw material in our Paperboard mills at Kovai and Bhadrachalam.

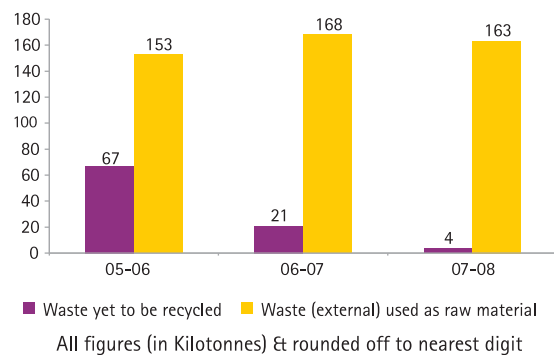
This year waste paper provided the entire fibre for paperboards manufacturing in Kovai. Bhadrachalam used 70,226 tonnes of waste paper as raw material.

Of the total 163,245 tonnes of waste paper used by our mills, 75,000 tonnes was procured

indigenously and 500 tonnes was sourced through our WOW initiative which has potential to grow significantly in the coming year.

Waste Footprint

- 3706 tonnes of solid waste remained to be recycled in 2007-08.
- 163,245 tonnes of external wastes were used as raw material.
- Our WOW initiative will significantly benefit the environment and create sizeable employment.



Creating Wealth out of Waste



ITC's Wealth out of Waste (WOW) initiative is helping create awareness among the public about the advantages of the 'Reduce-Reuse-Recycle' process. This is a significant step in the Company's efforts to protect the environment, improve civic amenities, as well as public health and hygiene, while generating cost-effective raw material for the paper, plastics, metal and glass industries.

ITC's Paperboards & Specialty Papers business has launched the WOW initiative in Hyderabad,

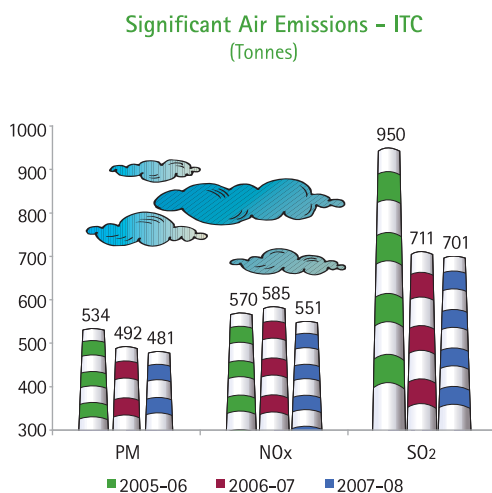
Bengaluru, Chennai, Khammam District in Andhra Pradesh and Kovai District in Tamil Nadu. What started in a small way with households has now spread to schools, government offices, corporates and other institutions.

To emphasise the importance of source segregation, ITC provides special bags to accumulate dry waste like paper, plastic and metals and arranges periodic collection through outsourced agencies. The waste paper is used by ITC and the other materials are sold to the recycling industries. Segregated dry waste can save almost 40% of municipal garbage handling costs, which can be utilised to improve civic amenities.

This unique initiative has led to the creation of significant employment opportunities.

SIGNIFICANT AIR EMISSIONS

Our commitment to continuous improvement in this area is clearly demonstrated by reduction on all relevant emission parameters across our units.



PM – Particulate Matter | NOx – Oxides of Nitrogen
| SO₂ – Sulphur Dioxide

Our Bhadrachalam unit, the largest and the greenest Paperboards unit in India, accounts for a significant portion of the Company's total emissions.

Specific Oxides of Nitrogen (NOx) and Sulphur Dioxide (SO₂) emission levels at the Bhadrachalam Paperboards unit continued to improve and emission levels have come down by 35.8% and 23.1%, respectively in 2007-08.

“Not only are the specific NOx emission levels at Bhadrachalam the lowest in the world, the unit is on course to surpass international benchmarks for Specific SO₂ emission as well.”

NOx (kg/tonne)		
	2006-07	2007-08
Bhadrachalam	0.67	0.43
Standards –		
Sweden	1.2 – 2.4	
EU	1.0 – 1.8	
EU-BAT*	1.0 – 1.5	
Reported Values		
CEPI **	0.82	

SO ₂ (kg/tonne)		
	2006-07	2007-08
Bhadrachalam	0.65	0.5
Standards –		
Sweden	0.5 – 1.4	
EU	0.1 – 0.5	
EU-BAT*	0.2 – 0.4	
Reported Values		
CEPI **	0.36	

Source – *Comprehensive Industry Document for Large Scale Pulp & Paper Mills, study done by CPPRI, published by CPCB, 2007* | *EU-BAT:EU Norm Best Available technology | **Confederation of European Paper Industries, Sustainability Report 2007

Particulate Matter emissions from Bhadrachalam were merely 0.89 kg/BDMT (Bone-Dry Metric Tonne) in 2007-08, whereas large-scale Indian mills typically emit 3.8 kg/BDMT-'All About Paper - The life cycle of Indian Pulp and Paper Industry', Green Rating project by The Centre for Science & Environment, 2004.

In addition to the above parameters, Bhadrachalam also monitors Hydrogen Sulphide. The measured value for the year 2007-08 was 4.8 tonnes.

Ozone Depleting Substances (ODS)

In line with the guidelines of the Montreal Protocol, 1987 which regulates/bans the use of ozone depleting substances internationally, the Indian Government formulated ODS Rules in 2000. These rules specify the time frame and technology options for India for phasing out ODS.

The salient features of ITC's Guidelines on ODS phase out are -

- All newly purchased equipment to be free of Chlorofluorocarbons (CFC), Halons and Methyl Chloroform (MCF).
- All units to monitor and reduce consumption of ODS.
- Replace all the existing equipment using ODS well before the phase out stipulation.
- Recover all the ODS from the equipment being replaced for recycling or safe disposal.

Corporate EHS audits each unit annually to ensure adherence.

In 2007-08, the total consumption of ODS by all ITC units was 151 kgs.

Responsible Management of chemicals, oils and fuels

All our units are required to manage chemicals, oils and fuels in an environmentally responsible manner. International best practices on leakage prevention along with requirements stated in Material Safety Data Sheets (MSDS) for hazardous chemicals, adequate dyke walls, impervious flooring and leak detection system are strictly followed while designing storage facilities. Best management practices on handling & storage, leak detection & spill control and preventive maintenance have been instituted to avoid any instances of spills or leakage. These measures are inspected on a regular basis to ensure robustness of the systems.

Paperboards & Specialty Paper units, major user of hazardous substances among our businesses,

have adopted best practices to eliminate/reduce hazardous chemicals. We also continuously examine the possibility of substituting these hazardous chemicals with less or non-hazardous materials.

We did not have any significant spill of any chemicals, oils, fuels or hazardous wastes in any of our units this year.



Biodiversity

None of our units/operations is located in a biodiversity sensitive zone.

In 2007-08, the expansion of the Bhadrachalam Paperboards mill and the R&D Centre, Bengaluru, was carried out at the existing locations. We are also setting up new hotels in Bengaluru and Chennai, a new Cigarette unit and a Snack Foods factory in Pune. All the new/expansion projects have been undertaken after detailed Environmental Impact Assessments (EIA) and stakeholder consultations.

Beyond Compliance

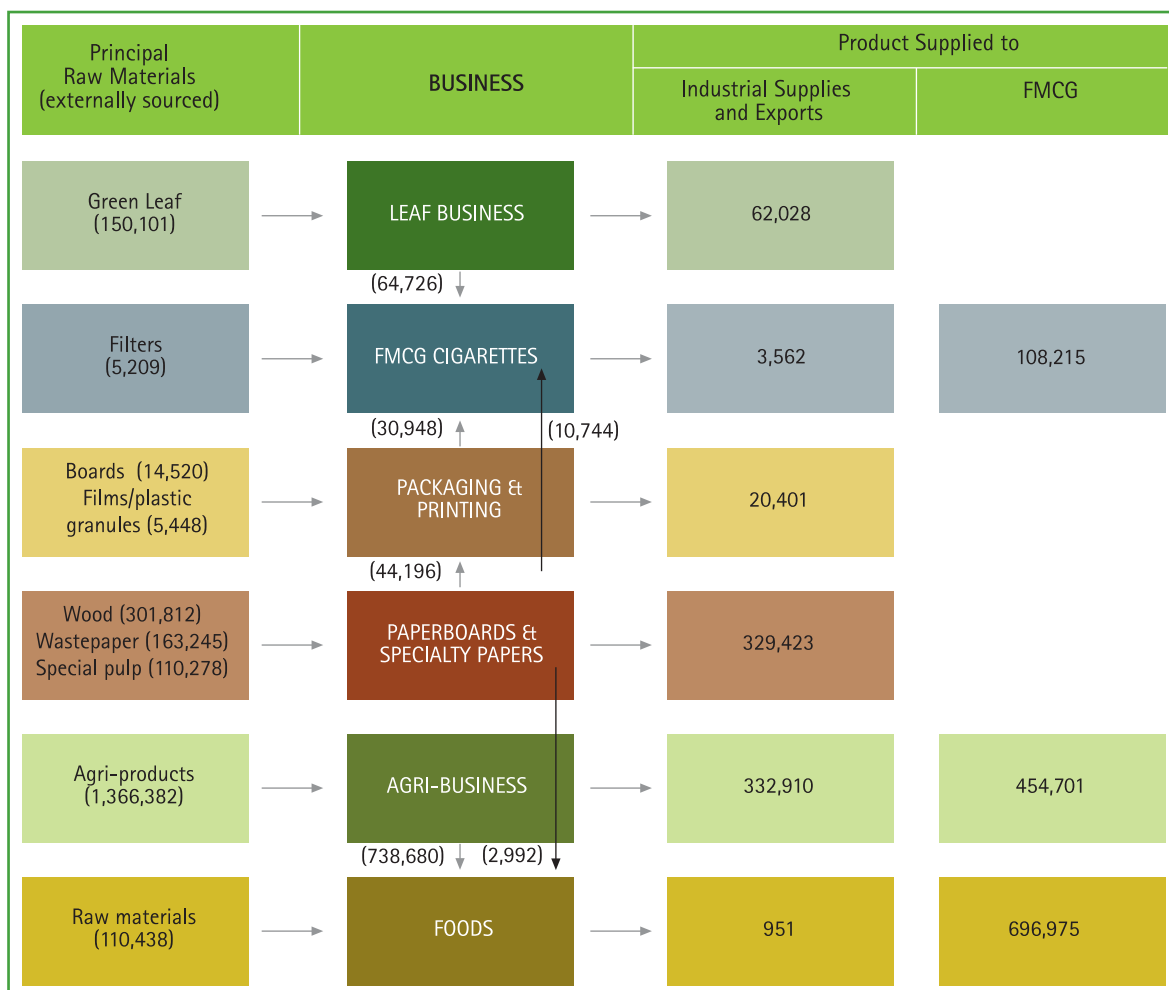
We remain committed to benchmarking against international standards and to the implementation of state-of-the-art processes and technologies.

Environment, Occupational Health & Safety management systems in our units conform to ISO 14001/OHSAS 18001/HACCP etc. and are certified by accredited 3rd Party agencies.

Corporate EHS audits every unit at least once each year to ensure 'Beyond Compliance performance'.

There was no non-compliance of any environmental laws/regulations in 2007-08.

MATERIALS FLOW IN ITC BUSINESSES



All figures in tonnes | The diagram shows only principal raw materials that are over 5% of the total raw materials in respective businesses

The diagram above representing principal raw materials in our businesses clearly demonstrates that our raw materials are primarily agri-based.

Vertical and horizontal integration of our businesses provides us significant opportunity and synergy in reducing/eliminating our environmental footprint through optimal material utilisation, waste recycling and optimising logistics and transportation.

We also use very substantial quantities of wastepaper in our paper business and this is sourced locally as well as internationally. Details are already provided elsewhere.

Our initiatives in large-scale social and farm forestry plantations, watershed projects, empowerment of marginal farmers through e-Choupals create

large-scale opportunities in rural employment. These endeavours along with technology upgradation, extensive R&D and waste minimisation through product and process improvements help us in improving long-term availability of necessary raw materials at optimum and competitive prices.

Environmental Footprint of our products

ITC products can be broadly classified into the following categories -

- **FMCG products**

Cigarettes, foods, matches, agarbattis, stationery, etc.

All significant strategies aimed at minimising environmental impacts are implemented at the product design stage.

The final actual environmental impact needs detailed evaluation, given the varied nature and range of our products.

We have recently completed an evaluation of the environmental impact of the products from one of our major FMCG businesses. We are progressing with our plans to address some of the environmental impact issues.

- **Industrial Supplies and Exports**

Paper, paperboards, packaging, Leaf tobacco, etc.

We expect the users/industries to take adequate measures to minimise the environmental impact from these supplies.

- **Services - Hotels**

The environmental impact from our hotels has already been accounted for in the relevant sections of this Report.

ITC's Fibre Strategy – Raw Material Sustainability



Availability of wood, the prime source of fibre for the paper and paperboards, remains a major challenge and concern for sustainability.

Our paperboards mill at Bhadrachalam manufactured over 299,459 tonnes of paperboards in 2007-08, using 296,528 tonnes of wood, apart from waste paper and some special pulp.

Our R&D has evolved high yielding, site specific, disease resistant clones and a comprehensive package of plantation management practices. During the year 52 million high quality saplings were distributed to farmers and an additional 15,115 hectares plantations were added. (Todate 31.03.2008, cumulative plantations amount to over 80,000 hectares and the Company has distributed 332 million saplings).

Apart from the obvious benefits of increasing the green cover, this effort also directly contributes to in-situ moisture conservation, ground water recharge and significant reduction in topsoil losses due to wind and water erosion.

As a result of the leaf litter from multi-species plantations and the promotion of leguminous intercrops, depleted soils are constantly enriched.

Our forestry initiatives have not only built grassroots capacities to initiate a virtuous cycle of sustainable development, but have also provided significant opportunities to the economically backward by helping them raise plantations.

Over 93% of the Bhadrachalam mill's total wood requirement in 2007-08 came from plantations under our forestry project. 18,393 tonnes of bamboo was sourced from government authorised/open markets. Only 1165 tonnes of wood (0.39%) was sourced from private farmlands. The mill also utilised 70,226 tonnes of waste paper.

The Bhadrachalam mill, the only unit in ITC with pulping facilities, does not buy wood-based raw materials from unidentified sources. The mill is ISO 9001-2000 certified and ensures traceability of all the wood used in the manufacturing process.

We are committed to green 100,000 hectares in the next few years, which would far exceed our wood fibre requirement, create livelihood opportunities for a very large number of people in tribal areas and further consolidate our position as a 'Carbon Positive' corporation.

SOCIAL PERFORMANCE

LABOUR PRACTICES AND DECENT WORK



Our human resource management systems and processes aim to create a responsive, customer-centric and market-focused culture that enhances organisational capability and vitality. Our unique employee value proposition backed by strong corporate equity enabled attraction and retention of quality talent in a buoyant market.

During 2007-08 our full time direct employees numbered over 25,000 of which nearly 2,300 employees in the Leaf Tobacco business were engaged on a seasonal basis due to the very nature of the business.

The different value chains related to our businesses provided indirect employment to over 5 million people, whose livelihoods were substantially linked to their association with the Company. Indirect employment covers the supply and distribution network, agri-sourcing, social and farm forestry, e-Choupals, women's empowerment and micro-enterprises, and livestock development.

Over 12,000 of our direct employees are members of various unions. During the reporting period, two units signed long-term agreements with the recognised unions. Employees were aligned and involved in the implementation of significant investments in technology and process improvements aimed at enhancing productivity, quality and delivery effectiveness. The harmonious relations at all operating units is a reflection of the Company's approach to employee engagement focusing on a collaborative approach and mutuality of interests.

Company policies and Individual contracts of employment apply to management and frontline supervisors and the terms and conditions of their services are reviewed periodically.

Our remuneration philosophy aims at recognising performance which also facilitates attraction and retention of talent. This is reflected in the total employee cost of Rs 730 crores during 2007-08, which represents a 16% compounded annual growth in 'employee costs' over the last 3 years.

The market for talent continued to be extremely competitive. An integrated approach to management of human resources focusing on strategy, systems and culture enabled us contain attrition across categories and businesses to 13% during 2007-08. Our experience with retention amongst middle and senior management was very encouraging, reflecting on the one hand, our ability to meaningfully engage employees and on the other, their sense of ownership and commitment.

In line with our focus on continuous learning and development, over 78,000 man days were invested in formal training of employees across businesses and employee categories. In addition, significant investments were also made on on-the-job learning supported by inputs from superiors and other colleagues. Relevant training and our orientation was also provided to employees of service providers.

Occupational Health & Safety

We continued with our commitment to ensure a safe and healthy work place for all and progressed 'beyond compliance'. Our EHS guidelines are designed to ensure world-class performance in the areas of occupational health and safety.

Although the Indian Factories Act/Rules is comprehensive and is aligned with the requirements of the International Labour Organisation (ILO), we

collaborated with the National Safety Council to develop our own Corporate EHS Guidelines, which are far more stringent than Indian statutes and include international standards and best practices.

Towards Zero Accident

All our factories, hotels and large offices have established EHS management systems with designated responsibilities, competent resources, best-in-class infrastructure, state-of-art fire detection & protection systems and latest electrical equipment etc., to achieve benchmarked performance in safety. In addition, employee involvement through participation in safety programmes, suggestion schemes and celebrating EHS events have helped develop a safety culture across the organisation.

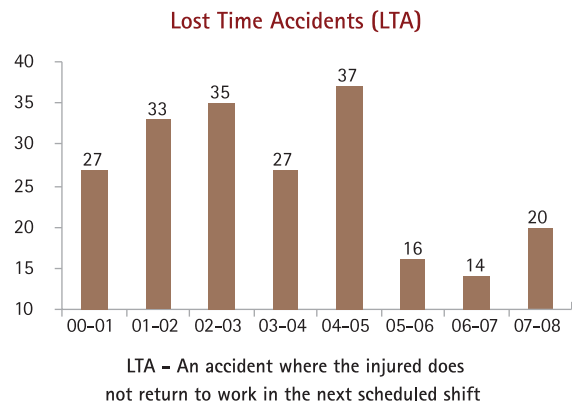
Our units are required to proactively engage in the identification of potential hazards and work towards elimination/reduction of risks. New projects/expansion plans are reviewed by internal EHS experts. Engineering control measures are designed and installed during project implementation. Our EHS teams conduct exhaustive audits before commissioning projects to ensure compliance.

A comprehensive incidents/accidents reporting system has been established at every unit. All incidents/accidents are thoroughly investigated



to identify the root cause and corrective and preventive measures recommended. The findings and recommendations are discussed at Safety Committee meetings and circulated to all Departmental Heads/In-Charges for implementation.

In order to disseminate the learnings on safety issues, we communicate all serious accident details throughout the Company. The units are therefore equipped to initiate proactive measures to eliminate/control similar situations.



Zero Accident Units

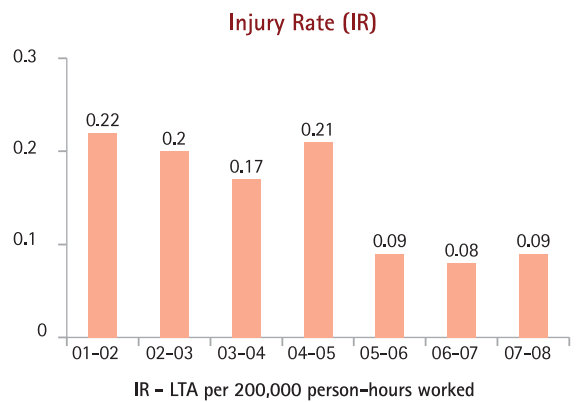
There were no lost-time accidents at the Cigarette factory in Munger, the Packaging & Printing factory at Munger; Paperboards unit at Bollaram; Research Centres at Bengaluru and Rajahmundry and the Gurgaon Pilot Plant of the Lifestyle Retailing business, ITC Infotech's Bengaluru Office Complex and Surya Nepal's Cigarette factory at Simra during the year.



Among ITC hotels, Maurya, Mughal, Maratha, Grand Central, Sonar, Windsor, Kakatiya, Sheraton Chola; Rajputana and New Delhi, and Bay Islands Port Blair remained free of Lost Time Accidents in 2007-08.

Injury Rate (IR) and Lost Day Rate (LDR)

Injury Rate and Lost Day Rate are key measures used to assess the safety performance of the Company. Our focus on providing a safe work environment yielded positive results with consistent reduction in injury rate, which has come down by nearly 59% since 2001.



Our LDR, the total number of days lost due to accidents for every 200,000 person-hours worked was 3.5 in 2007-08 (2.2 in 2006-07 and 6.5 in 2005-06).

Effective implementation of best-in-class safety standards resulted in zero fatal accidents in 2007-08.

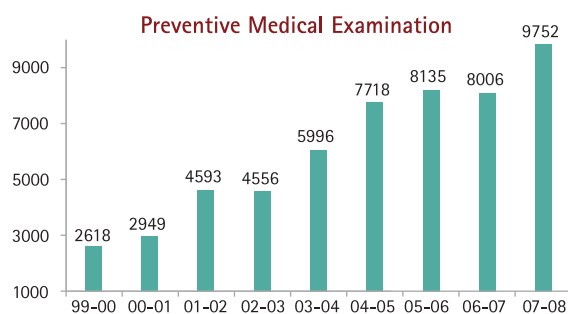




Occupational Health

A healthy workforce is an important constituent of our sustainability strategy. Our units maintain high standards of hygiene, lighting, ventilation and effective controls on noise and dust in accordance with national/international standards.

All the units are equipped with first aid medical centres and adequate medical staff. In addition, 2% of employees in each unit are trained, by expert agencies, to provide first-aid.



This year, over 9700 employees underwent preventive medical examinations, to identify any symptoms/trends of occupational illness and to ensure appropriate action to eliminate any health risks.

No case of occupation-related illness was reported in 2007-08.

HIV/AIDS

We continued to make progress on our commitment to specific programmes and actions in response to the HIV epidemic. We conducted 145 HIV/AIDS

awareness programmes involving 7200 employees within our units and nearly 1200 members of communities surrounding our operations.

Human Rights - Significant Investments

During 2007-08, a major part of our total capex cash flow of Rs 2245 crores was incurred on machinery and technology which were sourced from reputed suppliers/vendors who follow internationally accepted norms and standards on Human Rights. Approximately Rs 771 crores were invested on new factories, hotels, and on modernisation.

All large contracts in ITC, for the construction of hotels, factories, and significant upgrades, included environment, health, safety and human rights' clauses covering decent place of work, and 'beyond compliance' labour practices.

The various projects were managed and supervised by ITC managers, who also ensured proper Human Rights compliance. Corporate Internal Audit and Corporate EHS audited these projects to ensure compliance with our Policies and Standards.

Human Rights - Supply Chain

As a large and multi-product enterprise whose products are benchmarked nationally and internationally, we recognise our responsibility to proactively encourage high levels of 'Human Rights' standards in our supply chain.

Our approach to managing human rights in the following distinct categories is as follows -

- Our major businesses are vertically integrated across Divisions that follow ITC policies.
- We procure inputs for the Company's agri-based businesses from state controlled trading platforms and the open market.
- We position our managers at all significant 'outsourced' manufacturing facilities (cigarettes and packaged foods) to ensure high standards of product quality and adherence to ITC's guidelines on EHS and labour practices. Government officials also routinely inspect these units to ensure relevant labour and factory acts, which, *inter alia*, provide for the necessary EHS and labour practices standards.

During 2007-08, the total number of service providers contracts was 2371 of which 977 operated within the Company's premises. 98% of contracts on site and 96% of contracts off site included important clauses on Human Rights, Environment, Health and Safety. No contracts were cancelled during the year as a result of non-compliance with ITC's human rights clauses.

Prevention of Discrimination at the Work Place

During 2007-08 no incident of discrimination in any of the ITC units was reported either internally or to statutory authorities.

Freedom of Association

During 2007-08 no incidents of violation of freedom of association were reported either to the concerned units or to statutory authorities. Within ITC's operations, there are no areas where the right to exercise freedom of association and collective bargaining is at risk.

Prohibiting Child Labour and Preventing Forced Labour at Work Place

During 2007-08 no incidents of child or forced labour were reported either to the concerned units or to statutory authorities.

Diversity and Equal Opportunity

We believe that every individual brings a different and unique set of perspectives and capabilities to the team. A discrimination-free workplace for employees provides the environment in which diverse talents can bloom and be nurtured.

ITC-Welcomgroup - Empowering differently-abled people



Our hotels have taken a positive step in this direction by employing people who are differently-abled. The model it has adopted has succeeded in sensitising other employees to the needs of those differently-abled. Based on their specific skills, over a 100 differently-abled people have been employed in diverse functions like housekeeping, teleworking, bakery and entertainment.

Special badges for the visually impaired, whistles for the hearing-impaired employees to use in an emergency; sign language classes for the

staff to communicate with them are just a few examples of how ITC-Welcomgroup has created an environment of sensitive caring.

In recognition of its substantial contribution to the cause of promoting employment opportunities for differently-abled people over an extended period of time, ITC Windsor, Bengaluru, has received the NCPEDP-Shell Helen Keller Award 2007.



Governance Bodies and Diversity

Our approach to human resource is premised on the fundamental belief in fostering meritocracy in the organisation, which promotes diversity and offers equality of opportunity to all employees. We do 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, union organisation or minority group.

The Board of Directors at the apex, as trustees of shareholders and responsible for the strategic supervision of the Company, consists of 4 Executive Directors (including the Chairman) and 11 Non Executive Directors. The Non-Executive Directors come from different fields, thereby ensuring multi-dimensional perspectives in setting the strategic agenda.

The strategic management of the Company rests with the Corporate Management Committee comprising full time Executive Directors and 3 members drawn from senior management representing diverse functions.

The executive management of each business is vested with the Divisional Management Committee (DMC), headed by the Chief Executive. The DMC draws resources from different functions. Each DMC is responsible for and focused on the management of its assigned business.

Equal Remuneration

Our compensation philosophy does not differentiate on gender, social status or age. It is linked to responsibility levels and based on performance. We also ensure compliance with the Equal Remuneration Act which mandates every employer to pay equal remuneration to men and women employees for the same work or work of similar nature.

Prevention of Corruption at Workplace

We believe that corporations like ours have a responsibility to set exemplary standards of ethical behaviour, both within the organisation as well as in

their external relationships. We believe that unethical behaviour corrupts organisational culture and undermines shareholder value.

A booklet on ITC's Code of Conduct, which also contains the policy against corruption is periodically circulated to all managers. In addition, it is posted on the corporate intranet sites and the ITC Portal. The Audit Committee of the Board met nine times during the year to review, *inter alia*, the adequacy and effectiveness of the internal controls and monitored implementation of internal audit recommendations, including those relating to strengthening of the Company's risk management policies and systems.

Instances of corruption involving employees or business partners were cognised for and suitable action was taken. ITC has a zero-tolerance approach to proven cases of corruption, resulting in immediate termination of service.

Public Policy Advocacy

Our senior managers not only participated in a large number of industry fora to help contribute to debates on public policy and issues related to our businesses, but have also established a number of institutions - namely the Tobacco Institute of India and the CII-ITC Centre of Excellence for Sustainable Development - to promote public debate and shape policies on important issues concerning industry and the nation. The Tobacco Institute of India is a tobacco industry body, which helps support industry norms and Government policy initiatives.

The CII-ITC Centre of Excellence for Sustainable Development was set up by ITC in collaboration with the Confederation of Indian Industry to promote a movement on corporate sustainability in India and policy advocacy.

Compliance

All our businesses/divisions have systems and procedures to identify and comply with all relevant statutory requirements. There was no non-compliance with laws or regulations by any of our businesses in 2007-08.

A COMMITMENT BEYOND THE MARKET - AUGMENTING THE SOCIAL CAPITAL OF THE NATION



In line with its corporate vision to promote sustainable and inclusive growth, ITC has driven innovation to forge unique business models that synergise long-term shareholder value enhancement with the superordinate goal of creating greater societal capital. These unique initiatives have contributed towards creating meaningful livelihood opportunities for over 5 million people, predominantly from India's rural poor.

ITC has aligned its business performance to Triple Bottom Line objectives – placing equal emphasis on augmenting economic, environmental and social capital – a process that can unleash strong drivers that can make national progress more inclusive and equitable and ensure long-term business sustainability.

The Millennium Development Goals –'Call to Action' in 2007 urges businesses to become key players instead of merely complementing international efforts to meet these goals. It looks to business to play a strategic role in promoting transformative and scalable programmes to not only reduce poverty and hunger across the globe but to also ensure a sustainable future for generations to come.

We at ITC believe that business can make a difference and we are extremely encouraged that our pioneering initiatives to empower communities to conserve and manage their natural resources, create sustainable on and off-farm livelihoods, and improve social infrastructure, especially in areas where it impacts women and children, are aligned to national priorities and the Millennium Development Goals.

Millennium Development Goal - Eradication of Poverty and Hunger through Sustainable Livelihoods

e-Choupal

Web-enablement of the Indian farmer through the e-Choupal digital infrastructure enables even small and marginalised farmers, who are de-linked from the formal market, to access relevant knowledge and agricultural extension services. This enables real-time price discovery and improvement in farm productivity and quality, making them more competitive in the national and global markets. Leveraging social capital through community involvement, the e-Choupal network currently benefits more than 4 million farmers through 6,500 internet kiosks covering 40,000 villages across 9 states.

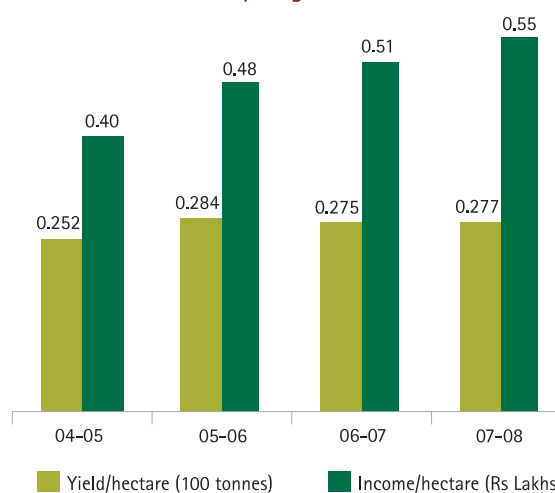
Social and Farm Forestry Programme

ITC's Social and Farm Forestry programme emerged in response to its Paperboards Division's challenge to source cost-effective pulpwood from sustainable sources to enhance its competitiveness. Instead of taking the easier route of importing pulp, ITC innovatively leveraged its pulpwood requirements to provide sustainable livelihood opportunities to poor tribals and marginal farmers, by assisting them to convert their private wastelands



into productive pulpwood plantations. To ensure the commercial viability of these plantations, ITC's R&D Centre at Bhadrachalam developed high-yielding, disease-resistant and site-specific clones. This programme ensures sustainability in three ways - (a) India's forest resource base remains intact. With the beneficiaries using the loppings and topplings from plantations for their fuel wood requirements, the programme ensures that forests remain safe from such degradation; (b) Provides a sustainable livelihoods option for poor rural households; and (c) Supports our paperboards business by creating a sustainable raw material base.

Social Forestry Programme - 2004-08



Livelihoods creation on a significant scale, one of the main objectives of the programme, is clearly evident from the impressive number of beneficiaries and income generated. The programme has successfully generated employment and raised incomes in rural hinterlands - 35 million person-days of work have been provided so far. The repayment to the village sanghas to form the Village Development Fund has increased to Rs 67.39 lakhs.

Covering over 80,000 hectares to date, these plantations also bring significant environmental benefits by extending forest cover and restoring ecological balance. Their large potential for carbon sequestration has played the most vital role in making ITC a 'Carbon Positive' company.

	Up to 2006-07	2007-2008	Todate
Coverage: Social Forestry			
No. of new villages	377	29	406
No. of new beneficiaries	10,510	2,982	13,492
Plantation area (hectares)	9,069	2,900	11,969

Our Social Forestry programme accounted for 26% of total plantations during 2007-08, 46% of plantations in the core area during 2007-08 and 16% of total plantations todate. The programme was extended to Guntur and Nellore districts, in addition to Khammam and Prakasam. The collaboration with the Government of Andhra Pradesh contributed nearly 50% of Eucalyptus plantations under this initiative.

Integrated Watershed Development Programme

In line with our commitment to create sustainable livelihoods, our watershed development programme facilitates village-based participation in building, reviving and maintaining micro-water-harvesting structures and management of water resources to reverse land degradation, ensure soil and water conservation, provide critical irrigation and raise agricultural productivity. Our watershed programme contributes to sustainability in the following ways - (a) Enriched soils and critical irrigation stabilises farm productivity, giving farmers assured returns and, thus, financial sustainability; (b) Efficient management of the water regime promotes sustainability of agriculture; and (c) We are assured of procuring agri-products in the desired quantity and of desirable quality.

The work under this initiative has spread from 5 projects in two states, to 24 projects in 7 states.

	Unit	Up to 2006-07	2007-2008	Todate
Coverage: Watershed				
Area Treated	Hectare	12402	4094	16496
Critical Irrigation Area	Hectare	14287	4196	18483
Total Watershed Area	Hectare	26689	8290	34979
Water Harvesting				
Minor Structure	No.	1148	460	1608
Major Structure	No.	382	188	570
Total Structure	No.	1530	648	2178



Within Maharashtra we have expanded to Ranjangaon, where ITC's cigarette factory is being relocated.

In partnership with NABARD, we will be undertaking soil and moisture conservation work on a total of 17,500 hectares in Madhya Pradesh, Bihar and Andhra Pradesh.

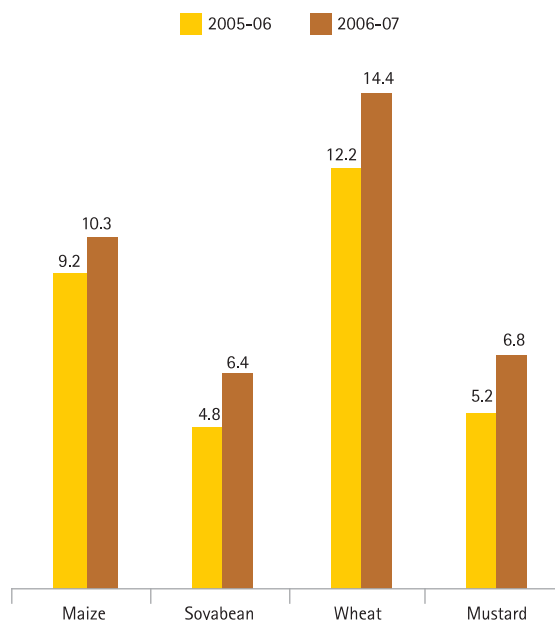
That the farmers value the work being promoted by us is evident from the fact that todate as much as 19% of the total expenditure, amounting to Rs 370 lakhs has been raised from them. Direct employment created on civil works till date was 5.36 lakh person days.

Sustainability too is being ensured through water user groups. Our special endeavour to nurture and strengthen the 686 active Water User Groups has led to collection of a maintenance fund of Rs 12.67 lakhs. The bulk of this (Rs 8.76 lakhs) was collected during 2007-08. In addition to water charges as a source of revenue, efforts were also made to link the WUGs to market-based activities with a view to enhance earnings. Activities like agri-input sales, procurement of spices and raw material for organic fertilisers resulted in a turnover of Rs 58 lakhs for these groups during the year.

To analyse the long-term impact of our watershed programme, we collect baseline and impact data from the field to compare changes based on key indicators. The graphical representation being shared is from Rajasthan.

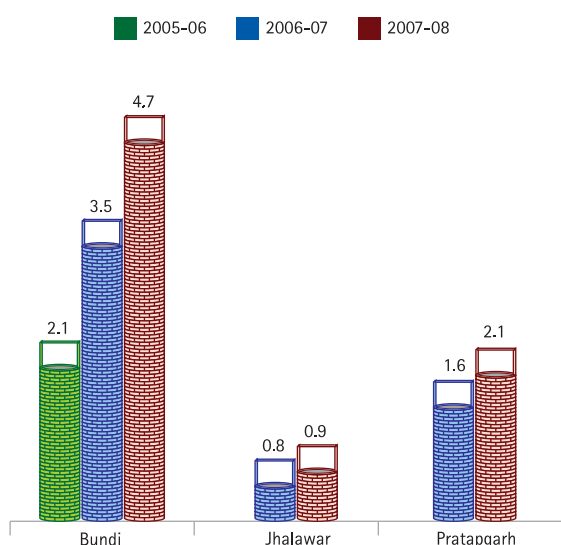
- **Increase in productivity** - Water conservation and application has led to increase in productivity across all crops.

Changes in Productivity - Rajasthan (Q/acre)



- **Increase in water availability** - The availability of water has increased on a yearly basis in Rajasthan. The figures are for water availability before rainfall. These projects have demonstrated significant success in enhancing the levels in the water table due to water conservation efforts.

Rajasthan - Well Recharge
Pre-monsoon Water Column (metres)



Integrated Agriculture Development

The programme facilitates a combination of solutions for optimising water management and enhancing farm productivity. Farmers are also encouraged to form agri-business centres, enabling them to pool knowledge and resources, have access to quality inputs on time and improve productivity and quality.

The programme ensures sustainability in the following ways - (a) It makes agriculture sustainable in the long run, both by using less water per unit of output and by improving soil health through compost applications; (b) All these measures increase productivity and hence farm incomes, thus providing financial sustainability to farmers; and (c) We assure ourselves of quality products in the years to come, thus ensuring sustainability of our businesses.

Agriculture extension services were initiated to enhance land productivity through composting, higher yields per acre through varietal demonstrations and efficient management of water through group wells and sprinkler systems. Careful documentation of the benefits from these interventions helps in convincing farmers to adopt these on a large scale.

	Up to 2006-07	2007-2008	Todate
Irrigation			
Group Irrigation	175	94	269
Sprinkler irrigation	414	59	473
Demonstration plots			
IPNM+Varietal demo	1397	1288	2685
Vermicomposting	6727	2946	9673
Nadep/supercomposting	2611	422	3033

To help farmers capture additional value from their holdings, we promoted crop diversification with good market linkages. Mint, rosemary, mushrooms, strawberries and french beans were a few of the products introduced on a pilot scale to test best agronomical practices and the markets. These will be scaled up significantly in the years to come, generating higher incomes for rural households.

Livestock Development Programme



The programme assists small and landless farmers to upgrade livestock quality through cross-breeding by artificial insemination to boost milk productivity by a factor of 6 to 9 times, leading to a threshold increase in household incomes and thereby an improvement in their poverty status. This intervention promotes sustainability in the following ways - (a) By supplementing farm incomes, it reduces pressure on land, thus promoting long-term sustainability of agriculture; (b) It provides a viable livelihood opportunity, thus promoting financial viability of rural households; and (c) We benefit from the secondary effect of revitalised agriculture since it leads to a stable production regime.

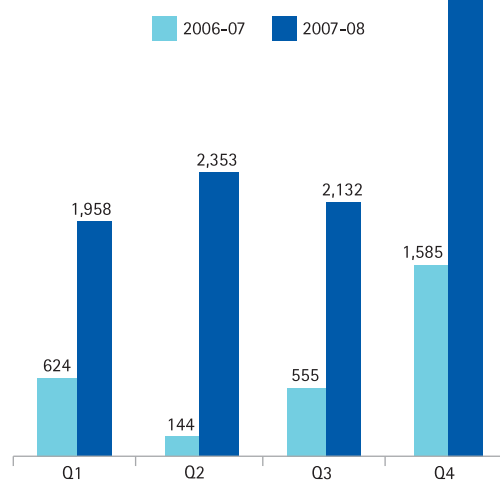
Initiated in 2004-05 with 23 Cattle Development Centres (CDCs), the number increased to 95 CDCs covering 1,910 villages during 2007-08.

The programme also provides integrated animal husbandry services that include pre and post natal interventions.

Activities	Up to 2006-07	2007-2008	Todate
No. of CDCs	77	18	95
Breed Improvement			
No. of Als	94,654	80,056	174,710
No. of crossbred heifers	14,736	20,719	35,455
Animal Health Service (No.)	202,741	133,734	336,475
Milk Procurement			
No. of Societies	34	50	84
No. of farmers	1,358	553	1,911
Volume (lakh litres)	657,313	829,196	1,486,509

Farmers benefiting from the breed improvement programme also get linked to formal milk marketing channels to get the best price. This can be assessed from the increase in daily average procurement in Munger, Bihar.

Munger - Daily Average Procurement (LPD)



Millennium Development Goal - Promote Gender Equality and Empower Women

Economic Empowerment of Women

Promotion of micro-credit groups is only the first step towards the economic empowerment of women. Mature SHGs are linked with micro-enterprises like incense stick rolling and embroidery to provide diversified sources of income for poor rural households. Moreover, increased incomes in the hands of women go towards better education and health for their children, thus improving human development in the project areas.



Activities	Up to 2006-07	2007-2008	Todate
Micro-credit programme			
SHGs	843	129	972
Members	12,618	1,363	13,981
Savings (Rs lakhs)	59.98	37.75	97.73
Self Employed (No. of women)	3,917	8,844	12,761
Employed in microenterprises (No. of women)	2,229	1,097	3,326
Skills training (No. of women)	801	118	919

The total turnover of women-managed micro-enterprises during the year was Rs 69 lakhs, the bulk of which was accounted for by the sale of raw agarbattis and chikkan-kari garments. In addition, the SHGs were able to take bank loans worth Rs 59 lakhs to fund self-employment activities of its women members.

As a result of the proactive initiatives taken by us jointly with the Director Commissioner, Handicraft (Ministry of Textiles, GoI) 250 chikankari artisans got insured under the Rajiv Gandhi Shilpi Swasthya Bima Yojna and Mediclaim coverage for self and family.

Millennium Development Goal – Achieve Universal Education

Primary Education



All these programmes are implemented around our production sites situated in rural hinterlands or semi-urban locations. The programmes are aimed at increasing chances of employability either through imparting training in skills, better education or reduction of morbidity.

The programme provides infrastructural support to Government-run primary schools and learning through Supplementary Learning Centres to stem drop-outs and enable more children to complete school and move on to higher standards.

Our supplementary learning centres provided extra coaching to thousands of primary school goes from poor families. In order to increase enrolment, poor children receive school uniforms and text/exercise books. A network of rural libraries and resource centres enrich the process of learning for these children. State-run schools are made more attractive for children through infrastructure support, comprising mainly of benches and chairs.

Activities	Up to 2006-07	2007-2008	Todate
Supplementary centres			
Schools	1,058	311	1125*
Student	74,299	25,487	99,786
School Infrastructure	Gov. Schools 128	70	198
Libraries	No. 87	77	77
Roaming laptop	School -	67	67
Text/Exercise books	No. of students 50,260	49,737	99,997
Uniforms	No. of students 5,466	750	6,216
Cultural & sports event	No. of students 931	36	967

* 244 continuing centres from previous years.

Millennium Development Goal – Improve Maternal Health

Primary Health & Sanitation

Poor hygienic conditions are the main cause of high morbidity, especially amongst at-risk women and young children. Low cost sanitary toilets improve hygiene in villages while backyard horticulture provides nutritional supplements. Our health camps address the curative needs of villagers.

Activities	Up to 2006-07	2007-2008	Todate
No. of Toilets	2,162	401	2,563
No. of Saplings	21,614	-	21,614
No. of Drip Kits	180	-	180
Awareness/Health camps			
No. of camps	208	62	270
No. of patients	15,787	2,284	18,071

All our initiatives support the principles of the UN Global Compact, a voluntary global initiative to promote sustainable development and good corporate citizenship.

PRODUCT RESPONSIBILITY



Customer Safety – Our Prime Concern

Our uncompromising commitment in providing world-class products and services to satisfy customers on a consistent basis is supported by concern for the safety of our consumers/customers.

All products in our **Cigarettes business** are internationally benchmarked and are supported by comprehensive research and testing facilities at the ITC Research & Development Centre, where laboratories conform to ISO/IEC 17025 and are certified by NABL (National Accreditation Board for Testing and Calibration). The use of proprietary software facilitates regular monitoring and review of stringent product specifications and raw materials. The manufacturing units have state-of-the-art facilities, cutting edge technology and international quality management systems, which are constantly reviewed and upgraded.

With the objective of preserving customer health and safety, the **Foods business** ensures adherence

to highest levels of quality, safety and hygiene standards in manufacturing processes and in the supply chain. The Product design/development process is an integrated method of assessing consumer needs and designing the product accordingly.

The business operates predominantly on a model of outsourced manufacturing. The quality performance of each manufacturer is monitored on a daily basis. 32 out of 40 manufacturing locations have already been HACCP certified and the remaining locations are progressing fast towards achieving certification.

All the products in our **Education and Stationery Products business** use approved non-hazardous materials e.g. ECF (Elemental Chlorine Free) paper, ink, dyes etc. Since most of the consumers of these products are children, stringent process quality control measures are in place to ensure safe products.

In our **Agarbatti business** IFRA (International Fragrance Resource Association, Geneva) approved chemicals are used in the fragrances for the manufacture of Mangaldeep Agarbatti. The laid down processes in manufacturing are designed to ensure product safety and consistency. A (proprietary) centralised software is used to regularly monitor and control the product specifications.

In our **Personal Care business** products have been created through extensive research and consumer engagement. The products have been developed in the state of the art R&D centre in Bengaluru, by our team of highly skilled professionals over the last several years. The formulations use internationally recognised safe ingredients and are subjected to the highest standards of safety and performance. The manufacturing facilities adopt stringent hygiene standards, benchmarked manufacturing practices and robust quality systems.

In our **Information Technology business** quality of the software is assured through well-defined QMS following SEI – CMM framework and certified by ISO 9001-2000 IT guidelines. We ensure the security of the software by using standard software packages from reputed specialist organisations. Effective access control and asset management mechanisms are certified under ISO 27001 frameworks.

In our **Hotels business**, policies are in place to ensure the highest standards of customer health and safety. These policies are prominently displayed at conspicuous locations in the Hotels.

Our **Paperboards & Specialty Papers business** is the pioneering manufacturer in India of elemental chlorine free (ECF) pulp, which ensures the levels of dioxins and furans in the pulp to be less than 1 PPT (Parts Per Trillion). The global migration test is conducted periodically on all food grade paper and paperboards for compliance with the US FDA standards and to adhere to prescribed limits for presence of heavy metals. All manufacturing ingredients are procured from reputed international suppliers and must conform to US FDA standards as well as BFR recommendation No. 36. We ensure that the components of food allergens listed in EC directive 2003/89/EC, US FDA food allergen labelling and consumer protection are not used in any of the virgin grade boards and papers.

The Bollarum unit, manufacturing food grade board for direct food contact, is 'third party' certified in accordance with BRC/IoP (British Retail Consortium/Institute of Packaging) standards. Pira, a renowned testing and consultancy firm, now certifies our 'Indobarr' and 'Cyber Propac' brands to be compliant with German BFR standards for Food Packaging.



Our **Packaging and Printing business** uses only non-hazardous materials/films and paperboard from either our own Paperboards & Specialty Papers business or other approved suppliers. The manufacturing units have made significant strides in product quality management beyond ISO 9000. The Chennai unit is the first in India to achieve IQRS (International Quality Rating System) - Level 8 (Certified by DNV) and the Munger unit is progressing towards IQRS level 7.

In the **Agri business** products are sold or exported entirely as per customer specifications and requirements. Products in Choupal Saagars are sourced from reputed companies as per statutory norms while Choupal Fresh products are sourced from farmers and mandis. Stringent process control norms are in place to ensure the quality of all products.



In the **Leaf Tobacco business** the products are manufactured as per customer specifications. The customers in this business are large domestic and international Cigarette Manufacturers and Tobacco Merchants. We ensure that the specifications are meticulously complied with. 'Hygiene and Infestation Management Systems' to control infestation are in place. We achieved a score of 100% in a recent external audit on fumigation.

Our Agri Extension Services are designed to ensure 'Seed Integrity', 'Pesticide Residue Level' monitoring and 'Non Tobacco Related Matter' (NTRM) elimination to promote Product Hygiene standards. Several additional measures to eliminate NTRM across the value chain were implemented during 2007-08.

Both Anaparti and Chirala GLTs have been certified to ISO 9001, IQRS Level 7 and a large number of other certifications by accredited third party agencies like BVQI and DNV.

With a view to provide the highest standards of customer satisfaction, health and safety, our **Lifestyle Retailing business** follows a rigorous process of evaluation, validation and certification of raw materials (fabrics, yarns, trims) based on stringent product specifications laid down by internationally acclaimed and accredited textile testing labs. Prior to manufacture, these inputs are tested for conformance in our inhouse state-of-the-art R&D centre. The centre has been accredited with NABL and ISO certifications. We have an internal PQRS performance score coupled with an external AQL index for all products. Additionally, we partner our manufacturing bases by sharing, facilitating & implementing Quality and EHS norms.



Product Information & Labelling

All our products and services are legal and none of them is banned. Except tobacco products, none is a subject of stakeholder questions or public debate. As an organisation which upholds and makes extraordinary efforts to ensure legitimacy, transparency and good governance, ITC's business operations comply with every relevant law of the nation. Gradually increasing social pressure on tobacco often leads to public debates on its consumption. Stringent quality standards/systems are established to respond to queries/concerns and are known to all stakeholders.

Our **Cigarettes business** complies fully with Standards of Weights and Measures Act (Packaged Commodities Rules), Cigarettes Act, 1975, Central Excise Act and COTPA [Cigarettes and Other Tobacco Products (Prohibition of Advertisement and Regulation of Trade and Commerce, Production Supply and Distribution) Act].

Our **Foods business** complies with all statutes including statutes on labelling and product information (e.g. Prevention of Food Adulteration Act, Standards of Weights & Measures Act, Food Products Order, Packaged

Commodity Rules, etc.) relevant to packaged branded food products. In addition to the statutory requirements, the business ensures voluntary declaration of nutrition facts based on benchmarked international practices in the final packaging of its Ready-to-Eat products.

Our **Education & Stationery Products and Agarbatti businesses** comply with the requirements of Standards of Weights and Measures Act (including the Packaged Commodity Rules) and have built-in systems to ensure compliance, including review before the launch of a new category.

In our **Hotels business**, brochures, in-room literature and the websites are used to provide relevant information regarding Rooms and Food & Beverages.

Our **Personal Care Products business** complies fully with the Standards of Weights and Measures Act (Packaged Commodities Rules), Drugs & Cosmetic Act, Bureau of Indian Standards and the applicable Trade Marks Law.

Our **Paperboards & Specialty Papers business** issues Quality Assurance Certificates for the consignments on request from customers. The information about the product, covering relevant technical parameters agreed with the customers, is documented in the product specimen sheet. The label on each pack bears the product name, substance (gsm), size, weight & batch/reference number for effective traceability.

In our **Packaging and Printing business** we barcode all packages. Internal quality procedures follow norms/specifications agreed with the customers

Products in our **Agri business** are primarily sold on a B2B basis and are labelled to meet customer requirements on quality, shipping marks or importing country labelling requirements. Where required we provide phytosanitary certificates, surveyor quality and quantity reports, Chamber of Commerce certificates, etc. We comply with all statutory requirements for exports.



In the **Leaf Tobacco business** all the products are labelled in accordance with customer specifications. Labels normally contain information about the Grade, Crop Year, Weight, Lot No., date and the location at which the product is packaged and in certain cases, the destination and details of the customer. The bar code label on the packed product ensures 'Product Traceability' in the tobacco supply chain from Farm to the Customer.

All products, in our **Lifestyle Retailing business** are in conformity with the 'Standards of Weights and Measures Act (w.r.t. size, quantity, manufacturer's name, mrp). Additionally, we also provide product information including attributes and salient features like fabric, styling, finishing, wash-care and benefits.

Marketing Communications

Our businesses have systems in place to ensure that we comply with all the statutes, codes and voluntary standards as stated below. These are regularly audited to provide assurance.

Our **Cigarettes business** follows an internal code that not only includes all the requirements under Advertising Standards Council of India's (ASCI) code of conduct but also incorporates best practices for advertising/promotions. We also ensure that all laws related to marketing communications and promulgated in ordinances such as The Cigarettes (Regulation of Production, Supply and Distribution) Act, 1975, The Cable Television Networks (Regulation) Act, 1995, the Cinematography Act, 1952, The Cigarettes and Other Tobacco Products (Prohibition of Advertisement and Regulation of Trade and Commerce, Production, Supply and Distribution) Act 2003 and any State Government laws on advertising/promotion are strictly followed and the compliance is monitored on a regular basis. The internal code ensures that all communication follows relevant aspects of the legislations. Review of this compliance is a continuous process for

all marketing communication materials that are used in the market.

We do not sell any products that are banned in any part of the country. Also, in order to answer any queries on the product, we have a dedicated consumer response cell.

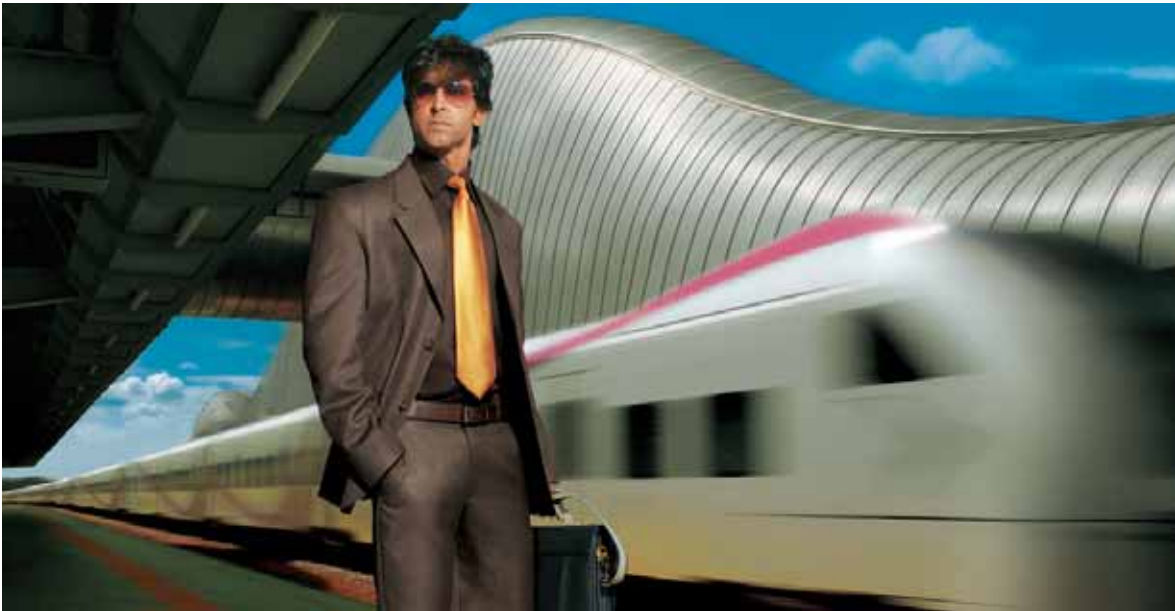
Our **Foods and Personal Care Products businesses** voluntarily follow the ASCI (Advertising Standards Council of India) Code for all marketing communications.



All communications in our **Education and Stationery Products business** in the form of Advertising, Promotion and Sponsorship adhere to voluntary and legal codes of conduct.

Our **Agarbatti business** voluntarily follows the ASCI (Advertising Standards Council of India) Code for all marketing communications.

In our **Hotel business** marketing communication is governed by Self Regulation and guided by Indian Society of Advertisers (ISA) Rules and guidelines.



Our **Agri business** has adopted a voluntary code for advertising and communication duly approved by the Divisional Management Committee. All external communication is also vetted by the divisional Legal resource.

Our **Lifestyle Retailing business** follows a voluntary compliance code on Advertising and Promotion. The code ensures that the advertisements and promotions are fair and transparent and not misleading in terms of claims and representations; are not offensive to the generally accepted standards of public decency. References to religion, race, caste, community, sex & violence are avoided.

It is ensured that advertisements maintain fairness to competition and are as per the laws of the land. Each product/campaign is vetted for compliance.

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**Compliance concerning provision
 and use of product and services**

All our businesses/divisions have well-established systems, procedures and review mechanisms to identify and comply with the laws and regulations concerning our products and services. We continued to comply with all applicable statutes during 2007-08.

GRI INDICATORS – INDEX

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STATEMENT FROM ERNST & YOUNG

Independent Assurance Report

We have been engaged by ITC Limited (the 'Company') to review the contents of 'Sustainability Report 2008' (the 'Report'), prepared under its responsibility, and provide independent assurance to the reporting procedures related to social and environmental information therein. The Report and its contents are the responsibility of the Company and this assurance statement is the responsibility of Ernst & Young.

Scope and limitation of assurance

In order to provide assurance, we selected 8 units representing manufacturing units from various businesses, hotels and large offices and core G3 indicators as listed below, which are material to ITC Triple Bottom Line performance. The scope was limited to review and verification of data collection/measurement methodology and general review of the logic of inclusion/omission of necessary relevant information/data. The assurance engagement covers only the following aspects of the Report -

- Review of the Report for any major anomalies within the Report and between the Report and source data/information;
- Verification of the transcription of the data internally verified by the Company;
- Execution of an audit trail of selected claims and data streams to determine the level of accuracy in collection, transcription and aggregation systems;
- Review of the Company's plans, policies and practices, so as to be able to make comments on the completeness of reporting and the degree to which E&Y believes the Report provides a fair and honest representation of the Company's business;

- Report of findings from the review/verification process ('Verification Report') to management and key internal stakeholders;
- The 8 units selected for visits and verification are as follows -
 - i. ITD (Tobacco Division) - Saharanpur, Uttar Pradesh
 - ii. ILTD (Leaf Tobacco Division) - Chirala, Andhra Pradesh
 - iii. Packaging and Printing Division - Tiruvottiyur, Tamil Nadu
 - iv. Paperboards & Specialty Papers Division - Tribeni, West Bengal and Bhadrachalam, Andhra Pradesh
 - v. Hotels Division - ITC Maurya, New Delhi
 - vi. Surya Nepal Private Limited - Simra, Nepal
 - vii. Corporate - ITC Green Centre, Gurgaon
- The selected core G3 indicators from the environment and social reporting section which were verified are -
 - i. **Environment**
 - a. Materials (EN1, EN2)
 - b. Energy (EN3, EN4)
 - c. CO₂ Emissions (EN16)
 - d. Water (EN8, EN21)
 - e. Ozone depleting substances (EN19)
 - f. Air Emissions (EN20)
 - g. Solid Wastes (EN22)
 - ii. **Social**
 - a. Employment (LA1)
 - b. Training (LA10)
 - c. Occupational Health and Safety (LA7)
 - d. Community development and Social & Farm Forestry initiatives (SO1)
 - e. Product Responsibility (PR1)

The 'economic performance indicators' included in the Report are derived by the Company from the Company's audited financial records. We have not performed any review of these data and information.

The scope of our work for this assurance statement was limited to verification of information pertaining to environmental and social performance for the year April 2007 to March 2008. We have not performed review of the past years' information included in the Report.

Methodology of assurance

The assurance was performed by our multidisciplinary team of professionals in the field of environment, health, safety and social matters, who visited the sample sites and Corporate office of the Company for reviewing and verifying the information.

The assurance provided to the Report is in accordance with the International Standard for Assurance Engagements (ISAE3000); we have provided 'limited' assurance as per this standard.

Conclusion

Based on our scope of review and approach, nothing has come to our attention that causes us not to believe that the Company is concerned about Environment, Health & Safety (EHS) and social issues pertaining to its business activities.

Other Observations

- The Company has used GRI G3 Guidelines and relevant protocols.
- The Company has selected material issues that are of significance to its stakeholders.
- The Company has presented in a fairly balanced and complete manner, the information pertaining to EHS and social parameters on material consumption/recycling, energy, water consumption/discharge, GHG emissions, solid wastes, accidents and social programmes and practices.
- The systems and procedures applied by the Company for collection, collation and interpretation of non-financial historical data on EHS and social performance parameters for inclusion in the Report are reliable.
- The Company has done significant work in creating rainwater harvesting potential, and the Company's 'Water Positive' status is based on creation of this potential.

Our responsibility in performing our assurance activities is to the management of the Company only and in accordance with the terms of reference agreed with the Company. We do not therefore accept or assume any responsibility for any other purpose or to any other person or organisation.

Ernst & Young Private Limited

(Sudipta Das)
Partner

Kolkata, India
Dated: August 14, 2008



ANNEXURES

MANAGEMENT APPROACH

Economic Performance

Policy – The Company's commitment in the area of economic performance is encapsulated in its Vision statement, which is 'to 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 is 'to enhance the wealth generating capability of the enterprise in a globalising environment delivering superior and sustainable stakeholder value'.

The Company's strategy is to ensure that each of its businesses is world-class and internationally competitive in the Indian global market in the first instance, and progressively in the offshore global markets.

ITC, as a premier 'Indian' enterprise, consciously exercises the strategic choice of contributing to and securing the competitiveness of the entire value chain of which it is a part. This philosophy has shaped the Company's approach to business into 'a commitment beyond the market'.

Goals and Performance – At the enterprise level the Company's goals include –

- Sustaining ITC's position as one of India's most valuable corporations.
- Achieving leadership in each of the business segments within a reasonable time frame.
- Achieving a Return on Capital Employed (ROCE) in excess of the Company's cost of capital, at all times.

Please refer to the 'Report of the Directors and Management Discussion and Analysis' section of the Report and Accounts 2008 (available on www.itcportal.com) for a detailed discussion on the Company's market standing in each of the business segments.

Context – Please refer to the 'Report of the Directors and Management Discussion and Analysis' section of the Report and Accounts 2008 for a detailed discussion on the business environment, opportunities, key challenges, etc. pertaining to each of the Company's businesses (available on www.itcportal.com).

Environmental Performance

Policy – ITC endeavours not only to minimise its environmental footprint but wherever possible create a positive environmental footprint. The Corporate Management Committee of the Company has issued an Environment, Health & Safety Policy. ITC's EHS Policy extends to all sites of the Company.

Goals and Performance – The Company has adopted 4 goals in the area of Environment –

- Performance Beyond Compliance
- 'Carbon Positive' Footprint

- 'Water Positive' Footprint
- 'Zero Solid Waste' (reduction, reuse and 100% recycling of all solid wastes)

Responsibility – It is the overall responsibility of the Divisional/Strategic Business Unit (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.

Management – All the manufacturing units, large hotels & Corporate EHS Department are certified to ISO 14001 Environment Management Systems. Additionally, the Corporate EHS Department has laid down detailed guidelines and standards for all ITC businesses/units. Experts from the Corporate EHS Department audit each unit at least once annually to ensure implementation and provide assistance for further improving EHS performance.

Awards – A large number of awards and certifications listed in this Report are a testimony to ITC's commitment to create positive environmental footprints.

Context – ITC businesses have identified and adopted a number of initiatives where environmental performance provides significant financial, strategic and sustainability benefits and complement national priorities.

Labour Practices and Decent Work Environment

Policy – ITC is committed to employee engagement that upholds individual dignity and respects human rights. ITC's employment practices are premised on attracting and retaining talent based only on merit. Its capability development agenda ensures the deepening and enhancement of skills of all its employees through customised training and development inputs. All ITC employees operate in a work environment that is benchmarked internationally for the quality of its safety and health standards.

Responsibility – It is the overall responsibility of the Divisional Chief Executives, through the members of their Divisional Management Committees, Human Resources and EHS Functions, to ensure that employment and EHS practices in all units are in accordance with the policy outlined above and to ensure total compliance with all statutory provisions governing labour practices and decent work. Specific responsibilities are assigned to different individuals based on the roles being performed by them.

The Corporate Human Resources and EHS functions are responsible for reviewing and updating standards and guidelines on labour and EHS policies, employment practices, and for providing guidance and support to all concerned.

Management – The Company leadership 'walking the talk' and a relentless focus on implementing the policy underline the Company's approach to employment practices and creating a decent work environment.

The Human Resources and EHS functions of each business are the primary custodians of ITC's labour and EHS policies and employment practices, the implementation of which is reviewed periodically at the unit and the divisional levels. The Corporate Human Resources and EHS functions provide specialist services to assist in the implementation and monitoring of the same. The multi-layered and multi-dimensional audit framework of the Company also helps in monitoring compliance with laid down policies and statutory regulations.

Training & Awareness – The policy is shared with employees and potential employees through training programmes, communication sessions, the Company portal, intranet sites and pre-placement presentations. Managers from HR, EHS and Engineering departments are provided regular training for effective implementation of these policies.

Monitoring & Follow-up – The HR and EHS resources of the Divisions regularly monitor progress to ensure proper implementation of these policies, while the Unit Heads and the Divisional Management Committees follow-up periodically to ensure full compliance. The Corporate EHS Department undertakes regular audits of the units.

Objectives – The primary objective is to nurture a culture of meritocracy amongst a committed and enthusiastic workforce from diverse backgrounds. In the pursuit of this objective, the following goals have been set for the next five years –

- All ITC's units, which are already 'beyond compliance' in all areas related to labour practices, will continue to be so.
- Ensure that the Company's record of attraction and retention of talent is superior to other companies in the comparative sample.
- Enable employees to perform to their fullest potential to add value to the enterprise, nation and themselves.
- Enhance the Company's employee value proposition so that ITC retains its position as an employer of choice.
- Endeavour to eliminate accidents and injuries both onsite and offsite.

Awards – A number of awards for excellence in Human Resources and EHS management and practices bear testimony to ITC's commitment to Human Resource Development and EHS and to best-in-class employment practices.

Context – High standards of employment and EHS practices enhance the Company's performance, help in the attraction and retention of quality talent, and enhance the equity of the Company as a responsible employer.

Human Rights

Policy – ITC is committed to conducting business in a manner that reflects its high ethical standards. It expects its employees and business partners to subscribe and adhere to this philosophy, which honours all local laws and 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. The Corporate Management Committee of the Company has approved policies covering crucial human rights areas. ITC's Human Rights policies extend to all its operating sites.

Responsibility – It is the overall responsibility of the Divisional Chief Executives, through the members of their Divisional Management Committees, General Managers and Unit Heads, to ensure implementation of these policies on human rights, including designating of individuals for specific responsibilities in respect of their Division.

Corporate Human Resources is responsible for reviewing and updating standards on social policies, and for providing guidance and support to all concerned.

Management – The Human Rights policies approved by the CMC provide guidelines for the implementation of these policies and their periodic review. Corporate HR provides specialist services to assist in implementation and monitoring.

Training & Awareness – Employees are provided with training on the Company's Human Rights policies at Induction Programmes. The policies are available on the Company's website and intranet portals.

Monitoring & Follow-up – The HR resources of the Divisions ensure periodic follow-up to ensure implementation. The Internal Audit function of the Company is charged with the responsibility of ensuring compliance.

Objective – The Company's primary objectives in the area of Human Rights performance and the goals for the next five years are to ensure that –

- All ITC's operational units are and will remain fully compliant with the Company's Human Rights policies, premised on a zero tolerance guiding principle towards such violations.
- All investment decisions will integrate Human Rights considerations into the decision-making process.

- All ITC's business partners will follow and adhere to the Human Rights policies that the Company upholds.

Context – High standards on Human Rights enhance the Company's reputation and build its brand equity, thus helping it achieve the goal of operational excellence. It gives ITC's business partners, customers and other strategic stakeholders the confidence of dealing with a value-driven Company. It is a crucial value proposition that is offered to potential employees to attract and retain talent and motivate employees to give their best.

Society

Policy – As a large Indian enterprise, ITC is uniquely positioned to contribute to public policy, which it does through active participation in a number of fora. Its size also enables it to influence the process of development and contribute to sustainable growth in the areas in which it operates, thereby helping to transform the lives of a large number of people and communities. ITC's objective of making a positive contribution to the society where it operates is served by aligning its own operations with interventions and initiatives aimed at creating sustainable livelihoods through farm and non-farm based activities.

Striding a wider canvas in the interest of the nation, ITC is committed to ensuring the preservation of India's unique cultural heritage through various initiatives to promote, encourage and keep cultural traditions alive.

With such a diverse and critical social agenda, all ITC employees have the obligation to display high levels of integrity and ethical behaviour.

Responsibility – It is the overall responsibility of the Corporate Management Committee to ensure that its investments in the social sector are an integral part of the Company's corporate strategy. Division-level initiatives respond to local needs and are monitored by the Divisional Management Committees and implemented through their local units in conjunction with the Corporate Human Resources Department.

The Corporate Management Committee and the Divisional Management Committees are responsible for reviewing and updating Corporate Standards on social and cultural development, and updating standards and guidelines for work in these areas as well as for providing guidance and support to all concerned.

Management – The Corporate Management Committee is the primary custodian of ITC's social initiatives. Implementation is reviewed periodically at the Unit, Divisional and the CMC levels. A dedicated team in the Corporate Human Resources Department provides specialist services to assist in implementation and monitoring of projects. The Units are responsible for responding

to specific needs spelt out by local communities and implementation is monitored by the Divisional Management Committees. In discharging social responsibility projects, all applicable rules and regulations are complied with.

Training & Awareness – Employees engaged in social development initiatives are given regular training both to enhance their domain knowledge and improve management skills. Details of social development work being done is posted on the ITC portal. Society is made aware of these projects and programmes through the circulation of a brochure called 'Transforming Lives and Landscapes'.

Monitoring & Follow-up – Regular monitoring and followup is undertaken by Corporate Human Resources. External accounting firms undertake quarterly financial audits. External audit firms and the Internal Audit function of the Company carry out system audits regularly.

Objective – The primary focus of ITC's Social Development Initiatives is to create sustainable sources of farm and off-farm livelihoods and to improve the social infrastructure especially in areas where it impacts women and children.

In pursuit of these objectives, the following goals have been set for the next five years –

- Web-enable 10 million farmers through 20,000 e-Choupals in 100,000 villages.
- Bring at least 50,000 hectares under soil and moisture conservation practices.
- Transform at least 100,000 hectares of wastelands into productive and revenue-generating assets for the poor.
- Create at least 10,000 women entrepreneurs with a sustainable source of supplementary incomes.
- Improve the genetic stock of at least 150,000 cattle through artificial insemination practices.
- Provide supplementary education support services to at least 100,000 children.

In its endeavour to preserve India's cultural and artistic heritage, ITC will also continue to ensure that its initiatives in the areas of preservation and promotion of Indian music, art and theatre are strengthened.

Context – A high level of community involvement creates long term enduring partnerships that contribute to creating a stable environment for its operations. ITC's commitment that extends beyond the market enhances the Company's credibility in the minds of stakeholders and policy makers. ITC's focus on Social Development and on preserving India's heritage is also a key element of its employee value proposition which helps in the attraction and retention of quality talent.

Product Responsibility

ITC's product leadership is founded on its core strategy of continuously enhancing product values through significant investments in research and development, product design, manufacturing technology, quality, marketing and distribution.

In ITC, one of the pioneers in market research in India, the consumer is King. The Company, with core competencies in unmatched distribution reach, superior brand-building capabilities, effective supply chain management and acknowledged service skills, continuously endeavours to provide products that are internationally benchmarked and more than meet consumer expectations.

Responsibility – It is the overall responsibility of the Divisional/SBU Chief Executives, through the members of their Divisional Management Committees, General Managers and Unit Heads, to ensure that all ITC products and services are in accordance with the above stated policy and principles, including designating individuals for specific responsibilities in respect of their Divisions/SBUs.

Management – The unique nature of ITC's businesses requires each business to adopt and implement necessary management systems and controls to meet policy requirements.

All the manufacturing units in the Company are certified in accordance with ISO 9001, ISO 14001 and OHSAS 18001 managements systems. All major hotels have been certified to ISO 14001 and 5 hotels have received HACCP certification. Others are in the process of receiving the certifications.

International Quality Rating System (IQRS) for Business Excellence, which rates key processes against international benchmarks, has already been introduced in a number of businesses. In addition, various other quality improvement tools such as 'Six Sigma' initiatives and 'Total Productive Maintenance' (TPM) are integrated with the Quality Management Systems.

Goals & Performance – ITC continuously endeavours to provide its consumers products that are benchmarked to international quality. Individual business performance on 'Product Responsibility' is described later in this section of the Report.

Context – ITC businesses have identified and adopted a number of initiatives on Product Responsibility where its performance provides significant financial, strategic and sustainability benefits complementing national priorities.

POLICIES AND GUIDELINES

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 values 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.

Corporate Governance Policy

ITC defines Corporate Governance as a systemic process by which companies are directed and controlled to enhance their wealth-generating capacity. 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, social and environmental 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 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.

The Policy Document that sets out the structure, policies and practices of governance is available on the Company's corporate website www.itcportal.com under the section 'Our Values'.

ITC Code of Conduct

The ITC Code of Conduct, as adopted by the Board of Directors, is applicable to Directors, senior management and employees of the Company. This Code is derived from three interlinked fundamental principles, viz. good corporate governance, good corporate citizenship and exemplary personal conduct. The Code covers ITC's commitment to 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. Any instance of non-adherence to the Code or any other observed unethical behaviour on the part of those covered under the Code is to be brought to the attention of the immediate reporting authority, who, in turn, should report the same to the Head of Corporate Human Resources. The Code is available on the Company's corporate website.

ITC Code of Conduct for Prevention of Insider Trading

ITC has a 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.

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.

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.
- 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.

Consultation and Notice for Significant changes

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

Implementation – Business plans are shared with employees at all units through a series of communication meetings, and through the 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 Human Resources Department in the case of unionised employees and with the concerned Divisional Management Committees for other employees.

The employees are given enough time to consider the implications of change and an opportunity to discuss their apprehensions, if any, with the management. The Policy is actualised through consultative meetings with representatives of employees, culminating in joint minutes/agreements.

Monitoring & Auditing – Compliance with the Policy is regularly monitored by the Unit Head.

Policy on HIV/AIDS

Policy – The Company's policy 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 directives of the Government regarding HIV/AIDS whenever issued.

The Company will provide to all its employees sensitive, accurate and the latest information about risk reduction strategies in their personal lives, with the objective of reducing the stigma of HIV/AIDS, encouraging safe behaviour and improving understanding of treatment. The Company is committed to providing a safe and healthy workplace to all its employees. It is the Company's objective that employees will have access to health services to prevent and manage HIV/AIDS.

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. All HIV positive employees will be allowed to continue to work in their jobs unless (a) medical conditions interfere with the specific job being done, in which case reasonable alternative working arrangements will be made; or (b) 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.

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

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 employees' status in terms of his/her HIV/AIDS status, if advised to the Company, will be kept strictly confidential.

Implementation – This policy is publicly available throughout the Company and clearly communicated to all employees in a manner in which it can be understood through induction programmes, policy manuals and intranet portals.

The responsibility for the implementation of the policy rests with the Unit Human Resources Departments. A report is provided to the Divisional Head on such programmes.

Monitoring & Auditing – Compliance with the Policy is regularly monitored by the Unit Head.

Human Rights Consideration in Significant Investments

Policy – ITC's commitment to human rights extends to all its significant investment decisions in order to ensure integration of statutory compliance, environmental, occupational health and safety, human rights and progressive labour policies into business decision-making processes.

Implementation – The custodian of this policy is the Divisional Chief Executive/SBU Head of the concerned business.

Monitoring & Audit – The Internal Audit function of ITC conducts periodic checks to ensure that such clauses form part of investment contracts signed during the audit period.

Human Rights Consideration Across the Supply Chain

Policy – ITC endeavours to ensure that all its service providers/vendors incorporate high standards of human rights, safety, health, labour practices and environment in their operations as practiced by the Company.

Implementation – The responsibility for implementation of this policy rests with the Divisional Chief Executive/SBU Head of the concerned business.

Monitoring & Audit – The Internal Audit function of ITC conducts periodic audits to ensure that such clauses form part of the investment contracts signed during the audit period.

Prevention of Discrimination at Workplace

Policy – ITC's approach to its human resources is premised on the fundamental belief of fostering meritocracy in the organisation, which promotes diversity and offers equality of 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 a minority group.

Implementation – The policy is communicated to all employees through induction programmes, policy manuals and intranet portals. The custodian of this policy is the Divisional Chief Executive or the SBU Head of each business.

The speedy resolution of formal complaints is premised on the freedom of employees to approach higher officials in case the issue is not settled at the level of his/her immediate superior. The salient features of the issue and steps taken towards its resolution are minuted. For the unionised employees, compliance with the policy is ensured through a robust grievance handling procedure and the presence of a union that is expected to bring violations to the notice of the unit HR Head.

Monitoring & Auditing – The accountability for the application of this policy rests with the Unit Head who reviews anti-discriminatory complaints annually or on a case-by-case basis. The HR department of the Division/SBU reports annually on incidents of discrimination, if any, to the SBU Head or the Divisional Chief Executive. Corporate Human Resources conducts non-discrimination reviews annually on a sample basis with Unit Heads and through on-site assessments.

Freedom of Association

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

Implementation – 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 employees are informed of these rights by the unions who solicit their support to represent them formally before the management.

Monitoring & Audit – Each ITC Unit has appropriate systems to ensure compliance with the Policy and statutory provisions, including means for filing of grievances, collective bargaining agreements and minutes of worker meetings. The HR department of the concerned unit submits annual reports to the functional head in cases of identified incidents of violation of freedom of association and collective bargaining. Divisional and Corporate HR regularly monitor compliance with the Policy. Corporate HR compiles these on a half-yearly basis and reports to the Corporate Management Committee.

Prohibition of Child and Forced Labour

Policy – ITC does not employ any person below the age of eighteen years at 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 subject to corporal punishment or coercion of any type related to work.

Implementation – This policy is publicly available throughout the Company and clearly communicated to all employees in a manner in which it can be understood through induction programmes, policy manuals and intranet portals. The workers are informed of these rights by the trade unions active at each unit.

The implementation of the policy is the responsibility of the Unit's HR Department and the security staff who do not permit minors 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 unit provides an annual report on all reported, if any, incidents of child or forced labour to the functional head.

Monitoring & Audit – Corporate Internal Audit and EHS departments undertake audit and assessment annually. Corporate Human Resources undertakes random checks of records annually.

Prevention of Corruption at Workplace

Policy – All employees of ITC have the obligation to conduct themselves in an honest and ethical manner and act in the best interest of the Company at all times. They are expected to demonstrate exemplary personal conduct. All employees of ITC must avoid situations in which their personal interest could conflict with the interest of the Company. Conflict, if any, must be disclosed to the higher management for guidance and action. All employees must ensure that their actions in the conduct of business are totally transparent.

Implementation – The strong corporate governance process of the Company creates the environment for the formulation of robust internal systems and procedures in a structured manner for the conduct of the Company's business. An effective policy for prevention of corruption is actualised through appropriate policies, systems and processes such as the delegated authority structure as per Corporate Governance policies, segregation of duties, tiered approval mechanisms, the involvement of more than one manager in key decisions and maintenance of supporting records.

All ITC managers are provided with adequate training inputs to be aware of the systems and procedures and to ensure compliance.

The custodian of this policy is the Corporate Management Committee, the Divisional Chief Executives/SBU Heads and Heads of departments. A core responsibility of the DMCs is to put in place appropriate control and risk management mechanisms to ensure that businesses are conducted as per the Governance Policy and the Company's Code of Professional Conduct. The Divisional Chief Executives/SBU Heads provide confirmation of compliance with the laid down systems and procedures.

Monitoring & Audit – The Company remains committed to ensuring an effective internal control environment that provides assurance on potential risks. ITC's well-established and robust internal audit processes continuously monitor the adequacy and effectiveness of the internal control environment across the Company. Weaknesses or noncompliance, if any, are identified during the audit process for rectification, thereby providing crucial inputs for continuous improvements in the systems and procedures. Significant issues, if any, are brought to the notice of the Audit Committee together with the progress made for resolution. Confirmations given by the businesses to the Board are independently verified by Internal Audit as per the directions of the Audit Committee.

MEMBERSHIPS & AFFILIATIONS

- Agricultural & Processed Foods Export Development Authority
- All India Food Processors Association
- All India Spices Exporters Forum
- Andhra Pradesh Chamber of Commerce & Industry
- Andhra Pradesh Oil Millers Association Limited
- Apparel Export Promotion Council
- Asian Packaging Federation
- Associated Chambers of Commerce & Industry
- Bangalore Chamber of Industry and Commerce
- Bangalore Management Association
- Bihar Chamber of Commerce
- Bihar Industries Association
- Bihar State Productivity Council
- Calcutta Management Association
- Central Food Technology Research Institute
- Chemicals & Plastics Export Council of India
- Coal Consumers Association
- Cochin Chamber of Commerce & Industry
- Coffee Board
- Coffee Exporters Association
- Coimbatore Management Association
- Coimbatore Productivity Council
- Confederation of Indian Industry
- Eastern India Shippers Association
- Employer's Association of Northern India
- Federation of Andhra Pradesh Chambers of Commerce and Industry
- Federation of Biscuits Manufacturers Association of India
- Federation of Hotels & Restaurants Association of India
- Federation of India Export Organisation
- Federation of Indian Chambers of Commerce and Industry
- 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
- Guwahati Management Association
- Haryana Environment Management Society
- Hotel Association of India
- International Market Assessment India Limited
- Indian Association of Tour Operators
- Indian Chamber of Commerce
- Indian Chamber of Commerce and Industry, Coimbatore
- Indian Coffee Trade Association
- Indian Confectionery Manufacturers Association
- Indian Industries Association
- Indian Institute of Packaging
- Indian Oil & Produce Exporters Association
- Indian Paper Manufacturers Association
- Indian Society of Advertising
- Indian Tobacco Association
- Indo American Chamber of Commerce
- Indo Australian Chamber of Commerce
- Indo German Chamber of Commerce
- Institute of Directors
- International Chamber of Commerce
- International Fiscal Association
- International Life Science Institute
- International Packaging Group
- Kerala Management Association
- Leatherhead Food International, UK
- Loss Prevention Association of India
- Madras Chamber of Commerce & Industry
- Madras Management Association
- Madras Printers and Lithographers Association
- Marine Products Export Development Authority
- Nagpur Vidarbha Chamber of Commerce
- National Safety Council
- Pacific Asia Travel Association
- Paper Film and Foil Converters Association
- PHD Chamber of Commerce and Industry
- Protein Food and Nutrition Development Association of India
- Retailers Association of India
- Seafood Exporters' Association of India
- SIDCUL Industrial Association
- Snack Foods Association
- Solvent Extractors Association of India
- Soyabean Processors Association of India
- Spice Board
- Spices & Foodstuff Exporters Association of India
- Tamil Nadu Electricity Consumers Association
- The Bengal Chamber of Commerce & Industry
- The Central Organisation for Oil Industry and Trade
- The Groundnut Extractions Export Development Association
- The Utkal Chamber of Commerce & Industry
- The Visakhapatnam Chamber of Commerce & Industry
- Travel Agents Association of India
- Uttarakhand Industries Association
- West Bengal State Productivity Council
- Western UP Chamber of Commerce & Industry

Application Level

A+

Standard Disclosure

G3 Profile Disclosures

G3 Management Approach Disclosures

G3 Performance Indicators & Sectors Supplement Performance Indicators

Output

Output

Output

Reported on
1.1 - 1.2
2.1 - 2.10
3.1 - 3.13
4.1 - 4.17

Management Approach
disclosed for each
Indicator Category

Responded on each core
G3 indicator with due regard to
Materiality Principle by either -
a) reporting on the indicator, or
b) explaining the reason for its
omission

Report Externally Assured by Ernst & Young

Because country must come before corporation

the FICCI Outstanding Vision Triple Impact Corporate Award 2007
goes to ITC Limited

This award is yet another inspiration for us
to sustain:

- Our position as an exemplar in triple bottom line performance
- Creation of a brighter future for the 5 million lives we support every day
- Our commitment to not only preserve but also enrich the environment

*Hon'ble Prime Minister, Dr Manmohan Singh,
presenting the Award to
ITC Chairman, Mr Y.C.Deveshwar*



ITC is the only company in the world of its size to be:

- Carbon Positive
- Water Positive
- Close to Zero Solid Waste Discharge



ITC Limited
Enduring value

Let's put India first

For more information on ITC's sustainable development initiatives visit www.itcportal.com

For additional copies, please email to enduringvalue@itc.in
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