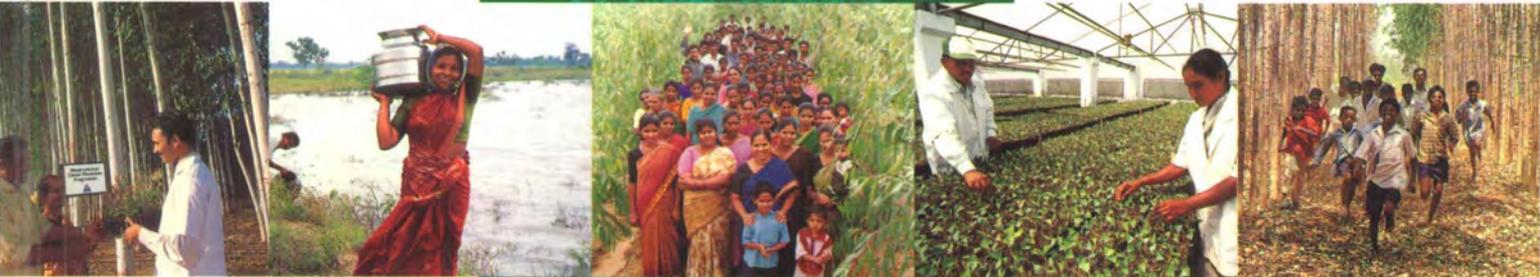


For all our tomorrows

Sustainability Report 2004



ITC Limited

Enduring value.
For the nation. For the shareholder.



Contents

Chairman's Statement	1
The Global Reporting Initiative	3
ITC - A Profile	6
<i>Shareholding Pattern</i>	8
<i>Stakeholder Engagement</i>	8
<i>Scope and Profile of Report</i>	10
<i>Vision, Mission and Core Values</i>	12
Governance Structure and Management Systems	13
ITC's Triple Bottom Line	
<i>Economic Performance</i>	20
<i>Environmental Performance</i>	23
Ensuring Occupational Health & Safety	24
Imparting EHS Training	26
Conserving Energy	27
Reducing Greenhouse Gases	28
Towards being a carbon-positive Corporation	30
A water-positive Corporation	31
Towards zero solid waste	33
Towards zero effluent discharge	34
<i>Social Performance</i>	35
Empowering the Indian farmer	35
Creating women entrepreneurs	36
Educating rural children	37
Enhancing livestock quality	37
Social and Farm Forestry Projects	38
Rainwater Harvesting and Integrated Watershed Development	40
Human Resource Policies	41
Awards and Accreditations	48
Annexures	
<i>Memberships and Affiliations</i>	52
<i>ITC's EHS Policy</i>	53
<i>GRI Core Indicators - Index</i>	54
<i>Assurance Statement from PwC</i>	57



Chairman's Statement

Towards Sustainable Development : Creating an ethos of care and commitment

The material progress of industrial society has taken a heavy toll of the natural capacity of planet earth and yet left a vast share of global population in abject poverty. This manner of progress is clearly not sustainable. India accounts for one-sixth of the world's population. How much natural resources would need to be used up if India were to follow the same path to economic progress as the mature western economies ? The threat of environmental degradation was poignantly highlighted way back by Mahatma Gandhi in his reaction to a question related to India's economic development. He said, "It took Britain half the resources of the planet to achieve prosperity. How many planets will a country like India require!"

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

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

Contd...

Envisioning a larger societal purpose has always been a hallmark of ITC, described by me in the past as “a commitment beyond the market”. ITC sees no conflict between the two goals of shareholder value enhancement and societal value creation. The challenge lies in fashioning a corporate strategy that enables realisation of these goals in a mutually reinforcing and synergistic manner.

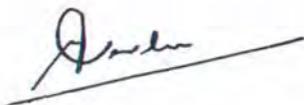
As a Company that continuously strives to be ‘Citizen First’, ITC has always attached critical importance to its responsibility to contribute to the triple bottom line. ITC perceives itself as a corporate trustee of the physical, social and economic resources deployed in its business operations. ITC’s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

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

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

The enclosed Sustainability Report, prepared along the guidelines of the Global Reporting Initiative (GRI), sets out the progress made by ITC against measurable indices. It is a matter of pride that for two years running ITC has been a water-positive enterprise. We also aim to become a carbon-positive company in the next few years and move towards becoming a ‘zero solid waste’ company.

ITC dedicates this report to the cause of a cleaner and greener environment. It also acknowledges the contribution made by its 15,000 employees, whose initiative and commitment have enabled the Company make great strides in its sustainability performance.



(Y.C. DEVESHWAR)

The Global Reporting Initiative

The Global Reporting Initiative (GRI) was launched in 1997 as a joint initiative of the U.S. non-governmental organisation (NGO) 'Coalition for Environmentally Responsible Economies' (CERES) and the United Nations Environment Programme (UNEP). The purpose of GRI was to enhance the quality, rigour, and utility of sustainability reporting. The initiative has enjoyed the active support and engagement of representatives from business, non-profit advocacy groups, accounting bodies, investor organisations, trade unions and many more. Together, these different constituencies have worked to build a consensus around a set of reporting guidelines with the aim of achieving worldwide acceptance.

The Global Reporting Initiative (GRI) is a long-term, multi-stakeholder, international process whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines. These Guidelines are for voluntary use by organisations for reporting the economic, environmental, and social dimensions of their activities, products, and services. The aim of the Guidelines is also to assist business organisations and their stakeholders to understand and articulate their contribution to sustainable development.

After the publication of the first set of Guidelines for Sustainability Reporting in June 2000, the trends that catalysed GRI have continued unabated. In most cases, in fact, the trends have intensified. The issues—globalisation and corporate governance, accountability, and citizenship—have now moved to the mainstream of policy and management debates in many organisations and the countries in which they operate.

The turbulent first years of the 21st century underscore the reason for GRI's rapid expansion. Higher standards of accountability and an increasing dependence on wide-ranging networks, spanning several groups of external stakeholders, will form a significant part of organisational practices in the years to come. Support for creating a new, generally accepted disclosure framework for sustainability reporting continues to grow among business, civil society, government and labour stakeholders.

GRI's rapid evolution in just a few years from a bold vision to a new permanent global institution reflects the imperative and the value that various constituencies assign to such a disclosure framework. The GRI process, rooted in inclusiveness, transparency, neutrality, and continual enhancement, has enabled GRI to give concrete expression to accountability.

As sustainable development has become widely adopted as a foundation of public policy and organisational strategy, many organisations have turned their attention to the challenge of translating the concept into practice. The need to better assess an organisation's status and align future goals with a complex range of external factors and partners has increased the urgency of defining broadly accepted sustainability performance indicators.

The financial industry is slowly but steadily embracing sustainability reporting as a part of its analytical toolkit. Spurred in part by growing demand for social and ethical funds among institutional and individual investors, new indices of social responsibility are appearing each year. At the same time, the exploration of the relationship between corporate sustainability activities and shareholder value is advancing. Linkages between sustainability performance and key value drivers such as brand image, reputation, and future asset valuation are awakening the mainstream financial markets to new tools for understanding and predicting value in capital markets.

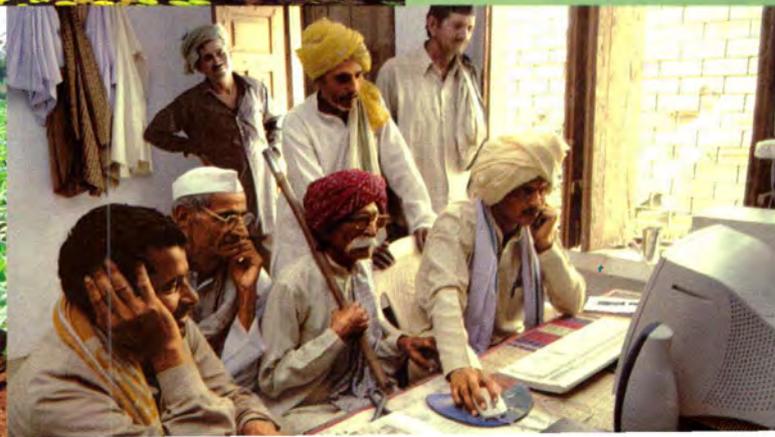
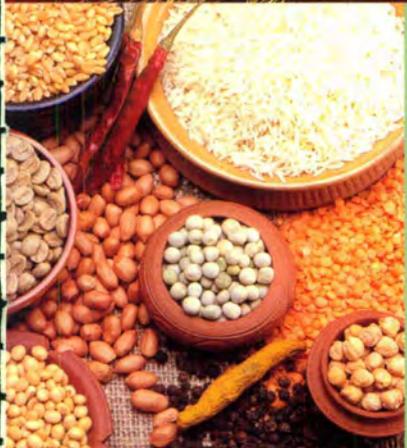
Sustainability reporting helps sharpen management's ability to assess the organisation's contribution to natural, human, and social capital. This assessment enlarges the perspective provided by conventional financial accounts to create a more complete picture of long-term prospects. Reporting helps highlight the social and ecological contributions of the organisation and the sustainability value proposition of its products and services. Such measurement is central to maintaining and strengthening the 'licence to operate'.

Did you Know

- ITC is among Asia's FMCG leaders with a market capitalisation of \$7.5 billion and one of the country's largest foreign exchange earners (US\$2.2 billion in the last decade)
- ITC is the largest paperboard manufacturer and marketer in South East Asia, with a capacity of nearly 350,000 tonnes. ITC is the biggest converter of paperboard into value-added packaging in India
- ITC is the biggest Specialty Paper Manufacturer in the country
- ITC owns the top two FMCG brands in India
- ITC's Foods business is the fastest-growing among food companies in India
- ITC-Welcomgroup is India's fastest-growing hotel chain. ITC's 'Bukhara' is rated the 'Best Indian restaurant in the world'
- ITC is the second largest agri-exporter in the country
- ITC is a water-positive corporation and on its way to becoming a carbon-positive corporation
- ITC's Social and Farm forestry programmes have so far enabled farmers to plant 108 million saplings over 26,500 hectares
- ITC's e-Choupal currently empowers over 3 million farmers by leveraging Information Technology. e-Choupal has received the World Business Award from UNDP for its contribution to poverty alleviation
- ITC's e-Choupal network will cover nearly 100,000 villages, or one sixth of rural India, over the next 5 years
- ITC's Integrated Watershed Development Programme currently provides critical irrigation to over 8000 hectares of drought-prone land



ITC - A Profile



ITC - One of India's most valuable Corporations

ITC is one of India's foremost private sector companies with a market capitalisation of over US \$ 7.5 billion* and a turnover of US \$ 2.6 billion. Rated among the World's Leading Companies by Forbes magazine, ITC ranked third in pre-tax profit among India's private sector corporations during 2003-04. The Company has a diversified presence in Cigarettes, Hotels, Paperboards and Specialty Papers, Packaging, Agri-Business, Branded Apparel, Packaged Foods and Confectionery, Greeting, Gifting & Stationery and other FMCG products. While ITC is an outstanding market leader in its traditional businesses of Cigarettes, Hotels, Paperboards, Packaging and Agri-Exports, it is rapidly gaining market share even in its nascent businesses of Branded Apparel, Greeting, Gifting & Stationery and Packaged Foods and Confectionery.

As one of India's most valuable and respected corporations, ITC is widely perceived to be passionately nation-oriented. Chairman Y C Deveshwar calls this source of inspiration "a commitment beyond the market". In his own words: "ITC believes that its aspiration to create enduring value for the nation provides the motive force to sustain growing shareholder value. ITC practises this philosophy by not only driving each of its businesses towards international competitiveness but by also consciously contributing to enhancing the competitiveness of the larger value chain of which it is a part."

ITC's diversified status originates from its corporate strategy aimed at creating multiple drivers of growth anchored on its time-tested core competencies: unmatched distribution reach, superior brand-building capabilities, effective supply chain management and acknowledged service skills in hoteliering. Over time, the strategic forays into new businesses are expected to garner a significant share of these emerging high-growth markets in India.

ITC's Agri-Business is one of India's largest exporters of agricultural products. The ITC Group is one of the country's biggest foreign exchange earners (US \$ 2.2 billion in the last decade). The Company's 'e-Choupal' initiative is enabling Indian agriculture significantly enhance its competitiveness by empowering Indian farmers through the power of the Internet. This transformational strategy, which has already become the subject matter of a case study at Harvard Business School, is expected to progressively create for ITC a huge rural distribution infrastructure, significantly enhancing the Company's marketing reach.

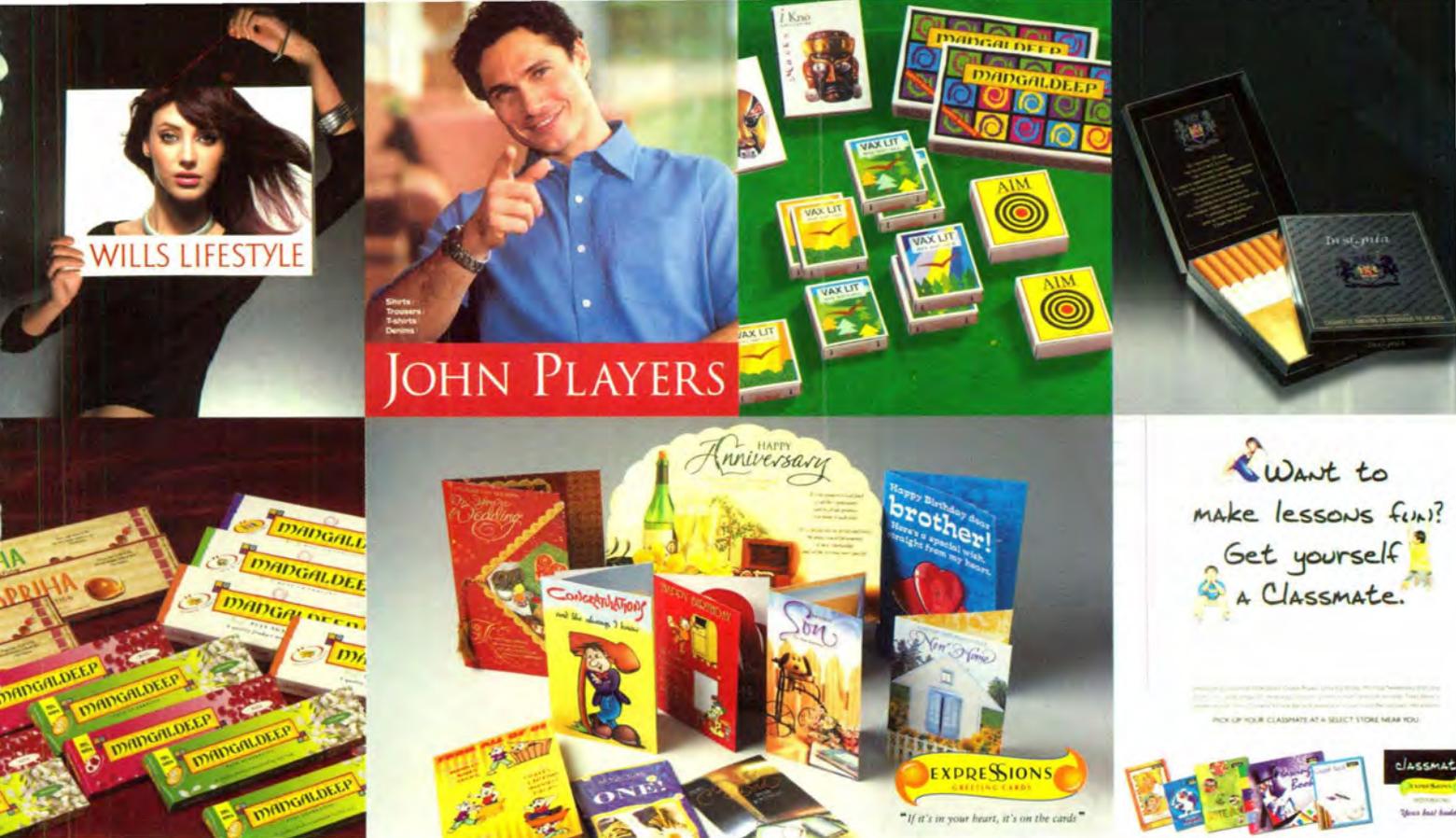
ITC's wholly owned Information Technology subsidiary, ITC Infotech India Limited, is aggressively pursuing emerging opportunities in providing end-to-end IT solutions, including e-enabled services and Business Process Outsourcing (BPO).

ITC's production facilities and hotels have won numerous national and international awards for quality, productivity, safety and environment management systems. ITC was the first company in India to voluntarily seek a rating for Corporate Governance. The rating done by ICRA, an associate of Moody's Investors Service, signified "a high level of assurance on the Company's quality of Corporate Governance."

ITC employs over 15,000 people at more than 60 locations across India. Ranked among the top five sustained value creators in India by 'Business Today-Stern Stewart' studies conducted between 2000 and 2003, ITC continuously endeavours to enhance its wealth generating capabilities in a globalising environment to consistently reward its 1.5 lakh shareholders, fulfil the aspirations of its stakeholders and meet societal expectations. This over-arching vision of the company is expressively captured in its corporate positioning statement: "Enduring Value. For the nation. For the shareholder."

* As at January 27, 2005





ITC's core businesses, products and brands :

1 FMCG

Cigarettes

Brands include Insignia, India Kings, Classic, Gold Flake, Capstan, Berkeley, Bristol, Navy Cut and Scissors

Branded Packaged Foods

Staples ('Aashirvaad' atta, 'Aashirvaad' salt), Confectionery ('Mint-o', 'Candyman'), Snack Foods and Biscuits ('Sunfeast') and Ready-to-Eat Meals ('Aashirvaad' and 'Kitchens of India')

Lifestyle Retailing

'Wills Classic' formal wear, 'Wills Clublife' premium evening wear, 'Wills Sport' relaxed wear. 'John Players' range of men's wear in the mid-priced segment

Greeting, Gifting and Stationery

'Expressions' Greeting Cards, 'Paperkraft' range of gift wrappers, autograph books and slam books and the 'Classmate' range of notebooks

Safety Matches and Agarbattis

'Spriha' and 'Mangaldeep' agarbattis, and Safety Matches brands 'Mangaldeep', 'iKnow', 'VaxLit', and 'Aim'. These products are sourced from Small & Medium Enterprises (SMEs)

2 Hotels

The ITC Welcomgroup chain in the premium segment and the WelcomHeritage and Fortune Brands in the resort and mid-priced full service segments.

3 Paperboards, Specialty Papers and Packaging

Value-added paperboards for the FMCG, foods and pharmaceutical industries. Brands include 'Safire Graphik', 'Pearl Graphik', 'Cyber XL Pac' and 'Indolux'.

Packaging products and solutions for the cigarette, liquor, food, beverage and personal products industries.

4 Agri Business

Sourcing and export of agri produce.

Processing and export of cigarette tobaccos.

Rural distribution & retailing.

Shareholding Pattern

As at 31st March, 2004, ITC's Authorised Share Capital was Rs 300 crores, with 30,00,00,000 Ordinary Shares of Rs 10 each. The Issued and Subscribed Capital was Rs 247,67,88,510 with 24,76,78,851 Ordinary Shares of Rs 10 each.

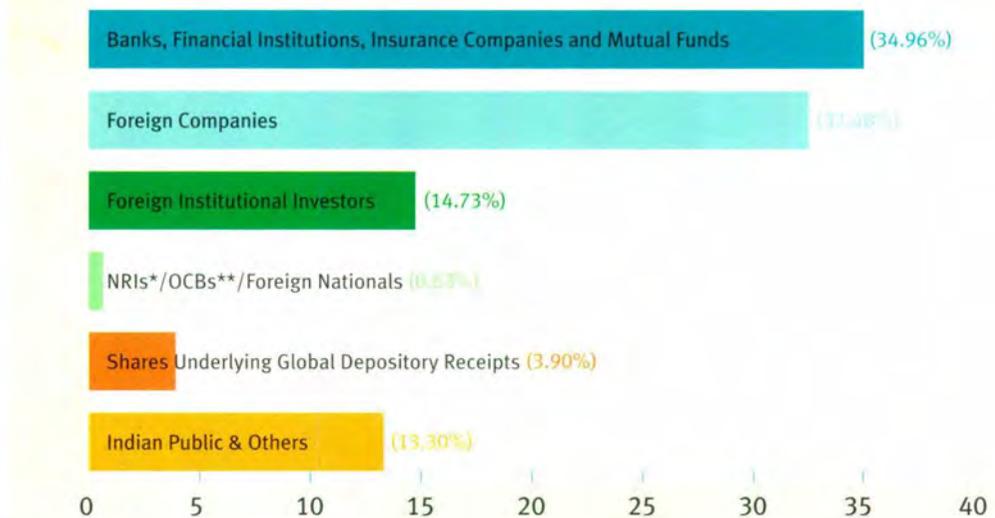
ITC's shares are listed on three Stock Exchanges in India – the National Stock Exchange of India Limited (NSE), The Stock Exchange, Mumbai (BSE) and The Calcutta Stock Exchange Association Limited.

Pursuant to an offer of Global Depository Receipts (GDRs) made in 1993 by the Company, 96,62,834 GDRs, representing 96,62,834 underlying Shares of the Company, were outstanding as at 31st March, 2004.

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

The following table sets out the composition of the Company's shareholders as shown in its Register of members as at 31st March 2004:

Shareholding Pattern



* NRI Non-Resident Individual
 ** OCB Overseas Corporate Body

Stakeholder Engagement

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

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

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

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

A summary of various key stakeholders, mode of engagement, key sustainability concerns and the initiatives taken by the Company, whether statutory or otherwise, are listed below:

Stakeholder & Mode Of Engagement	Key Sustainability Concerns	Initiatives By The Company
1 Shareholders: Annual General Meeting Written Communication Investor Service Centre	Profitability & Growth	<p>The Quarterly results of the Company are announced and published within a month of completion of the quarter. Audited Annual results are declared within two months of the end of the financial year. All these results, including the entire Report and Accounts, are posted on SEBI's EDIFAR website.</p> <ul style="list-style-type: none"> Information related to shareholding pattern, compliance with corporate governance norms, etc. is also posted on SEBI's EDIFAR website. The Company's corporate website 'www.itcportal.com' is a comprehensive source of information on ITC's portfolio of businesses, social responsibility activities and EHS performance. Two exclusive sections on 'Shareholder Value' and 'Investor Relations' serve to inform and service shareholder needs. The entire Report and Accounts as well as quarterly and half-yearly financial results are now available in downloadable formats under the section 'Shareholder Value' on the Company's website to facilitate easy access to all information. The 'Newsroom' section includes all major Press Releases from the Company and relevant press clippings. Clarifications as and when provided to institutional investors and analysts, including presentations, if any, made to them, are posted on the Company's website. <p>ITC's Investor Service Centre (ISC) provides share registration and other related services. Such services are provided by a dedicated and trained team of professionals backed by state-of-the-art infrastructure. Already a benchmark in-house Registrar, the Investor Service Centre endeavours to keep investor servicing contemporary and efficient.</p>
2 Government: Regular meetings and structured communication on key economic, EHS & social issues and regulatory trends	Regulatory Issues & Community Interests	Proactive periodic fulfilment of all formalities and procedures
3 Employees: Regular interaction through elected unions and delegates Direct Interaction at the workplace Implementation of Suggestion Schemes Representation of employees in EHS and Social Committees Participation of employees in EHS and Social Initiatives	<ul style="list-style-type: none"> Health & Safety Growth prospects Employee satisfaction and commitment Ethical standards in business Attracting and retaining talent Career development opportunities 	<ul style="list-style-type: none"> Organisation of EHS Training Programmes Conduct of Public Awareness Programmes Systematic encouragement of Innovation Programmes to discover and promote leadership talent Conceptualisation and implementation of knowledge management tools The creation of an organisational culture that combines a warm and caring ambience with a high performance ethos
4 Communities: Neighbourhood societies, public hearings for new projects, surveys through NGOs, need-based discussions/written communication	<ul style="list-style-type: none"> Air & Water quality Environment quality: Disposal of fly ash 	<ul style="list-style-type: none"> The organisation of water supply to nearby colonies and for irrigation The conduct of Public Awareness Programmes on EHS The organisation of medical facilities like pulse polio and eye camps Provision of infrastructural support through road building and effecting improvements in school buildings and public toilets Active support to local NGO initiatives in public health, sewerage and community waste management Improving the quality of life in the community
5 Customers: Customer and market surveys, regular visits by Managers, Customer complaint records, redressal systems etc.	Quality, costs, delivery, innovation, services, flexibility	<ul style="list-style-type: none"> Use of IT to improve supply chain management Adoption of ISO 9000, CANDO (5S), IQRS (International Quality Rating System) certification, online instrumentation to ensure product quality and consistency Improved designs and processes through R&D and product development

Scope of the Report

This is ITC's first Sustainability Report. The data and performance indicators in this report cover the period April 1, 2003 to March 31, 2004, except for the section on Awards and Accreditations which includes more recent updates. The reporting principles and methodology recommended by the Global Reporting Initiative have been adopted.

This report covers the following Businesses and their corresponding Units:

Business	Products	Locations
FMCG-Cigarettes 	Cigarettes and smoking mixtures 	Kolkata (West Bengal) Bangalore (Karnataka) Munger (Bihar) Saharanpur (Uttar Pradesh)
Hotels 	Hoteliering 	ITC Hotel Maurya Sheraton & Towers (New Delhi) ITC Hotel Grand Maratha Sheraton & Towers (Mumbai) ITC Sonar Bangla Sheraton & Towers (Kolkata) WelcomHotel Chola Sheraton (Chennai) WelcomHotel Mughal Sheraton (Agra, Uttar Pradesh)
Paperboards, Paper and Packaging 	Paperboards, Paper including Specialty Paper and Packaging 	Munger (Bihar) Tiruvottiyur (Tamil Nadu) Tribeni (West Bengal) Bhadrachalam and Bollaram (Andhra Pradesh)
Agri Business 	Leaf Tobacco 	Anaparti and Chirala (Andhra Pradesh)

The Environmental impact of the Lifestyle Retailing, Greeting, Gifting and Stationery, Foods, Safety Matches, Agarbatti and Agri export businesses have not been included in this report. Manufacturing for these businesses is outsourced.



Home | Transforming Lives & Landscapes | ITC's e-Choupal movement | Social & Farm Forestry | Integrated Watershed Development | Women's Empowerment | Livestock development | Primary Education

ITC's rural development philosophy at work

LET'S PUT INDIA FIRST

ITC believes that an effective growth strategy for our nation must address the needs of rural India, home to 75% of our poor. It is imperative to ensure that India's economic growth is inclusive, embracing its villages, so as to free millions of our disadvantaged citizens from the indignity of poverty.

It is ITC's belief that India's rural transformation cannot be brought about by the government

Profile of the Report

This Sustainability Report follows the Company's Environment, Health and Safety (EHS) Report 2003, which reported on the EHS performance of the Company. This Report is based on the Global Reporting Initiative (GRI) guidelines, criteria, methodology and definitions (GRI-2002). The EHS Report for 2003 used the same criteria for evaluating and reporting performance.

The report on economic performance is largely drawn from the Directors Report and Annual Accounts for 2003-04, and has been audited by independent External Auditors.

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

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

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

For additional information on ITC please visit 'www.itcportal.com'. For copies of the Annual Report, Chairman's Speech and Company Brochures or additional copies of this report please write to:

Head, Corporate Communications,
 ITC Limited,
 37 J L Nehru Road Kolkata-700 071.
 email: enduringvalue@itc.co.in

Vision, Mission and Core Values

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”.

Mission

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

Core Values

Nation Orientation	Customer Focus
Trusteeship	Respect for People
Excellence	Innovation

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.

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.

Excellence

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

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 results-focused, 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.

Innovation

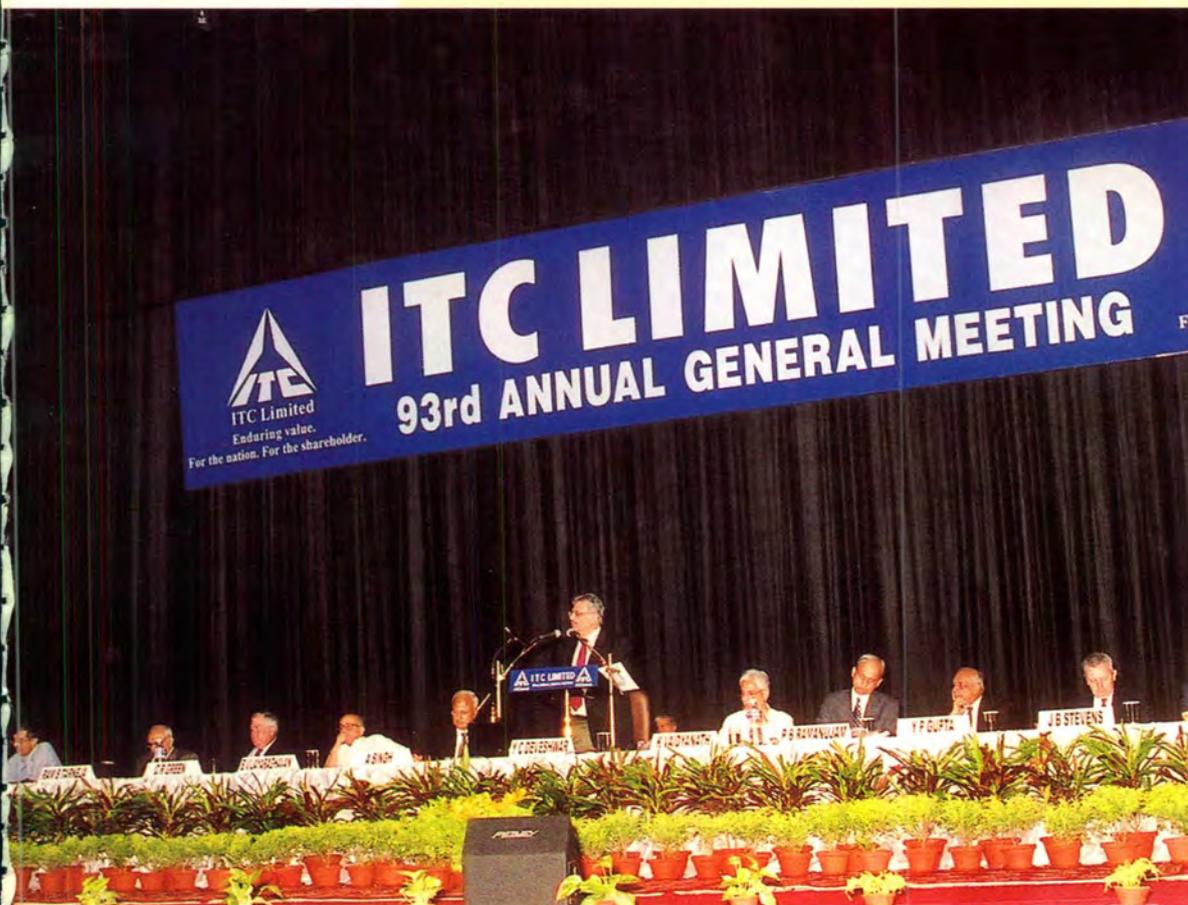
We will constantly pursue newer and better processes, products, services and management practices.



ITC is India's first company to voluntarily seek rating for Corporate Governance

ITC believes in a governance process "that meets stakeholder aspirations and societal expectations"

Governance Structure and Management Systems



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

Strategy of Organisation



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

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

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

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

This three-tier governance structure ensures that:

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

Board of Directors (Board)

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

The ITC Board is a balanced Board, comprising Executive and Non-Executive Directors. The Non-Executive Directors include independent professionals. The Governance Policy requires that the Non-Executive Directors be drawn from amongst eminent professionals with experience in business/finance/law/public enterprises. The present strength of the Board is 12. Four out of the 12 are Executive Directors.

As at 31st March, 2004, the Board comprised 12 Directors, of whom 6 Directors (representing 50% of the Board) were independent Non-Executive Directors.

Board Committees

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

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

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

The Compensation Committee of the Board, inter alia, recommends to the Board the

compensation terms of Executive Directors and the seniormost level of management immediately below the Executive Directors. Details of compensation paid to the Executive Directors and the seniormost level of management immediately below the Executive Directors above a certain prescribed level are provided to the shareholders every year in the Company's Annual Report. The Committee also has the responsibility for administering the Employee Stock Option Scheme of the Company.

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

Corporate Management Committee (CMC)

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

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

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

Oversight, implementation, and audit of economic, environmental, social, and related policies

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

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

The Corporate Human Resource (CHR) Department coordinates issues in the realm of the social performance of the Company.

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.

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

- 1 Management must have the executive freedom to drive the enterprise forward without undue restraints; and
- 2 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.

Trusteeship recognises that large corporations, which represent a coalition of interests, namely those of the shareholders, other providers of capital, business associates and employees, have both an economic and a social purpose, thereby casting the responsibility on the Board of Directors to protect and enhance shareholder value, as well as fulfil obligations to other stakeholders. Inherent in the concept of trusteeship is the responsibility to ensure equity, namely, that the rights of all shareholders, large or small, are protected.

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

business. ITC believes transparency enhances accountability.

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

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

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

A General Meeting of the Shareholders of the Company is held at least once a year to consider and approve the Report of the Directors, the annual financial statements with the notes and schedules thereto, declaration of dividends, any other returns or resources intended for distribution, the appointment of Directors, appointment of auditors and other important matters requiring shareholder approval. The Annual General Meeting is the principal forum for face-to-face interaction with shareholders, where the entire Board is present. The Chairman addresses the shareholders on issues of relevance to the Company and provides clarifications to shareholders on behalf of the Board. The Board encourages open dialogue with all its shareholders—be it individuals, corporates or foreign investors.

Shareholder Mechanisms

At the General Meetings, Shareholders are provided with all requisite information, unless prejudicial to the overriding interest of the Company.

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

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

Precautionary Principles

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

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

ITC has a central Corporate Accounting and Systems Policies (CASP) document. Divisions have evolved their own DASP (Divisional Accounting and Systems Policies) for their respective businesses. Other major Central/Divisional policies are:

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

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

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

All ITC Manufacturing Units are ISO 9000 certified. The Environment Management Systems (EMS) of all Units, including Hotel properties, have ISO 14001 certification. Some ITC factories have already achieved OHSAS 18001 certification. Others are in line to achieve this certification in the near future.

Both the Green Leaf Threshing plants of the Company at Chirala and Anaparti, in Andhra Pradesh, are certified for SA 8000.

Environmental and social review of service providers

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

“ There is no inherent contradiction between improving competitive context and making a sincere commitment to bettering society. Indeed, the more closely a company’s philanthropy is linked to its competitive context, the greater the company’s contribution to society will be. If systematically pursued in a way that maximizes the value created, context-focused philanthropy can offer companies a new set of competitive tools that well justifies the investment of resources. At the same time, it can unlock a vastly more powerful way to make the world a better place. ”

Michael E. Porter and Mark R. Kramer
The Competitive Advantage of Corporate Philanthropy
Harvard Business Review - December 2002

ITC is one of India's foremost private sector companies. It ranked third in pre-tax profit among India's private sector corporations in 2003-04

ITC's Triple Bottom Line

Economic Performance

Environmental Performance

Social Performance



ITC endeavours to enlarge its positive environmental footprint through serious conservation efforts

ITC's trailblazing 'e-Choupal' initiative is elevating farmers to a new order of empowerment





Economic Performance Indicators

Key Economic Indicators – Five-Year Trend (Rs Crores)

Key Economic Indicators	2000	2001	2002	2003	2004
1 Net Turnover					
Gross Turnover	7953.06	8682.64	9840.09	11024.88	11815.04
Less: Excise Duty etc	4133.89	4474.52	4780.86	5159.10	5344.60
Net Turnover	3819.17	4208.12	5059.23	5865.78	6470.44
Exports Turnover	564.00	584.00	904.93	1229.06	977.22
Domestic Turnover	7389.06	8098.64	8935.16	9795.82	10837.82
2a Taxes paid					
Contribution to Exchequer	4622.00	5106.00	5308.00	5981.00	6134.00
3 Cost of Goods	1523.17	1492.37	1890.42	2248.42	2383.33
4 Consumption of Raw Materials & Stores and Spares					
A) Raw Materials					
Imported	213.51	187.39	298.61	318.63	298.55
Indigenous	986.53	1129.47	1284.57	1231.05	1714.10
Total Raw Materials Consumed (A)	1200.04	1316.86	1583.18	1549.68	2012.65
B) Stores and Spares					
Imported	30.54	24.34	40.90	33.87	36.61
Indigenous	27.98	40.60	49.97	59.06	64.91
Total Stores and Spares Consumed (B)	58.52	64.94	90.87	92.93	101.52
Total Consumption (A) + (B)	1258.56	1381.80	1674.05	1642.61	2114.17
5 Payroll Expenses	250.25	274.43	310.46	346.12	416.48
6 Interest paid on Debts and Borrowings	112.55	95.91	66.93	29.84	24.79
7a Dividend Paid	184.06	245.42	334.14	371.27	495.36
7b Dividend Paid (including Tax on Proposed Dividend)	224.55	270.45	334.14	418.84	558.83
8 Retained Profits	567.89	735.81	855.58	952.51	1034.02
9 Community Investments	3.30	11.45	12.54	12.89	46.91

Gross Sales

ITC ranked fourth in terms of Gross Sales in the Indian private sector in 2003-04. Net Sales have grown at an impressive 14.1% CAGR over the last 5 years.

Total sum of taxes paid

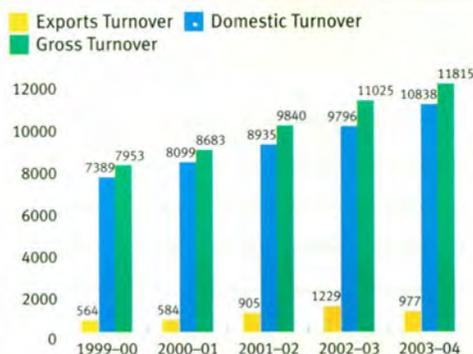
ITC's contribution to the exchequer is significant in terms of payment of excise duties, luxury taxes, income tax and other rates and taxes. The share of ITC's contribution to the exchequer constitutes nearly 80% of its Value Added. ITC is among the top three companies in the private sector in India in terms of its contribution to the exchequer. The Company also accounts for more than 5% of the total excise collection of the Government of India.

Total Payroll and Benefits

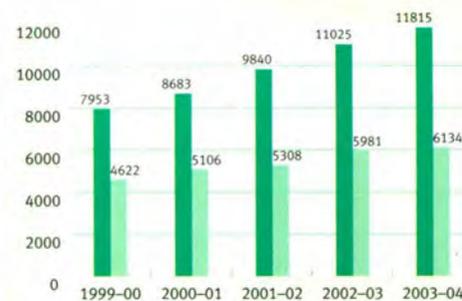
People are ITC's unique source of competitive advantage. ITC's HR strategies and policies are anchored in the belief that the quality and preparedness of its people, in terms of reaching out to existing and evolving market needs, is a consistently decisive differentiator. ITC's Human Resource strategies and policies seek to build sustained market leadership and organisational vitality for continuous regeneration and renewal. The Company thereby creates enduring value for all shareholders. ITC believes that executive remuneration is an important instrument in attracting and retaining talent. Therefore remuneration and rewards are key components of the performance management system. The Company recognises that growth in value addition at a rate faster than competition can serve as a key retention strategy, while honing human capabilities to cope with future market challenges.

The Company administers various Funds in respect of Employees' Retirement Benefit Schemes through duly constituted and approved independent trusts. However Provident Fund and Family Pension contributions in respect of Unionised Staff are deposited with the Government as required by law.

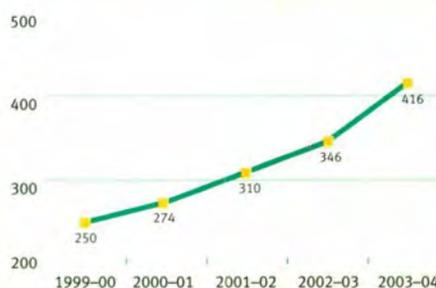
Turnover (Rs Crores)



Turnover And Taxes Paid (Rs Crores)



Payroll Costs* (Rs Crores)



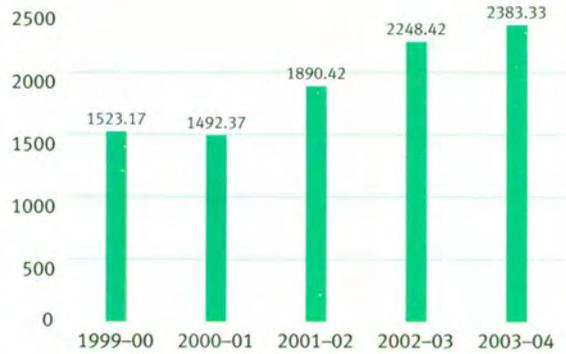
**Total Payroll & Benefits include the remuneration paid on account of salaries, wages and bonus for all employees, contribution to statutory and pension funds, workmen and staff welfare expenses and reimbursement of contractual remuneration.*

ITC sources over a third of its raw materials from the rural and agricultural sector

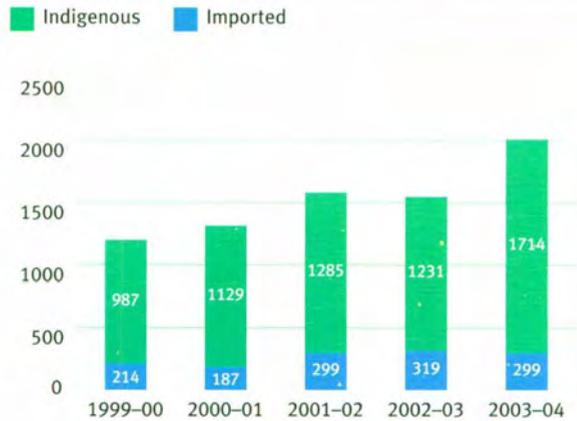
The primary raw materials procured by ITC are unmanufactured tobacco, agri products, wood, waste paper and pulp, chemicals for paperboard, and filter rods. The indigenous content of the raw materials is over 80% of the value of consumption.

Over a third of these raw materials, for example, leaf tobacco, agri products and wood are sourced from the Indian agricultural and rural sector.

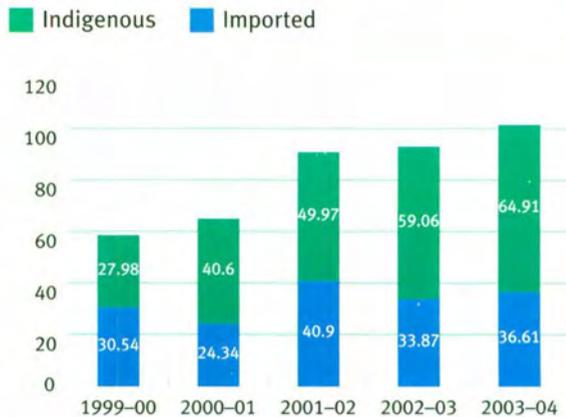
Cost Of Goods Sold (Rs Crores)



Raw Materials Consumed (Rs Crores)



Stores and Spares Consumed (Rs Crores)





Environmental Performance

ITC constantly endeavours to minimise the direct and indirect environmental impact of its business operations through serious and concerted efforts to conserve natural resources. The Company also strives to enrich the environment wherever possible.

ITC has achieved the status of a 'water-positive' corporation through all-round water conservation and the creation of rainwater harvesting potential. The Company is also well on its way to become 'carbon positive' through energy conservation and carbon sequestration by large-scale plantations reared under its farm and social forestry projects. All ITC Units are continually and diligently striving to minimise and recycle all solid wastes to reduce and eliminate any residual impact on the environment.





The Company continues to strive for Zero accident in all its units.



Ensuring Occupational Health and Safety

Towards Zero accident

ITC continues to strive for Zero accident in all its Units. Continued training and the creation of awareness at all levels, improved machine guarding, the active involvement of all employees and implementation of ongoing suggestion schemes to reduce risk of accidents, are some of the regular and rigorous action plans that the Company has adopted.

The Cigarette factory in Bangalore, the Green Leaf Threshing plant at Anaparti, the Packaging & Printing Factory in Munger, the Research Centres in Bangalore and Rajamundry, ITC Hotels Maurya Sheraton in Delhi, Mughal Sheraton in Agra, Chola Sheraton in Chennai and Sonar Bangla Sheraton in Kolkata, did not have a single Lost Time Accident during 2003-04.

The number of Lost Time Accidents during 2003-04 has decreased by 23% from 02-03.

The Accident Incidence Rate also shows a declining trend.

ITC's Accident Incidence Rate (AIR) in the FMCG (Cigarettes) business has halved to 0.07 for the year 03-04 from 0.15 for the year 02-03.

The AIR figure for the Paper, Paperboards and Packaging business of ITC has also dropped by 80% from 1.59 during 2002-03 to 0.31 in 2003-04.

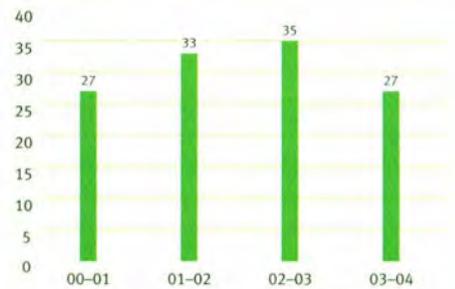
Fire Safety

2003-04 was a 'Fire Accident Free' year in ITC, vouching for the Company's world class standards in safety installations, training and risk prevention.

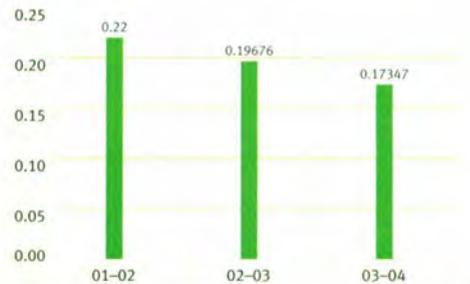
Medical Examination

ITC continued its commitment to improve the well being of its employees. The number of persons medically examined in ITC businesses was 32% higher than the previous year.

Number Of Lost Time Accidents



Accident Incidence Rate (AIR*)

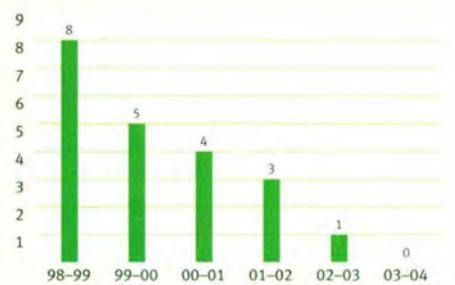


*AIR: Number of accidents for every 2,00,000 man hours worked

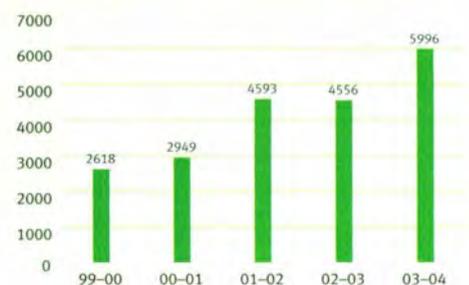
Accident Statistics At ITC Units

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

Fire Accidents



Number Of Persons Medically Examined





The Factories Act of 1948 with its numerous amendments, and the Factory Rules in the States, encompass almost all the requirements of recording and notifying occupational accidents and diseases in the factories. Indian statutes on this subject are in line with requirements of the International Labour Organisation (ILO).

All the provisions of these statutes are implemented at ITC Units. They are also regularly audited for proper application. In case of any accident or injury, the Manager of the Department concerned and the Unit EHS Manager document all relevant information – person(s) involved, time of occurrence, the extent of injury or damage to any Company asset, and so on.

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

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

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

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

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

Imparting EHS Training

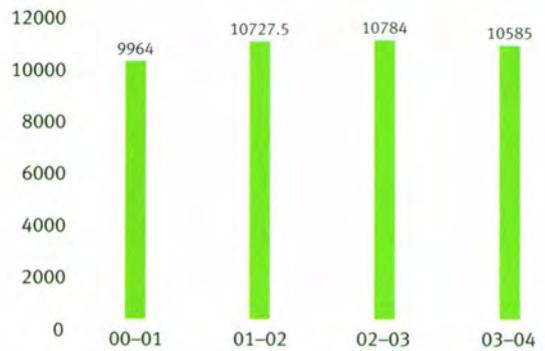
During 2003-04 ITC invested 10585 person-days in training its employees and contractors' workmen, on issues and practices concerning Safety, Occupational Health and Environment. This accounted for approximately 0.28% of the total number of working person-days.

Approximately 13% of the training was conducted through external sources. The rest was conducted internally.

Half of all EHS training focused on Safety. Over 28% of the training dealt with (Occupational) Health. Approximately 22% of EHS training was devoted to enhancing awareness of environmental issues.

The number of EHS suggestions received from ITC employees in 2003-04 was 2206. This was more than double the 955 suggestions received in 2002-03. This testifies to the active employee involvement in EHS programmes and issues.

EHS Training (Person-Days)

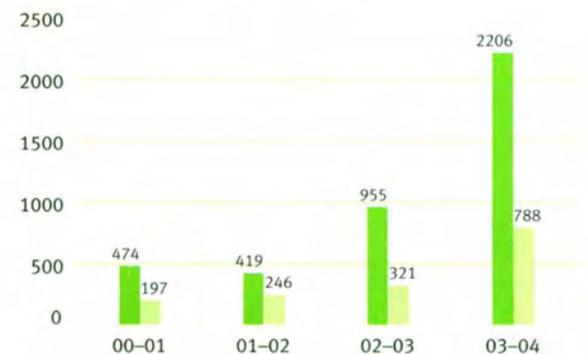


Distribution of EHS Training Time



EHS Suggestions

Received Implemented



Conserving Energy

The commissioning of additional pulping capacity at the Bhadrachalam Paperboard Unit and the opening of ITC Hotel Sonar Bangla have increased ITC's total energy consumption by 7.81% over that of the previous year.

ITC Units consumed a total of 11439 Terra Joules (TJ) of energy in 2003-04.

As in the previous years only a small fraction (3%) of ITC's energy requirement was obtained from indirect sources (grid electricity) and the remaining continued to be produced through captive generation.

ITC Businesses are acutely aware of the constantly increasing cost of this energy consumption.

ITC Units regularly review, globally benchmark and appropriately modernise their energy management practices and technologies. ITC Units also undertake regular energy audits.

The Specialty Paper Mill at Tribeni in West Bengal, the Green Leaf Threshing plants at Anaparti and Chirala in Andhra Pradesh, the Cigarette Factory at Saharanpur in U.P. and the Packaging & Printing Units at Tiruvottiyur near Chennai made significant savings in specific energy consumption (energy per unit of production) during 2003-04.

The Paperboards and Specialty Papers Division (PSPD) continues to account for the bulk of ITC's energy consumption. The Company, therefore, continues to pay special attention to energy conservation in PSPD Units.

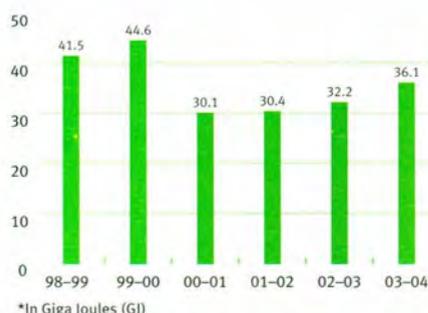
Energy Usage at Bhadrachalam

Over the years specific energy usage at the Bhadrachalam Paperboards Unit has shown substantial reduction, making this Unit one of the most energy-efficient paperboard producers internationally.

However, during 03-04, the increase in the pulping capacity led to a 12% increase in specific energy consumption at Bhadrachalam. The specific energy consumption now stands at 36.1 Giga Joules (GJ) per tonne of paperboard, comparable with the best in the world. **(The International Benchmark for structurally similar mills is 32.00 to 40.93 GJ per tonne of paper).**

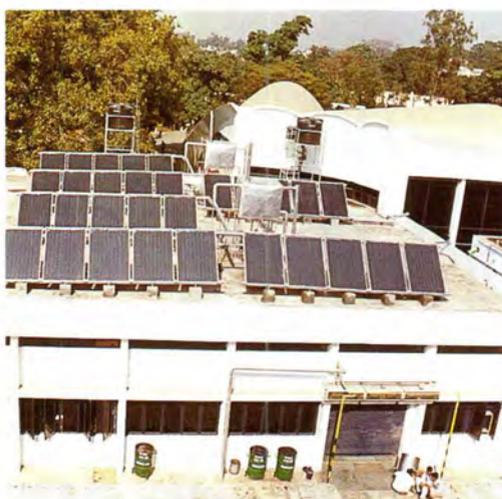
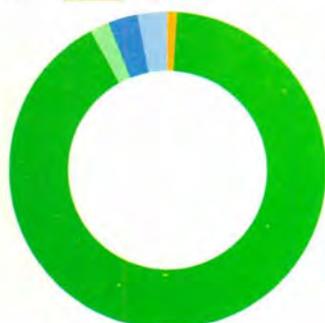
The Specialty Paper unit at Tribeni, during the year, achieved a significant reduction of 6 % over the previous year in specific energy consumption, by successfully implementing various energy conservation measures.

Energy Consumption* Per Tonne Of Paper In Bhadrachalam Paper Mill



Percentage Distribution Of Energy Consumption In Various ITC Businesses (03-04)

91% Paper 2% Hotels 3% Cigarettes
3% Leaf 1% Packaging



Reducing Greenhouse Gases

ITC's farm and social forestry initiatives now cover over 19,500 hectares, enabling the sequestration of 31% of the total Greenhouse Gases (GHG) emissions during the year. ITC's commitment to grow 100,000 hectares of plantations in the coming years will make the Company a Carbon-Positive Corporation.

ITC sequestered almost a third of CO₂ released (2003–04)

	Unit	2002–03	2003–04
CO ₂ Released (Manufacturing/ Travel/Freight)	Kilo Tonnes	1188	1013*
CO ₂ Sequestered	Kilo Tonnes	216	311
CO ₂ Sequestered	Percentage (Rounded)	18%	31%

*Although the total energy consumption has gone up by 7.81%, the CO₂ emissions have come down substantially because ITC generates 24% of its energy requirement from climate-neutral fuels.

Consumption of raw material

The main raw materials that ITC's manufacturing operations consume in significant quantities are detailed below:

Raw Material Usage (All figures rounded off)				
Business	Raw Material	Unit	Usage in 2002–03	Usage in 2003–04
Paperboards and Specialty Papers	Wood	Tonnes	185534	249990
	Waste Paper	Tonnes	79169	68896
	Pulp	Tonnes	67411	57152
FMCG-Cigarettes	Cigarette Paper	'000' Bobbins	715	812
	Leaf Tobacco	Tonnes	50090	52156
	Filter Plugs	Mln Rods	81	84
Agri Business-Leaf Tobacco Exports	Green Leaf	Mln kg	77	89
Packaging & Printing Business	Paperboard	Mln kg	29	32

Product and Service Stewardship Initiatives

All ITC manufacturing Units have obtained ISO 9000 (2000) and ISO 14001 certification. Stewardship initiatives are ingrained in these management systems. ITC focuses on providing best quality to the customer, without any compromise, through strict adherence to these management systems.

Wastes as Raw Material

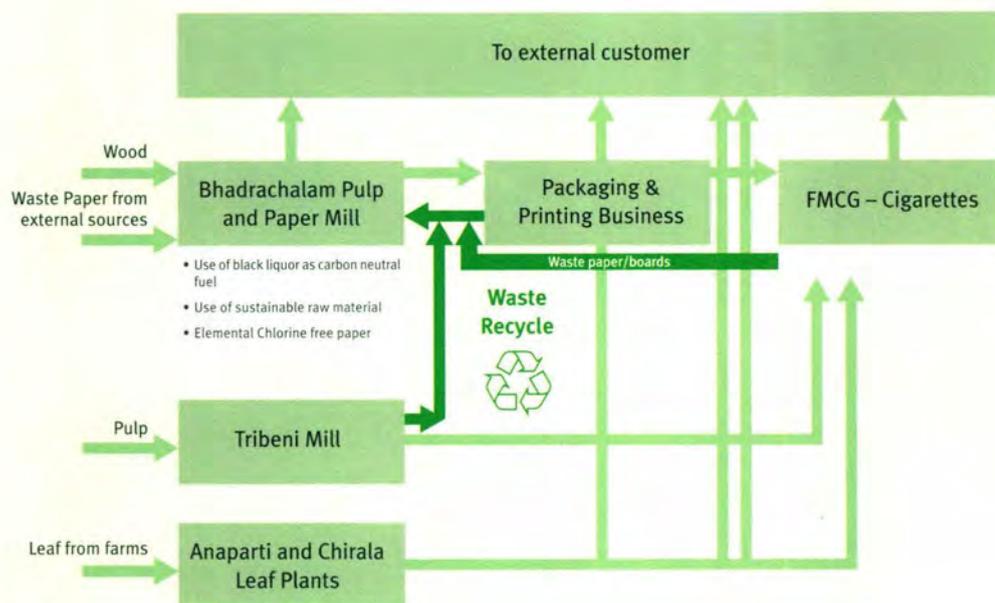
Over a period of time, ITC has evolved into a multi-product Company that has both backward and forward business linkages. This creates major life cycle advantages for the environment. Wastes of certain Units become natural raw material for Units within or outside the Group. This minimises the burden on the environment by avoiding excessive use of natural resources. The following diagram presents the 'raw material and energy' synergy that exists within the Group, optimising overall manufacturing activity and life cycle environmental care.

ITC Units foster product stewardship. By synergistically recycling and re-using their wastes, they reduce their consumption of virgin natural resources.

A significant proportion of raw materials used for the production of paperboards at the Bhadrachalam Unit is waste paper from external sources.



Optimising Raw Material and Energy Usage



Reducing other significant air emissions

ITC Units ensure that their discharges into the external physical environment are well within the specified threshold levels. The Company is setting up detailed systems to account for total air emissions. The adjacent diagram shows the estimated emissions in 2003–04 from Units with significant emissions.

Different Air Emissions By Type Excluding Hotels and Packaging & Printing Units (Tonnes)

459 SPM 142 NOx 324 SOx



SPM – Suspended Particulate Matter
 NOx – Oxides of Nitrogen
 SOx – Oxides of Sulphur

Ozone-Depleting Substances (ODS)

India is a signatory to the Montreal Protocol of 1987. The Government of India has consequently formulated a policy to phase out various ODS on a priority basis.

ITC Units continue to scrupulously follow the Government policy on ODS and have exhaustively identified equipment for replacement. These equipment are being phased out in a planned manner. Progress is monitored in periodic EHS Audits of individual Units.

ITC sequestered almost a third of CO₂ released by its operations in 2003–04



Towards becoming a carbon-positive Corporation

ITC continues to pursue its endeavour to become a 'Carbon-Positive Corporation', by following a twin strategy of:

- 1 Increasing the use of climate-neutral fuels, replacing fossil fuels and thereby conserving virgin natural resources through process innovations and better energy conservation.
- 2 Sequestration of CO₂ through Farm and Social forestry initiatives.

Climate-Neutral Fuels

ITC's Bhadrachalam Paperboards Unit, which accounts for 60% of the carbon dioxide emitted by ITC Units, has significantly enhanced the use of black liquor, a biomass waste generated in the pulping process.

The Bhadrachalam Unit has enhanced pulping capacity in the mill through the installation of a new pulp mill. In 2003–04, the Unit procured only one third of the wood pulp and 85% of the waste paper that it had procured from external sources in 2002–03, while maintaining the same level of production. Practically all the additional energy requirement for the increased pulping capacity was met from internally generated black liquor waste fuel.

This has not only saved precious virgin fuel, but also significantly reduced carbon dioxide emissions.

A water-positive Corporation

Water Used By ITC in Million Kilo Litres (KL)	2002-03	2003-04	% Reduction
Total	24.1	22.5	7%

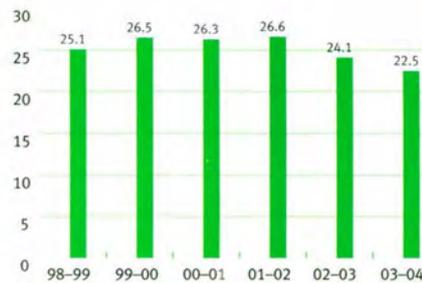
ITC realises that ensuring sustainable sources of water supply will always be a serious environmental priority in India to meet the ever increasing requirements of growing agricultural and industrial operations. The Company is therefore playing a proactive role in conserving precious water. ITC has done pioneering work in water conservation.

Reducing Fresh Water Intake

ITC Units reduced their total fresh water intake by 7% to 22.5 million Kilolitres (KL) in 2003-04, as compared to 24.1 million KL in 2002-03.

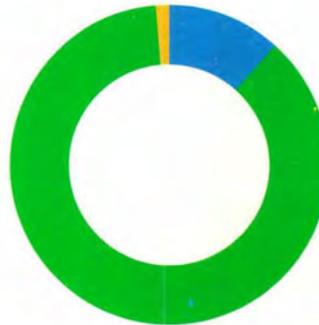
The Company also recycled and re-used 0.57 million kilolitres of water in 2003-04, 10% more than the 0.52 million KL recycled in 2002-03.

Fresh Water Intake By ITC Units (Million KL)



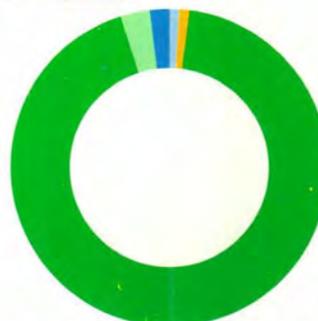
Of the total fresh water intake of 22.5 million kilolitres, 19.6 million kilolitres was drawn from rivers and surface water sources.

Water Sources (Million KL)



ITC's Paperboards & Specialty Paper Units at Bhadrachalam in Andhra Pradesh and Tribeni in West Bengal accounted for 92.6% (20.8 million kilolitres) of the total fresh water drawn by the Company.

Breakdown Of Water Consumption By ITC Businesses





Specialty Papers Mill reduces specific fresh water intake by 28%

ITC's Specialty Papers Mill at Tribeni, West Bengal, manufactures fine papers—mostly less than 40 GSM—which requires higher water consumption. Specific fresh water intake at the Mill was reduced by 28% to 128 KL per tonne in 2003–04 from 178 KL per tonne in 2002–03 by :

- Setting up a special task force for this environmental initiative
- Inspiring participation in this initiative at all levels
- Improving recycling within paper manufacturing
- Resizing pipelines

ITC's water conservation programme, therefore, specially focused on enabling its Units achieve a significant reduction in the specific consumption of water (water consumption per unit of production).

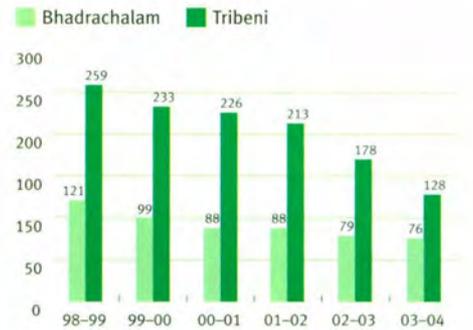
As a result of these efforts, the Company's Tribeni Unit in West Bengal was able to reduce its fresh water consumption by 28%. The Paperboard Unit in Bhadrachalam in Andhra Pradesh reduced its fresh water intake, per tonne of paperboard manufactured, to 76 kilolitres from 79 kilolitres.

The current production at the Bhadrachalam Paperboard Unit is 48% higher than the production level in 1998–99. But in spite of this increase in production, fresh water intake has actually come down by 6% in the same period.

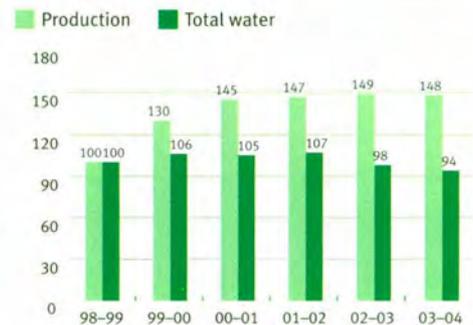
The application of the latest technologies, a high level of environmental awareness and advanced water management techniques are some of the factors that have contributed to this achievement.

ITC continued its efforts to enhance the rainwater harvesting potential, both within its own Units and in socially important watershed projects. The total rainwater harvesting potential created by the Company exceeded the net consumption by all ITC Units, as reported here.

Specific Water Consumption for Bhadrachalam and Tribeni Units



Normalised Production Versus Fresh Water Intake For Bhadrachalam Unit (98-99=100)



Water Balance at ITC (Million KL)	2002-03	2003-04
Total freshwater intake	24.1	22.5
Treated Effluents Discharged	14.6	14.0
•Used for irrigation	10.7	10.6
•Discharged to other sources	3.9	3.4
Net consumption	9.5	8.4
Total Rainwater Harvesting Potential created	12.7	16.1

Towards Zero Solid Waste

ITC imparted further momentum to its waste reduction efforts with improvements in recycling. End users are being identified for every kind of solid waste, thereby progressing towards Zero solid waste discharge from all Units.



Bhadrachalam – A Unique Environmental Initiative

ITC's Bhadrachalam factory has set up a 'Zero Waste Centre' in its colony, comprising residential units, guest houses, club, staff canteen and bachelors' hostel. Waste is collected and segregated. Plastic, paper and inorganic wastes are recycled. Wet and organic wastes are used as compost. The centre has been able to generate revenue from waste to cover its operational expenses.

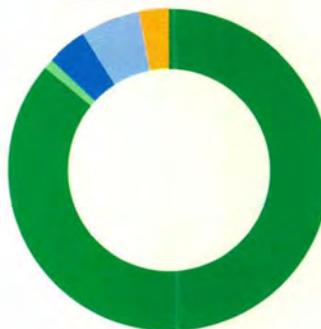
Towards Zero Solid Waste

ITC's Businesses generated 208283 tonnes of solid waste in 2003-04, a reduction of 7% over the previous year.

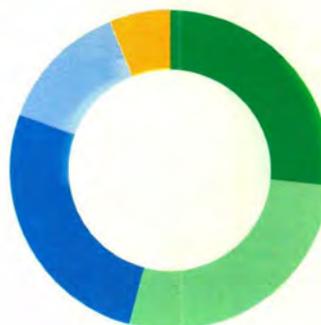
ITC's Businesses recycled 110,944 tonnes of solid wastes in 2003-04, which represented a 6.6% increase over the amount of solid waste recycled in the previous year. Flyash and sludge from the Effluent Treatment Plant (ETP) constitute a significant part of the remaining waste. ITC aims to recycle significant volumes of these in the coming years.

Individual ITC businesses have made significant achievements in this journey towards 'Zero Solid Waste'. ITC's Cigarettes Business recycles over 94% of its solid wastes. Three ITC Cigarette Units already recycle over 99% of their solid wastes. ITC's Leaf Processing Plants recycle over 98.4% of the wastes they generate.

Breakdown Of Solid Waste Generation By ITC Businesses



Recycling in 2003-04





Towards Zero Effluent Discharge

Waste Water Discharge

ITC endeavours to achieve zero effluent discharge in all its Units. Reflecting the efforts and progress in this direction, a number of ITC Units – the Cigarette Factories at Bangalore and Saharanpur, the ITC Group Research & Development Centre at Bangalore, the Leaf Plant at Anaparti, the Packaging & Printing factory at Tiruvottiyur, and the Cast Coating Plant at Bollaram, near Hyderabad, already utilise the entire quantity of their treated effluents for operating their cooling towers, flushing toilets, gardening and other appropriate activities.

ITC's Paperboard and Specialty Paper Units have made significant progress in the endeavour to ensure that the entire volume of their treated effluents is used for agriculture. This is in line with the recommendation of the Ministry of Environment & Forests, Government of India, and the Central Pollution Control Board (CPCB), in the voluntary charter that they have proposed for the 17 most polluting industries, including the paper industry. These Units already implement stringent water conservation measures. But as the manufacture of paper and paperboards is intrinsically water-intensive, these Units still discharge some treated water.

The voluntary charter proposed by MoEF and CPCB recommends that paper units move to 100% discharge of treated effluents for farming and agriculture.

Chemical, oil and fuel spills

ITC's EHS guidelines require all the Units of the Company to plan the storage and handling of chemicals, oils and fuels in properly designed and tested storage vessels. The Company has effective spill control arrangements and infrastructure like bunds and retaining walls in its Units. These are routinely checked to ensure that they are in good condition. No spills of chemicals, oils, or fuels were noted in 2003-04 by any ITC unit.

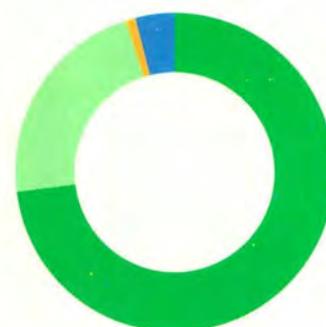
Incidents of fines for non-compliance

ITC maintains a 'beyond compliance' status in EHS performance in its Units. Any non-compliance is dealt with immediately. The Units promptly respond to any inadvertent violation pointed by stakeholders or corporate EHS auditors. As a result, there were no fines for non-compliance imposed during 03-04.

Total environmental expenditure

ITC remains committed to a very high level of EHS performance. This is backed by suitable investments and financial commitment. During 2003-04 ITC Units incurred a capital expenditure of Rs. 2.6 million and a revenue expenditure of Rs. 11.65 million on EHS projects.

Wastewater Disposal at ITC



Treated Wastewater Disposal in Paper Business

	2002-03	2003-04
River	26%	23%
Irrigation	74%	77%



ITC believes that an effective growth strategy for our nation must address the needs of rural India, home to 75% of its poor. It is imperative to ensure that India's economic growth is inclusive, embracing its villages, so as to free millions of our disadvantaged citizens from the indignity of poverty.



Social Performance

ITC believes that its aspiration to create enduring value for the nation provides the motive force to sustain growing shareholder value.

It is imperative for the Indian economy not only to sustain high rates of growth over many years but also to ensure that such growth is inclusive, so as to free millions of our disadvantaged citizens from the indignity of poverty. The requisite high rates of inclusive growth can only be achieved by putting in place an effective growth strategy for rural India, which is home to 72 % of the Indian population and 75% of its poor.

Empowering farmers

ITC has partnered the Indian farmer for close to a century. ITC is now engaged in elevating this partnership to a new paradigm by leveraging information technology through its trailblazing 'e-Choupal' initiative. The initiative, which commenced in 2000, is elevating farmers to a new order of empowerment. Using Internet stations installed by ITC right in their villages, farmers are able to readily log on to crop-specific and content-rich websites in their own native languages. Websites provide micro-level local weather forecasts, expert knowledge on best farming practices, agri inputs and local, national and international agri commodity prices online. In 2003-04, the 'e-Choupal' intervention helped enhance the global competitiveness of over 2.4 million farmers across 6 states. Over the next decade, ITC aims to empower 10 million farmers in 100,000 villages across India.



Greening wastelands

ITC's unique forestry programme, which began in 1996, has helped poor tribal farmers begin a new life. Deep in the heart of Andhra Pradesh, ITC has enabled transform erstwhile wastelands of small and marginal farmers into lush green plantations, thanks to the high yielding disease-resistant clonal saplings developed by ITC at its state of the art biotechnology research centre in Bhadrachalam. Under the programme, 19,500 hectares of wastelands have been rejuvenated through the plantation of 66 million saplings, creating livelihood opportunities for nearly 200,000 people. Over the next decade, 600 million saplings will convert 100,000 hectares of wastelands into plantations, with the potential to generate income for 1.2 million people.

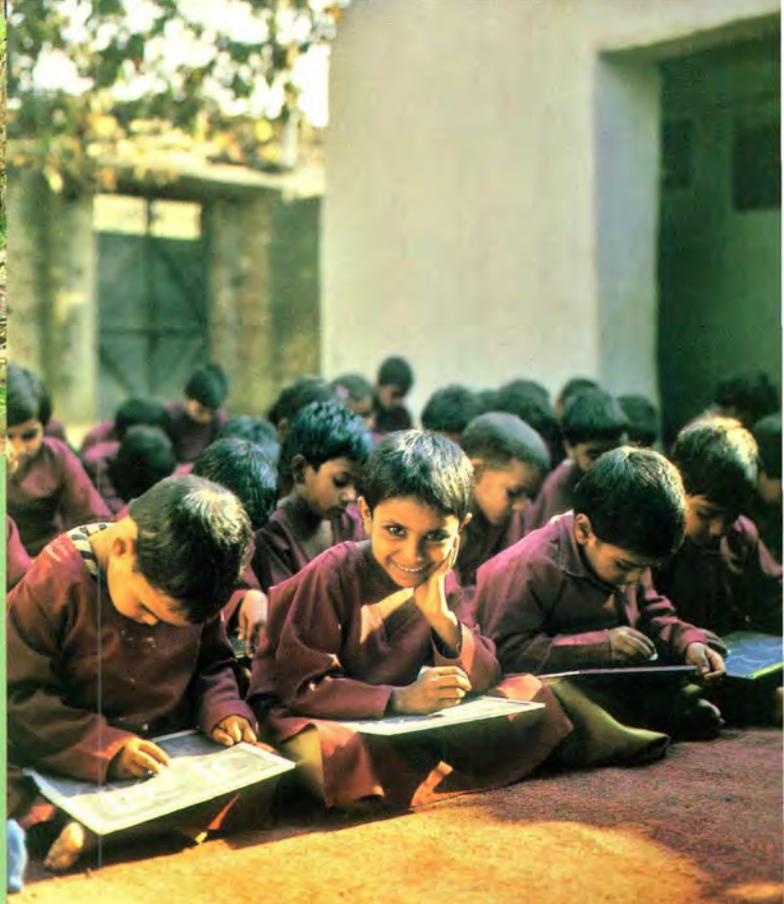
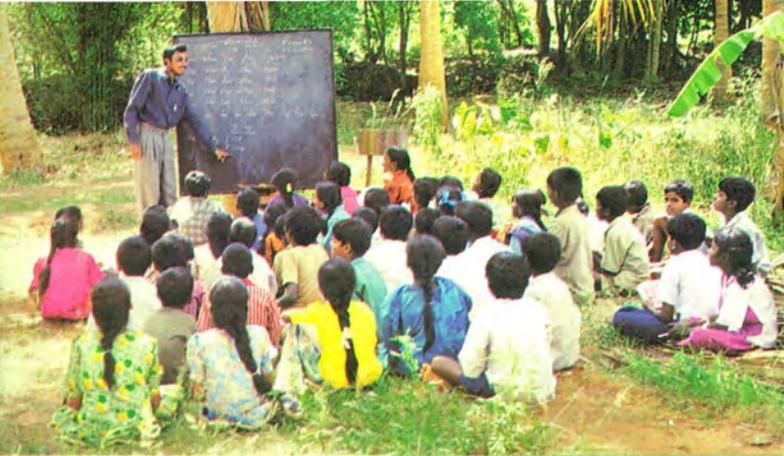
Irrigating drylands

ITC's integrated watershed development programme, initiated in 2001, seeks to achieve two critical objectives: water conservation and soil enrichment. This development initiative is a key intervention to reverse moisture stress in some of the more acutely drought-prone districts of the country. ITC organises farmers into water-user-groups that plan and build water harvesting structures like contour bunds, check dams, percolation tanks and farm ponds. These structures, financed by ITC, provide critical irrigation to over 8,000 hectares of drought-prone tracts. Over the next decade, ITC aims to bring soil and moisture conservation to 80,000 hectares of drylands under this programme.

Creating Women Entrepreneurs

ITC believes that economic empowerment of women transforms them into powerful agents of social change. Since 2001, ITC has been organising rural women into micro-credit groups, providing them money to build and manage a revolving development fund. These groups extend financial support to members to set up small businesses, thereby enabling them to evolve into entrepreneurs. ITC also imparts training to improve their vocational skills, thus enhancing their ability to supplement family income. This leads to better health care, nutrition and education for their children. Over the next decade, these micro-credit groups will have about 60,000 members, creating thousands of women entrepreneurs.



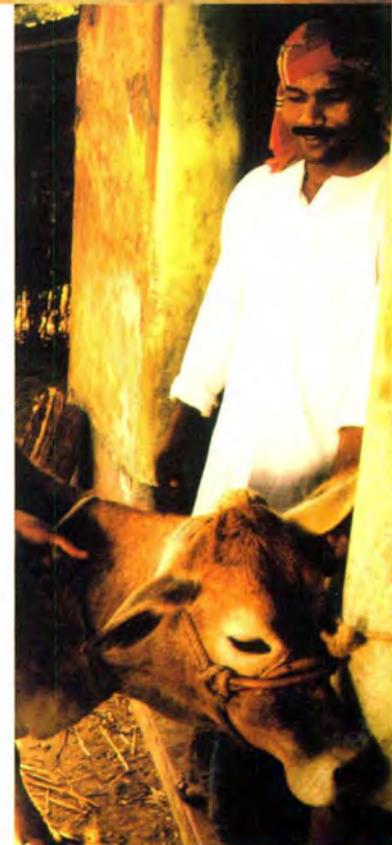


Educating Rural Children

Today more than 9,000 village children go to state-run schools supported by ITC's primary education programme. The programme, launched in 2000, addresses the lack of basic infrastructure in primary schools. From constructing school buildings and classrooms to making books available, ITC has made school-going an exciting affair. The Company has also created supplementary learning centres to help students from poor families, thereby reducing dropouts. ITC thus aims to make it possible for thousands of children across rural India to have the greatest asset they can aspire to—education for a brighter future.

Enhancing Livestock Quality

India has the largest cattle population in the world. Almost all rural households in India, whether landed or landless, own livestock. But average milk yield at 300 kg per lactation is abysmally low. ITC believes that it is possible to significantly increase the incomes of rural households by artificially inseminating their low-yielding breeds with Jersey and Holstein Freisian cattle. Since 2003 ITC is providing this service in selected village clusters in the rural interiors of Bihar, Uttar Pradesh and Madhya Pradesh, along with appropriate extension and support services. ITC's target is to multiply nine-fold the current levels of milk yield to around 2100–2700 kgs per lactation. Today ITC is reaching out to farmers in 500 villages with 15,000 inseminations annually through 30 cattle development centres.





ITC's Social and Farm Forestry Projects

Synergising business growth with the creation of sustainable livelihoods

ITC's farm forestry programme is a telling example of linking business purpose with the creation of sustainable livelihoods and environment protection. It is not well known that apart from initial conditions of unequal endowment of natural resources, climatic seasonality is a critical determinant of poverty in India. Access to livelihood fluctuates seasonally, both in the strength of the labour force and in the number of days of work available during particular months. Deterioration in the natural resource base also impairs the means of sustainable income. The erosion of the soil by several weathering agents results in the loss of humus and biotic life, leading to reduction in fertility and productivity. As per the estimates of the Indian Council for Agricultural Research (ICAR), the present average soil loss is over 16 tonnes per hectare per year, which is at least three to five times the normal. Areas affected seriously by salinity, alkalinity and wind and water erosion cover an estimated 126 million hectares, accounting for nearly 41% of the total geographical area of the country. Further, it is estimated that out of the total 95 million hectares of land under rainfed conditions, 70 million hectares are in some stage of land degradation. Sub-optimal land use is also evident from the fact that degraded wastelands cover at least 35 million hectares, around 18% of total cultivable land. Forest cover plays a critical role in maintaining the soil and water base for food production in arid and semi-arid lands.

In areas where wind is the main agent of erosion, wooded areas can help contain erosion. Trees also alleviate the ill-effects of drought and desertification and provide protection from the adverse effects of seasonality. Landsat imagery data indicate that out of 75 million hectares recorded as forest area, only 64 million hectares sustain actual forest cover. Out of these, only 35 million hectares have a crown density of 40%. Thus real forests account for barely 11% of the geographical area of the country.

ITC's farm forestry project is driven by the realisation that India's meagre forest cover has serious and adverse economic and environmental implications for the rural poor. The Company has effectively leveraged its need for wood fibre to provide significant opportunities to economically backward wasteland owners. This initiative builds grassroots capacities to initiate a virtuous cycle of sustainable development. Working with select NGOs and the Government of Andhra Pradesh, ITC identifies poor tribals with wastelands and organises them into self-supporting forest user groups. The user group leaders are trained in the best silvicultural practices to grow high quality timber as a viable crop, and other local species that meet domestic fodder, fuel and nutrition requirements. ITC provides a comprehensive package of support and extension services to farmers encompassing loans for land development, planting of saplings, plantation

ITC's social initiatives have successfully achieved a unique synergy between the creation of shareholder value and rendering substantial service to society



maintenance, marketing and funds management. The creation of village-level natural resource management committees, comprising local farmers, has institutionalised this intervention.

At the heart of this comprehensive greening project is ITC's state-of-the-art biotechnology-based research centre at Bhadrachalam. The centre enables the Company to make available high yielding, disease-resistant clonal saplings to traditional farmers and wasteland owners, thus providing them attractive land-use alternatives. So far, 66 million saplings have been planted over 19,500 hectares through farm and social forestry programmes, generating employment opportunities for nearly 200,000 people. The pace and scope of these plantations has been significantly enhanced. 31 million saplings were planted during 2003-04. This has also enabled the creation of substantial employment during pre-monsoon lean periods when agricultural employment is at its lowest. Consequently, the regular seasonal migration in quest of labour for livelihood has also been curtailed. In turn, there has also been an all-round improvement in health, nutrition and education.

The benefits of this strategic initiative of ITC are much more pervasive. This effort contributes to in-situ moisture conservation, groundwater recharge and significant reduction in topsoil losses due to wind and water erosion. With poor households having access to their own woody biomass under ITC's social forestry programme, the pressure on public forests has also appreciably reduced. The leaf litter from multi-species plantations and the promotion of leguminous inter-crops enable constant enrichment of depleted soils. These forests enable sequestration of carbon, thereby strengthening the plant-led life support system.

ITC's bold engagement across the entire value chain has created opportunities for a sustainable partnership. Only a company with a 'commitment beyond the market' could have dared to

passionately pursue the objective of adding value to native wood fibre, when conventional wisdom mandated exiting this business in the absence of cost-effective fibre.

"If a company like ITC had chosen the easier path of importing pulp to support a 300,000 tonne mill based on virgin pulp, it would have meant foregoing the opportunity to create 75,000 hectares of sustainable plantations, 27 million person-days of employment and nearly Rs 600 crores in foreign exchange annually." Y. C. Deveshwar, AGM 2004

The Company has committed itself to building competitiveness as a critical responsibility towards creating the socio-economic and ecological multiplier. Alongside investment in augmenting capacity and inducting cutting edge process technology, ITC set up an Elemental Chlorine-Free (ECF) pulp mill at Bhadrachalam, going ahead of the standards mandated by the Ministry of Environment and Forestry. This pulp mill is the only one of its kind in the country and conforms to world-class environmental standards. ITC has also invested in co-generation to add to the efficiency of energy management and to minimise environmental impact.

The growing competitiveness of the Company's paperboards business and its increasing market strength provide the impetus for the Company to scale up the afforestation endeavour to cover over 100,000 hectares by planting 600 million saplings over the next 10 years. Such a scale will make procurement of industrial timber exclusively from sustainable sources a reality within a decade. It will also create employment opportunities for nearly 1.2 million people. The forestry project will also transform ITC into a carbon-positive corporation.



Rainwater Harvesting and Integrated Watershed Development

The present average soil loss in India is about 16.35 tonnes per hectare per year, which is at least 3 to 5 times worse than what it ought to be. Nearly 67% of the cultivated area in the country faces severe moisture stress for 5 to 10 months a year. Crop productivity in drylands is low, unstable and highly vulnerable to seasonality.

ITC's Integrated Watershed Development initiative is a key intervention to reverse this moisture stress in some of the more acutely affected, drought-prone districts of the country. Currently, 541 small and large water harvesting structures built by ITC provide critical irrigation to nearly 8,000 hectares of land in Andhra Pradesh, Karnataka and Madhya Pradesh. This programme will soon be extended to Uttar Pradesh and Bihar.

ITC's watershed development programme seeks to achieve two critical objectives: water conservation and soil enrichment. It constitutes water user groups and trains them to plan and build water harvesting structures like contour bunds, check dams, percolation tanks and farm ponds.

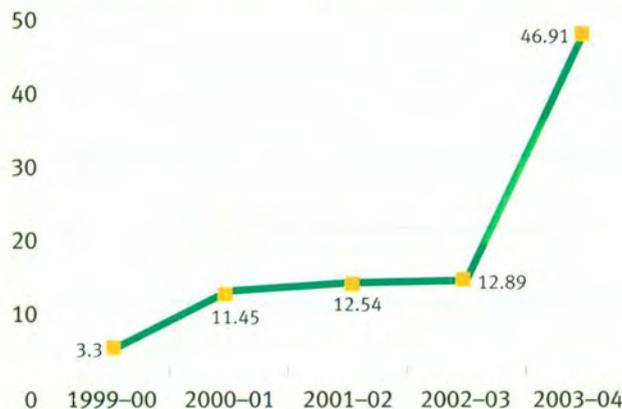
Trained farmers use their knowledge of the terrain to identify locations for building water structures and develop related micro plans. ITC contributes 75% of the cost. The balance 25% is mobilised by the user groups. The rich silt excavated from percolation tanks is used to enhance soil fertility. User groups raise regular contributions from the farmers to meet the maintenance cost of these water harvesting structures.

So far ITC has brought nearly 8,000 hectares of degraded land under its soil and moisture conservation programme, providing critical irrigation and generating employment during the lean season.

The rainwater harvesting potential created through these structures, together with other water conservation efforts, have enabled ITC achieve the status of being a water-positive Company for the second successive year.

Investments in community initiatives

Community Investments (Rs Crores)



Human Resource Policies

Labour Practices and Decent Work

ITC employed 13850 (13433 in 2002–03) persons in the Units covered in the scope of this report. Out of them, 11201 employees belonged to the unionised cadre. The remaining were Management Staff, Lady Confidential Secretaries, Administrative Assistants and those non-management staff who have opted 'out of union membership'. All unionised 'non management staff' at the factories, hotels, and other establishments are represented by independent trade union organisations with whom periodic Long Term Agreements (LTAs) are signed. All Management staff, Lady Confidential Secretaries and Administrative Assistants, who are not unionised, enter the services of the organisation by signing individual contracts of employment. During the period under review, the growth in the Company has created additional employment opportunities for over 400 people.

All major changes in operations involving work processes or manning norms and other productivity-linked issues are carried out after discussions and

consultations with the employees and the recognised trade union at each location. Long Term Agreements are signed periodically, once every four or five years. Apart from revisiting remuneration and other terms and conditions of service, the Agreements provide an opportunity to achieve improvements in productivity, reorganisation of work, formation of empowered small groups on the shop floor, introduction of best work practices, flexibility in operations, and ownership of operational processes at all levels. These measures are discussed with employees and the recognised Union, who bring to the discussions the combined weight of their experience and many innovative practical suggestions. This ensures smooth and committed implementation of the changes planned. One ready example of the smooth management of a major change process was the relocation of ITC's cigarette factory in Bangalore. The factory was shifted from the heart of Bangalore city to a new location 27 kms outside the city.

Managing Change

ITC's Bangalore Cigarette Unit is one of the largest and most modern factories in Asia. The entire cigarette making and packing operations with supporting utilities, infrastructure and administration were moved from the 91 year-old site in Bangalore city to a new, state-of-the-art facility approximately 27 kms away.

Some of the daunting challenges that ITC had to cope with in relocating an operational factory :

- Ensuring that there was no adverse impact on production volumes or on quality and other parameters
- Executing a smooth and seamless shift to a new facility which was still in the initial stages of construction
- Coordinating parallel and complementary operations across two locations, 27 kms apart
- Speeding and scaling up operations at the new location, while tapering operations at the earlier site

The success of this mammoth task has largely been possible due to continuous communication with employees, team work, detailed planning and use of unique techniques and innovation in execution.



Communication of Company Plans

All major business developments and decisions involving expansion, growth and financial performance of the organisation are shared with employees and other stakeholders through several communication media and platforms. These include 'ITC News', the corporate house journal which reaches out to all employees within the organisation and Intranet portals like the 'Learning Curve', 'Manthan' and 'Bhadranet'. Senior managers of the Company visit each location to communicate business plans to help align employees' aspirations and efforts with corporate and business goals.

ITC Hotels has institutionalised 'Departmental Open Fora'. All employees of a department meet once every quarter under these fora to formally discuss issues relating to productivity, service and working conditions.

Employee Benefit Schemes

ITC has a number of employee benefit schemes that go much beyond what is legally mandated. One of these is the 'post retirement non-contributory pension', which was launched in 1986 as a platinum jubilee gift for unionised employees. Some of the other employee benefit options in this category include the Family Hospitalisation Assistance Scheme, Welfare Assistance, Accident Relief, Emergency Relief, supply of uniforms to all unionised employees, and in some locations, also to management staff.

ITC also offers Housing Loan Assistance, Educational Assistance and coaching classes for employees' children at Munger, Saharanpur, Chirala, and Anarparti, career guidance for employees' children at Kidderpore and the Head Office in Kolkata.

Recreation Clubs have been set up at Bangalore, Kidderpore, Munger, Bhadrachalam, Tribeni and all ILTD locations. There are ITC-aided schools in remote locations like Tiruvottiyur, Munger, Saharanpur, Tribeni and Bhadrachalam. ITC has set up subsidised canteens in factories and other establishments and co-operative stores at some of its locations. Co-operative societies in most ITC establishments promote thrift and provide loans on nominal interest charges.

ITC-Welcomgroup runs a premier hotel management institute, the Welcomgroup Graduate School of Hotel Administration at Manipal in Karnataka. It is run in association with the Dr TMA Pai Foundation, affiliated to the Manipal Academy of Higher Education (MAHE), a deemed university. The

institution runs a 4-year Bachelor of Hotel Management programme and is considered a leader in this field.

ITC's Hotels Business also runs the Welcomgroup Hotel Management Institute at Gurgaon, near Delhi.

Strategy and Management

Human Rights All relevant principles and guidelines pertaining to human rights, as prescribed by the International Labour Organisation (ILO), have been enshrined in the Indian Constitution. These form the bulwark of the different labour statutes prevalent in our country that guide our operations.

In the management of businesses and operations that create economic value for the nation, ITC scrupulously adheres to all the applicable laws and regulations at all levels. The Factories Act and the Shops and Establishments Act forbid the use of child labour. All ITC Units strictly comply with this policy. According to ITC's standing instructions, anybody who has not completed eighteen years of age cannot be employed. The policy is enforced not only through the Company's Human Resources function, but also, through the Company's security system that prevents minors from entering any ITC premises to work. ITC's labour policies and work culture encourage freedom of association across different classes of employees and do not allow for any form of discrimination or forced labour.

ITC conducts its disciplinary procedures in strict conformity with the principles of natural justice and in accordance with the Company's Standing Orders and Standing Instructions at each business location.

Maintaining absolute neutrality in dealing with people's grievances and ensuring natural justice are the cornerstones of ITC's interaction with its people and confidential handling of employees' grievances. Compliance with statutes and corporate policies is regularly monitored by the Corporate Internal Audit function, external statutory auditors and relevant statutory authorities, who are responsible for ensuring the framing, implementation and monitoring of these statutes.

ITC is committed to ensuring a gender-friendly workplace in order to:

- Provide equal opportunities for men and women
- Prevent/stop/redress sexual harassment at the workplace
- Guarantee good employment practices

ITC set up a Committee in 1999 to enquire into complaints of sexual harassment, if any, and to

recommend appropriate action relating to complaints that are substantiated with adequate evidence. Men and women are equally represented on this Committee. The Committee, which is headed by a woman, also has an NGO representative.

ITC Hotels Limited, a subsidiary of ITC Limited, has a similar Committee based in Delhi.

Supply Chain Networking and Human Rights

ITC's products are benchmarked, both nationally and internationally. This necessitates the use of state-of-the-art technology. All significant technologies and equipment are sourced from reputed international and Indian manufacturers and suppliers.

The Company's major businesses are vertically integrated across several Divisions. A substantial part of the supply chain network is internal. Common values, relating to human rights performance, are shared across the entire supply chain.

Local service providers and suppliers are chosen based on competence and competitiveness. The Company forms mutually beneficial relationships with all its associates and constantly sustains and strengthens them to enhance their strategic and operating capabilities. ITC, in turn, ensures that it captures superior value for all its stakeholders. Each ITC Unit has appropriate systems and checks to ensure that all service providers comply with all applicable statutory provisions governing their employees, such as The Contract Labour (Regulation and Abolition) Act, Payment of Wages Act, and other social security and welfare legislation and rules with respect to outsourced jobs. The Company ensures that at least the minimum wages notified by the Government are paid by its service providers, along with extension of relevant social security benefits.

Equal Opportunity Policies and Programmes

Recruitment and promotions in ITC are all based strictly on merit. Equal opportunities are provided to all without regard to race, caste, religion, colour, ancestry, marital status, gender, age or nationality.

Some of the guiding principles in ITC regarding people and interpersonal interactions are :

Respect for People

ITC acknowledges that every individual brings a different and unique set of perspectives and capabilities to the team. It is a basic belief in ITC that a strong team is founded on a variety of perspectives.

Self-managing Resource

ITC believes that the human being is a unique resource. In fact, a human being is simultaneously a source, a resource and the end of all economic and social activity. A human being is the means as well as the purpose. The Company helps full realisation of individual potential by providing developmental opportunities and challenges.

Limitations

ITC believes that any apparent limitation in a person is the result of a variety of circumstances and factors. An individual can transcend any such limitation with support, awareness and correction. The Company has a well laid-out Developmental Planning System that closely dovetails with the guiding principle of ensuring equal opportunity for everyone at the workplace.

The Company believes that people accept meritocracy as a just and equitable system, and contribute best under optimum challenges and opportunities and differential rewards commensurate with performance.

Training

The organisation believes that the quality of its people is the key driver in enhancing its competitiveness and winning in the marketplace. It invests in building people capabilities in order to develop their professional competence and help them remain contemporary in their chosen areas of expertise.

The Company has an elaborate developmental planning system to support continued employability and managerial career progress.

The purpose of the developmental planning system is:

- To provide opportunity for a focused discussion on management development
- To provide guidance and support to bring about enhancement of skills to improve job performance
- To enhance individual and group competencies so as to continuously raise the organisation's performance bar
- Set time targets for implementation and review of development plans

Some of the management development programmes regularly conducted in ITC are:

Early Management Career

- Induction for new Managers
- ITC Group Induction
- Competent Manager Series (CMS)

Middle Management Career

- Expanding Bandwidth Programme

Senior Management Career

- Business Strategy/Business Orientation Programme
- Strategic Leadership Initiatives
- Global Leadership Programmes
- Visionary Leadership Programmes

Some other management development programmes offered across the organisation are:

- Leading Product Development and Design
- Supply Chain Management
- Project Management Excellence
- Appraisal Skills Workshop
- The Service Edge

ITC places an equally strong focus on career development of non-management staff across all manufacturing and marketing locations. Unionised staff at each manufacturing location, and at various stages of their career, are given a number of functional and behavioural inputs.

Some of the staff development programmes in the organisation are:

- Induction Programme for all new recruits on factory operations
- Awareness Programme on EHS issues
- Product Knowledge workshop
- Refresher skills on EHS
- First Aid Training programme
- Basic Engineering Skills
- Training on Pneumatics
- Supervisory Development programme
- Team Building workshop

Unionised staff, where necessary, are also sent overseas to the Original Equipment Manufacturers' locations. This is to enable them gain in-depth knowledge of machines and their operations. More importantly, this is also to create a global mindset and provide exposure to global benchmark practices and systems.

In order to meet the challenges on the sales front the organisation has a number of Training Programmes in place for its front line sales persons.

Some of these programmes are:

- Basic Marketing Skills
- Product Development Workshops
- Analytical Skills
- CMS Series

The Membership and Human Values of Team ITC

One of the most important cornerstones of ITC's Human Resource philosophy is the concept of Membership. The membership of any organisation encompasses the role of a Leader, a Follower and that of a Peer. ITC believes that people can harmoniously blend these roles to make an impactful contribution to the organisation. ITC values diversity. Operating at over 60 locations in India, the Company carefully chooses its prospective Members from educational institutions across the country. The students that ITC selects as employees hail from diverse backgrounds – in language, ethnicity, religion, gender, thought processes and perspectives. The Company also laterally recruits people with varied experiences and skill sets.

There is a formal process of coaching and mentoring for all managers joining the organisation. ITC perceives this as an essential first step in nurturing leaders of tomorrow. The mentor acts as a friend, philosopher and guide for the new recruit and helps her or him align with the values and goals of the organisation. This also facilitates faster integration. By respecting the right to freedom of association and inspiring a spirit of collaboration and partnership in the passionate pursuit of a shared purpose, the Company has achieved improved productivity at all levels. At the same time, it has successfully fulfilled the aspirations of its employees. The Company, at each of its locations, has elaborate Standing Orders, Standing Instructions and Code of Professional Conduct governing the conduct of all employees during the course of work and employment.

As a matter of best practice, ITC follows an open-door policy in every location. The Head of a Unit and other Departmental Heads are always accessible to employees to attend to any issue she/he may wish to discuss or share. There are formal suggestion schemes to improve or modify existing systems. If an employee's conduct needs to be investigated, it is done by a competent officer following the principles of natural justice. One of the fundamental values cherished by the organisation is its responsibility to generate economic value for the nation. In the pursuit of this goal, ITC strictly adheres to the laws of the land. ITC respects the individual's right to choose employment and is strongly opposed to the use of force or compulsory labour.

ITC believes that the quality of its people is the key factor that enables the Company offer a unique, distinctive and superior value proposition in the

competitive marketplace. The Company's endeavour, therefore, is to nurture an empowering organisational culture that inspires people to consistently outperform. It also provides them with the opportunity to learn and value-add and offers competitive remuneration. The Company has appropriate systems and processes in place to attract, develop and retain talent and to continuously invest in building capabilities.

The Company regularly reviews managerial compensation and makes appropriate corrections in terms of performance measures and market realities. The Company signs productivity-linked Long Term Agreements periodically with unionised employees to ensure increased benefits and better work practices. The lowest paid employee on the shop floor earns significantly higher than the minimum wages stipulated by statutory authorities.

Freedom of Association Policy

The Company's recruitment process provides an opportunity for meaningful association with the organisation and its people. All new recruits from campuses undergo a one-year training. A whole new batch of recruits thereby spends substantial time together. The human bonds that are built when you are earning your spurs in the initial stages of your career last a lifetime. The organisation provides adequate opportunities to its employees to explore their potential in extra curricular activities like sports, dramatics, literary pursuits and other creative endeavours.

ITC ensures that its employees enjoy work and the work environment. Employees develop strong personal bonds with colleagues that go well beyond the office and official work. Other forms of association within the organisation are ensured through shared involvement in special projects and task forces that brings out the best in intellect and talent.

ITC's Employee Relations philosophy is based on certain principles that the Company has steadfastly adhered to over the years. These have helped build, sustain and strengthen harmonious industrial relations in the organisation:

- Recognition of one registered Trade Union in each Unit
- Recognition of the Union as the sole bargaining agent
- Non-interference in the internal matters of the Union
- Encouraging formation of a strong and enlightened Union

Product Responsibility Product Information and Labelling

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

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

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

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

In the **Leaf Tobacco Business** all the products are labeled to meet customer specifications. Labels normally contain information about the Grade, Crop Year, Weight, Lot No., date and the location where the product was packaged and in certain cases, the destination and the customer that the product was intended for. All the packages are bar-coded. The products scrupulously conform to the prescribed chemistry (Sugars, Nicotine, Chloride, etc.), Particle Size Distribution, Stem Content; and the Packing (Moisture and Temperature) requirements of the customer. The protocols for testing and tolerances are specified by the customer. The manufacturing units at Anaparti and Chirala are ISO 9002 certified. The Quality Procedures for the above parameters are clearly enunciated in ISO 9002 manual. The Units have advanced systems to monitor strict adherence to process and packing specifications laid down by the customers. In addition to providing

information, samples from the final packages are sent to Customers for cross-verification in their laboratories.

In the **Paperboards & Specialty Papers Business** information about the product, covering relevant technical parameters, is documented in the product specification sheet. These are finalised with the customers at the ordering stage. Quality Assurance Certificates are issued for the consignments on request from customers. The information mentioned in the label on the product pack consists of the name, substance (gsm), size, weight, lot number and date of manufacture. A bar code is also provided.

In the **Hotel Business**, the Company does not produce and sell any packaged products. There is no labeling (except brand display) on products. However, product information regarding Rooms and Food & Beverages is communicated through brochures, in-room literature and the website.

Customer Safety is of prime concern to all ITC Businesses

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

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

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

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

In the **Leaf Tobacco Business** the products are industrial in nature. The products are manufactured as per customer specifications. The customers in this business are large Cigarette Manufacturers and International Tobacco Merchants who themselves have well laid down Health and Safety Guidelines.

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

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

Consumer Privacy

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

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

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

The **Leaf Tobacco Business** is in the process of adopting a CRM (B2B Portal) web site targeted at its customers. This would serve both as an information and transaction Portal. Access to all relevant data pertaining to customers – sample requirements, order, processing, shipment and other quality-related information will be made accessible through a secured account (specific Login ID and Password) only.

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

Code of Professional Conduct

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

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

Political Contributions

ITC did not make any political contributions during the financial year 2003-04.



Awards and Accreditations

Corporate Awards and Ratings

- **World Business Award, 2004**, presented by the International Chamber of Commerce, the HRH Prince of Wales International Business Leaders' Forum and the United Nations Development Program for **ITC's e-Choupal initiative**
- **Enterprise Business Transformation Award for Asia Pacific** presented by Infosys Technologies and Wharton School of the University of Pennsylvania for **ITC's e-Choupal initiative**
- **NASSCOM Award** for Best IT User in FMCG, 2003 for ITC's e-Choupal initiative
- **PC Quest's IT Implementation Award** for Best Project for ITC's e-Choupal initiative
- **Seagate Intelligent Enterprise of the Year 2003 Award**, for the most innovative usage of Information Technology. This award recognises ITC's pathbreaking e-Choupal initiative
- ITC's Paperboards & Specialty Papers business has won **Capexil's Top Export Award** for highest exports in value terms, in the Paper and Paperboard category for 2001–2002 and 2002–03
- Bukhara at ITC Hotel Maurya Sheraton & Towers in New Delhi declared the **Best Indian Restaurant in the World** (for the third consecutive year since 2002) by 'The Restaurant Magazine', UK. It has also been voted the **Best Restaurant in Asia** and is the only Indian Restaurant to feature in the list of 50 Best Restaurants in the World.
- Wills Lifestyle voted the **Most Admired Exclusive Brand Retail Chain of the Year** at The Images Fashion Awards 2003
- **Golden Fork Award** from International Food and Wine Writers' Guild for Bukhara and DumPukht restaurants, ITC Maurya Sheraton
- The Business Today – Stewart Stern Study has ranked ITC among **top five sustained value creators** in India in their studies conducted in 2002 and 2003
- ITC was the first company in India to voluntarily seek a rating for Corporate Governance. ICRA, Moody's rating agency in India, has accorded ITC **CGR2 rating** which implies a 'High Level of Corporate Governance.'
- ITC's Packaging Business is the first in India to be assessed at **Level 6 by the International Quality Rating System (IQRS)**
- ITC Sonar Bangla Sheraton & Towers, rated **one of the Best Hotels of the World** by ABTA Travelspirit (Association of British Travel Agents)

**ITC Centre, Gurgaon
gets Platinum Rating
from US Green
Building Council**



ITC Centre, the futuristic office complex that ITC Limited is building in Gurgaon, has been awarded the Platinum Green Building rating by USGBC-LEED (US Green Building Council-Leadership in Energy and Environmental Design). This is the highest rating in this category and makes ITC Centre the largest Platinum rated building in the world. The project exemplifies ITC's thrust on environment protection and eco-management.

**ITC Bhadrachalam
Paperboard Unit
wins 'Three Leaves
Award' for chlorine-
free technology**



ITC's Paperboard Unit in Bhadrachalam in Andhra Pradesh has received this award from the Centre for Science and Environment (CSE) for pioneering the introduction of new environment-friendly technology and thereby eliminating the use of chlorine in the manufacture of pulp. ITC is the first and the only Company in India to implement this green technology. With this new technology, the Company is manufacturing eco-friendly food-grade paper for hygienic food packaging.

ITC among the 'world's best big companies'

ITC constantly endeavours to benchmark its products, services and processes to global standards. The Company's pursuit of excellence has earned it national and international honours. ITC is one of the eight Indian companies to figure in Forbes A-List for 2004, featuring 400 of 'the world's best big companies'.



EHS Awards and Ratings

British Safety Council's Swords of Honour and Star Ratings:

- **5 Star and Swords of Honour** for ITD Saharanpur, ILTD Chirala and PPB Munger
- **5 Star** for ITD Bangalore, PPB Tiruvottiyur, ITC Grand Maratha Sheraton and ITC Filtrona
- **4 Star** for ITD Kidderpore, ILTD Anaparti

Department of Power, Ministry of Power & Non-Conventional Energy Sources

- **National Award for Energy Conservation** for PSPD Bhadrachalam

Royal Society for the Prevention of Accidents (ROSPA):

- **ROSPA Gold Awards** for ITD Units in Bangalore, Saharanpur, Kidderpore and Munger

Greentech Foundation Awards

- **Greentech Safety Gold Award** for ITC Maurya Sheraton & Towers
- **Greentech Safety Silver Award** for WelcomHotel Rajputana Palace Sheraton
- **Environment Excellence Award (Gold Category)** for ILTD Chirala, Mughal Sheraton, ITC Grand Maratha Sheraton and WelcomHotel Rajputana Palace Sheraton

Federation of Hotel and Restaurant Association of India (FHARAI)-Environment Award

- **Winner**-ITC Maurya Sheraton & Towers
- **Runner-up**-ITC Windsor Sheraton

Institute of Directors-Golden Peacock National Award Secretariat

- **Golden Peacock Environment Management Award** for PSPD Bhadrachalam, ITC Windsor Sheraton

West Bengal Cleaner Production Centre-ICC and WBPCB

- **Environment Excellence Award (Rank - III)** for PSPD Tribeni

CII Award for Excellence in Energy Management

- **CII ENCON Award** for PSPD Bhadrachalam



Certifications of superior EHS performance

ISO 14001: Environment Management System

- All ITC Units and the four hotel properties owned by ITC (Maurya Sheraton, Mughal Sheraton, Chola Sheraton and Grand Maratha Sheraton) have obtained ISO 14001 certification for their Environment Management Systems.
- Kidderpore cigarette factory is the first cigarette factory in the world to get ISO 14001 certification
- Leaf processing plants at Chirala and Anaparti are the first such units in the world to be certified for ISO 14001
- ITC Maurya Sheraton & Towers at Delhi is the first ISO 14001 certified hotel in India

OHSAS 18001: Occupational Health and Safety Management System

- Kidderpore Cigarette factory certified for OHSAS 18001 in 2003-04
- Leaf processing plants at Chirala and Anaparti already certified
- All the other factories of ITC are on way to get this certification in 2004-05

SA 8000: Social Accountability System

- Leaf processing plants at Chirala and Anaparti have received this certification
- A number of other Units are in the process of being certified

Memberships and Affiliations

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

- Agricultural and Processed Foods Export Development Authority, New Delhi
- All India Management Association
- All India Rice Exporters Association
- All India Roller Flour Mills Association
- All India Spice Exporters Forum
- American Spice Trade Association, USA
- Andhra Pradesh Productivity Council, Vijaywada
- Apparel Export Promotion Council
- Associated Chambers of Commerce and Industry
- Bengal Chambers of Commerce and Industry
- Bombay Chambers of Commerce
- British Safety Council, UK
- Calcutta Management Association
- Carpet Export Promotion Council
- Chemical and Allied Product Export Promotion Council
- Coal Consumers Association of India
- Coffee Board
- Coffee Exporters Association
- Coffee Futures Exchange of India
- Confederation of Indian Industry
- EAN India (European Article Numbering for Barcoding)
- Employees Federation of Southern India
- Federation of Andhra Pradesh Chambers of Commerce and Industry, Hyderabad
- Federation of AP Chamber of Commerce
- Federation of India Export Organisation
- Federation of Indian Chambers of Commerce and Industry
- Import Trade Control and Export Trade Control
- Indian Oilseeds and Produce Exporters Association
- Indian Chamber of Commerce
- Indian Coffee Trade Association
- Indian Institute of Foreign Trade
- Indian Investment Centre
- Indian Oil and Produce Exporters Association- Associate Member
- Indian Paper Manufacturers Association
- Indian Pulp and Paper Technical Association
- Indian Standards Institution
- Indian Tobacco Association, Guntur
- Indo American Chamber of Commerce
- Indo Australian Chamber of Commerce
- International Chamber of Commerce, India
- International Transport and Trade, Madras
- Madras Productivity Council
- Marine Products Export Development Authority
- National Council of Applied Economic Research
- National Fire Protection Agency, USA
- National Institute of Personnel Management
- National Productivity Council
- National Safety Council
- PHD Chambers of Commerce
- Seafood Exporters' Association of India
- Solvent Extractors Association of India
- Soyabean Processors Association of India
- Spice Board
- State Productivity Council-West Bengal
- The Central Organisation for Oil Industry and Trade
- The Energy and Resources Institute (TERI)
- The Groundnut Extractions Export Development Association
- Trade Development Authority, New Delhi
- Trade Development Authority of India

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 shareholder and the nation 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 work place 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 & 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 practice 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.

Corporate EHS Department is responsible for review & updating Corporate Standards on EHS & for providing guidance and support to all concerned.

Date: February 13, 2003

By Order Of : ITC Corporate Management Committee

GRI Core Indicators – Index

	Indicator number		Page/s	Remarks
Vision and strategy	1.1	Statement of the organisation's vision and strategy regarding sustainable development	1–2	
	1.2	Statement from the CEO describing key elements of the report	1–2	
Profile				
Organisational Profile	2.1	Name of reporting organisation	6	
	2.2	Major products and/or services, including brands if appropriate	7	
	2.3	Operational structure of the organisation	14	
	2.4	Description of major divisions, operating companies, subsidiaries and joint ventures	6	
	2.5	Countries in which the organisation's operations are located		India
	2.6	Nature of ownership; legal form	8	
	2.7	Nature of markets served	8	
	2.8	Scale of the reporting organisation	8	
	2.9	List of stakeholders, key attributes of each, and relationship to the reporting organisation	9	
Report Scope	2.10	Contact person(s) for the report, including e-mail and web addresses	11	
	2.11	Reporting period	10	
	2.12	Date of previous report	11	
	2.13	Boundaries of report, (countries/regions, products/ services etc.) and any specific limitations	10	
	2.14	Significant changes in size, structure, ownership		Not Applicable
	2.15	Basis for reporting on joint ventures etc. affecting comparability from period to period		Not Applicable
	2.16	Explanation/nature of any re-statements of earlier reports (e.g. mergers/acquisitions)		Not Applicable
Report Profile	2.17	Decisions not to apply GRI principles/protocols in the preparation of the report		Not Applicable
	2.18	Criteria/definitions used in accounting for cost/benefits		Not Applicable
	2.19	Significant changes in measurement methods		Not Applicable
	2.20	Policy and internal practices to enhance accuracy, completeness and reliability	11	
	2.21	Policy and current practice on independent assurance	11	
	2.22	Means by which report users can obtain additional Information	11	
Governance Structure and Management Systems				
Structure and Governance	3.1	Governance structure of the organisation (incl. major committees)	14–17	
	3.2	Percentage of the Board of Directors (Supervisory Board) that are independent/non-executive directors	15	
	3.3	Process for determining the expertise of board members to guide strategic direction	15	
	3.4	Board-level processes for overseeing economic/ environmental/social risks and opportunities	15	
	3.5	Linkages between executive compensation and achievement of non-financial goals	15	
	3.6	Organisational structure/responsibilities for oversight, implementation and audit of relevant policies	15	
	3.7	Mission/values/codes of conduct/principles and status of implementation	12	
	3.8	Mechanisms for shareholders to provide recommendations to Board of Management	9	
Stakeholder Engagement	3.9	Basis for identification and selection of major Stakeholders	8–9	
	3.10	Approaches to stakeholder consultation in terms of frequency of consultations by type	9	
	3.11	Type of information generated by stakeholder Consultations	9	
	3.12	Use of information resulting from stakeholder Engagements	9	
Overarching Policies and Management Systems	3.13	Explanation of how the precautionary principle is addressed by the organisation's policies	17	
	3.14	Subscription to externally developed/voluntary charters/principles/initiatives	2, 25	
	3.15	Principal industry and business association membership	51	
	3.16	Policies/systems for supply chain management and product stewardship	28	

Indicator number		Page/s	Remarks
3.17	Approach to managing indirect impacts resulting from Activities	23-40	
3.18	Major decisions regarding locations or changes of operations		Not Applicable
3.19	Programmes and procedures for improvement programmes/actions	23-40	
3.20	Status of certification of environment, labour, social accountability management systems	50	

Economic Performance Indicators

Customers	EC1	Net sales	20-21	
	EC2	Geographic breakdown of key markets		Not Applicable
Suppliers	EC3	Cost of all goods, materials and services purchased	22	
	EC4	Percentage of contracts paid in accordance with agreed terms		Not evaluated
Employees	EC5	Total payroll and benefits broken down by country/region	21	
Providers of Capital	EC6	Distribution to providers of capital broken down by interest/dividends on all classes of shares	20	
Public sector	EC8	Total sum of taxes per geographic region	21	
	EC9	Subsidies received per geographic region		Nil
	EC10	Donations to community/civil society, broken down in terms of cash/in-kind	40	

Environmental Performance Indicators

Materials	EN1	Total materials use, other than fuel and water, by type	28	
	EN2	Percentage of materials used that are waste from sources external to the reporting organisation	28	
Energy	EN3	Direct energy use segmented by primary source	27	
	EN4	Indirect energy use	27	
Water	EN5	Total water use	32	
	EN7	Description of the major impacts on biodiversity in terrestrial, freshwater and marine environments	28-40	
Emissions, Effluents and Waste	EN8	Greenhouse gas emissions	28	
	EN9	Use and emissions of ozone-depleting substances	29	
	EN10	NOx, SOx and other significant air emissions by type	29	
	EN11	Total amount of waste by type and destination	33	
	EN12	Significant discharges to water by type	34	
Products and Services	EN13	Significant spills of chemicals/oils/fuels in terms of total number and total volume	34	
	EN14	Significant environmental impact of principal products and services		Not Evaluated
	EN15	Percentage of weight of products sold reclaimable/reclaimed after use		Not Evaluated
Compliance	EN16	Incidents of and fines for non-compliance associated with environmental issues	34	

Social Performance Indicators – Labour Practices and Decent Work

Employment	LA1	Geographical breakdown of workforce, where possible by region/country/status		Not Applicable
Labour/Management Relations	LA2	Net employment creation and average turnover segmented per region/country	41	
Health & Safety	LA3	Percentage of employees represented by independent trade union per region/country	41	
	LA4	Policy and procedure on information, consultation with employees (e.g. restructuring)	41	
	LA5	Practices on recording/notification of occupational accidents/diseases (relation to ILO)	24-25	
	LA6	Description of formal joint hands committees/ proportion of workforce represented in committees	25	
	LA7	Standard injury, lost day and absent rates and work-related fatalities	24	
	LA8	Description of policies or programmes (for the workplace and beyond) on HIV/AIDS		Policy being finalised.

	Indicator number		Page/s	Remarks
Training & Education	LA9	Average hours of training per year per category of employee	26	
Diversity and Opportunity	LA10	Description of equal opportunities policies or programs	43	
	LA11	Composition of senior management and corporate governance bodies (including board of directors)	14-15	
Human Rights				
Strategy and Management	HR1	Description of policies, corporate structure on human rights and monitoring mechanism and results	42-43	
	HR2	Evidence of consideration of human rights (investment/procurement/suppliers/contractors)	43	
	HR3	Description of policy on human rights for supply chain and contractors; monitoring systems/results	43	
Non-Discrimination	HR4	Description of global policies preventing all forms of discrimination and monitoring systems/results	42-43	
Freedom of Association/ Collective Bargaining	HR5	Description of policies on freedom of association and programs	45	
Child Labour	HR6	Description of policy excluding child labour, monitoring systems and results	42	
Forced and Compulsory Labour	HR7	Description of policies on forced and compulsory labour, monitoring systems and results	45	
Society				
Community	SO1	Description of policy on community impact, programs and monitoring systems and results	35-40	
Bribery and Corruption	SO2	Description of policy on bribery and corruption, and compliance mechanisms	47	
Political Contributions	SO3	Description of policy for managing political and lobbying contributions, and compliance mechanisms	47	
Customer Health and Safety	PR1	Description of policy on customer health and safety through products and services, and results	46-47	
Products and Services	PR2	Description of policy on product information and labelling, and compliance mechanisms	46	
Respect for Privacy	PR3	Description of policy and management system for consumer privacy, and compliance mechanisms	47	

Assurance Statement from PriceWaterhouseCoopers

Objectives of Review

A We were asked by the Management of ITC Limited (“ITC”) to provide an “Independent Assurance” to the Corporate Sustainability Report (“Report”) for the period 1st April 2003 to 31st March 2004.

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

Scope of the Review

The scope of the review included:

- A** Review of certain statements and data relating to ITC’s operations and to provision of limited assurance in respect of these statements and data;
- B** Checking of monitoring and reporting procedures to support reliable disclosure in the Sustainability Report;
- C** Assessment whether the Report provides an appropriate representation of existing policies in the areas of human resources, health, safety, environment and community involvement;
- D** Checking of the data stated at indicators EC10 (Donations to community etc.), EN10 (Emission from select ITC units), EN11 (Waste generation at various ITC units), EN5 (Total water use), EN3&4 (Direct and indirect energy used), EN22 (Recycle, reuse of water), LA7 (Standard Injury lost day etc.) and LA9 (average hours of training) in the Sustainability Report 2003-04 and whether they are consistent with the activities in the plant areas for the financial period and are documented and stated in accordance with the guidelines stated under their environmental and social policies.

Basis for Assurance

The Corporate Sustainability Report has been prepared “Generally in line with the GRI Guidelines of 2002”, accordingly, Guidelines on Corporate Sustainability Reporting published by Global Reporting Initiative formed the basis for providing the assurance.

Parties responsible for Assurance Engagement

The assurance engagement was led by Dr P Ram Babu, a Sustainability Systems expert, employed with PricewaterhouseCoopers Private Limited (PwC), with over 24 years experience in Corporate Sustainability Management and Reporting Systems.

The engagement was executed by a team of sustainability specialists with PwC including Mr Surojit Bose, Dr Muna Ali and Mr Ritwik Bhaumik; all of whom are employed with PricewaterhouseCoopers Private Limited, with 7-10 years experience in sustainability issues.

Assurance procedures carried out

There are no internationally accepted standards for preparation and/or assurance of Corporate Sustainability Reports. In the absence of such standards, our approach is based on emerging best practices and the underlying principles within international standards for assurance engagements. More specifically, our work was planned and conducted to obtain “moderate negative assurance” based on International Standards on Auditing-ISA 910.

Our work consisted of:

- A** interviews with management responsible for environmental, safety, internal audit, legal, human resource, finance and company secretary. Meeting with the chairman to understand commitment to sustainability;
- B** examination of documentation on economic, environmental and social policies, practices, performance, governance etc;
- C** a desktop review of external economic, environmental and social issues facing ITC
- D** an assessment of the systems for data collection, analysis, consolidation, reporting etc.
- E** review and sample testing of nine of the reported indicators presented at EC10 (Donations to community etc.), EN10 (Emission from select ITC units), EN11 (Waste generation at various ITC units), EN5 (Total water use), EN3&4 (Direct and indirect energy used), EN22 (Recycle, reuse of water), LA7 (Standard Injury lost day etc.) and LA9 (average hours of training) in the Sustainability Report 2003-04 and their associated processes etc.

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

The data and graphs on financial performance, as specified in the report under Economic Indicators, are properly derived from the audited 2004 financial statements of ITC Limited.

Conclusion

A On the basis of the work undertaken, nothing came to our attention to suggest that the information cited at indicators EC10 (Donations to community etc.), EN10 (Emission from select ITC units), EN11 (Waste generation at various ITC units), EN5 (Total water use), EN3&4 (Direct and indirect energy used), EN22 (Recycle, reuse of water), LA7 (Standard Injury lost day etc.) and LA9 (average hours of training) are materially mis-stated.

B The Report is generally in line with Global Reporting Initiatives Guidelines of 2002 on preparation of Corporate Sustainability Report.

C The internal control and management systems are modeled on good practices and on ISO based quality and environment management system.

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

E In the area of Social Performance Indicators, the prevailing practices in ITC are in conformity with good practices. In some areas, explicitly documented policies and processes would need to be put in place in accordance with GRI Reporting Guidelines. ITC's initiatives – e-choupal, watershed management and social/agro forestry initiatives are well integrated with its business.

F Though the scope and boundary of the report has been clearly delineated at appropriate location in the report but the scope and boundary of the reporting entity has changed at a few indicators. The management has committed to progressively ensuring uniformity in reporting entity across all indicators in subsequent reports.

G Though the reporting period principle has by and large been adhered to, in some instances, data, statements and achievements attributable to periods preceding the reporting period have also been reported.

Signature: *P. Ram Babu*

Name: Dr P Ram Babu

Place: Mumbai, India

Date: December 22, 2004



Choupal Sagar – another first from ITC

Following the impressive success of ITC's e-Choupal project, which has now become a major movement in rural India, the Company has moved on to the second phase of its initiative to improve the quality of life in India's villages. ITC has now unveiled the first 'Choupal Sagar' near Sehore in Madhya Pradesh. The 'Choupal Sagar' is a rural hypermarket which provides multiple services under one roof. It creates a platform for farmers to sell their produce. Farmers can also buy quality products for their farm and household consumption from the 'Choupal Sagar'. This rural mall also provides farmers the invaluable additional services of soil testing, banking, insurance, medical facilities and a restaurant. ITC plans to open 50 such hypermarkets over the next two years.





ITC Limited

Enduring value.

For the nation. For the shareholder.

Farmer Ashok Patel* secures the best price for his crop



Thanks to ITC

Farmers like Ashok are being empowered by ITC's unique e-Choupal movement with critical online knowledge. The latest local, domestic and international prices for agri commodities, local weather forecasts and best farming practices. Enhancing the competitiveness of over 3 million farmers in six states. Over the next decade, ITC aims to empower 10 million farmers in 100,000 villages across India.

For ITC it is yet another expression of a commitment beyond the market. Of a true pride in being Citizen First.

Let's put India first

ITC Limited
**Citizen
First**

*A confident Ashok Patel (holding the mouse), ITC's e-Choupal sanchalak in Itayakala Village, Raissen District, Madhya Pradesh discusses crop prices with other villagers.

For more information log on to www.itcportal.com

Empowering farmers | Greening wastelands | Irrigating drylands | Creating women entrepreneurs | Educating rural children