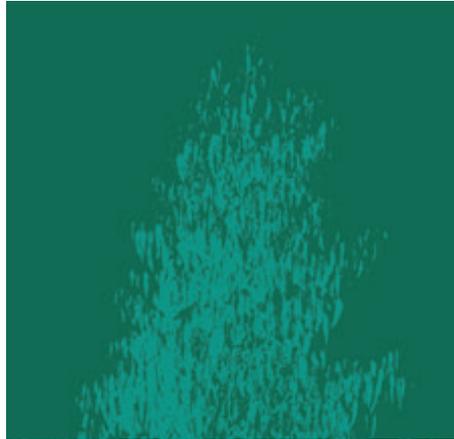


G3-2006 Compliant
Application Level A+

For all our tomorrows
Sustainability Report 2006



ITC Limited

Enduring value.

For the nation. For the shareholder.

Economic Performance

- India's largest FMCG Company
- Fastest growing Foods business
- 2nd largest exporter of agri commodities
- Accounts for 2% of country's agri-exports
- Gross Income of Rs 16,511 crores (US \$ 3.5 billion)
- Market capitalisation of Rs 73,207 crores (US \$ 16 billion)
- Foreign exchange earnings of US \$ 2.5 billion (1997-2006)
- Direct employment of over 20,000 and indirect employment across the value chain of nearly 5 million people
- Supports over 120 SMEs across the country

These figures pertain to the financial year ended March 31, 2006

Social Performance

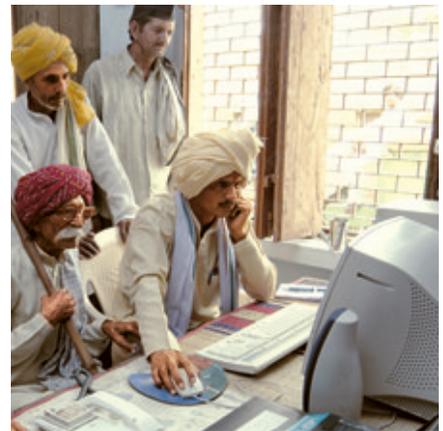
- Empowering over 3.5 million famers through nearly 6,000 e-Choupals covering 36000 villages (6,500 e-Choupals covering 38000 villages till November 2006)
- 41,000 hectares greened with 149 million saplings (63,000 hectares greened with 254 million saplings till November 2006)
- 10,277 hectares of drylands irrigated (15,000 hectares irrigated till November 2006)
- 2154 women entrepreneurs created (4,867 women entrepreneurs created till November 2006)
- 37,000 children covered under rural education (60,000 covered till November 2006)

These figures are todate till November 2006. Figures elsewhere in the Report pertain to the financial year ended March 31, 2006

HIGHLIGHTS

Environmental Performance

- ITC turns Carbon positive (sequestering/storing more CO₂ than it emits)
- Water positive: four years in a row (Creating Rainwater Harvesting potential greater than net consumption)
- Getting closer to zero solid waste discharge (through reduction, reuse and 100% recycling)
- ITC Green Centre, Gurgaon: the first Corporate building in India with LEED Platinum Rating
- ITC's Bhadrachalam Unit: the only paperboards mill in India producing food grade ECF (Elemental Chlorine Free) pulp



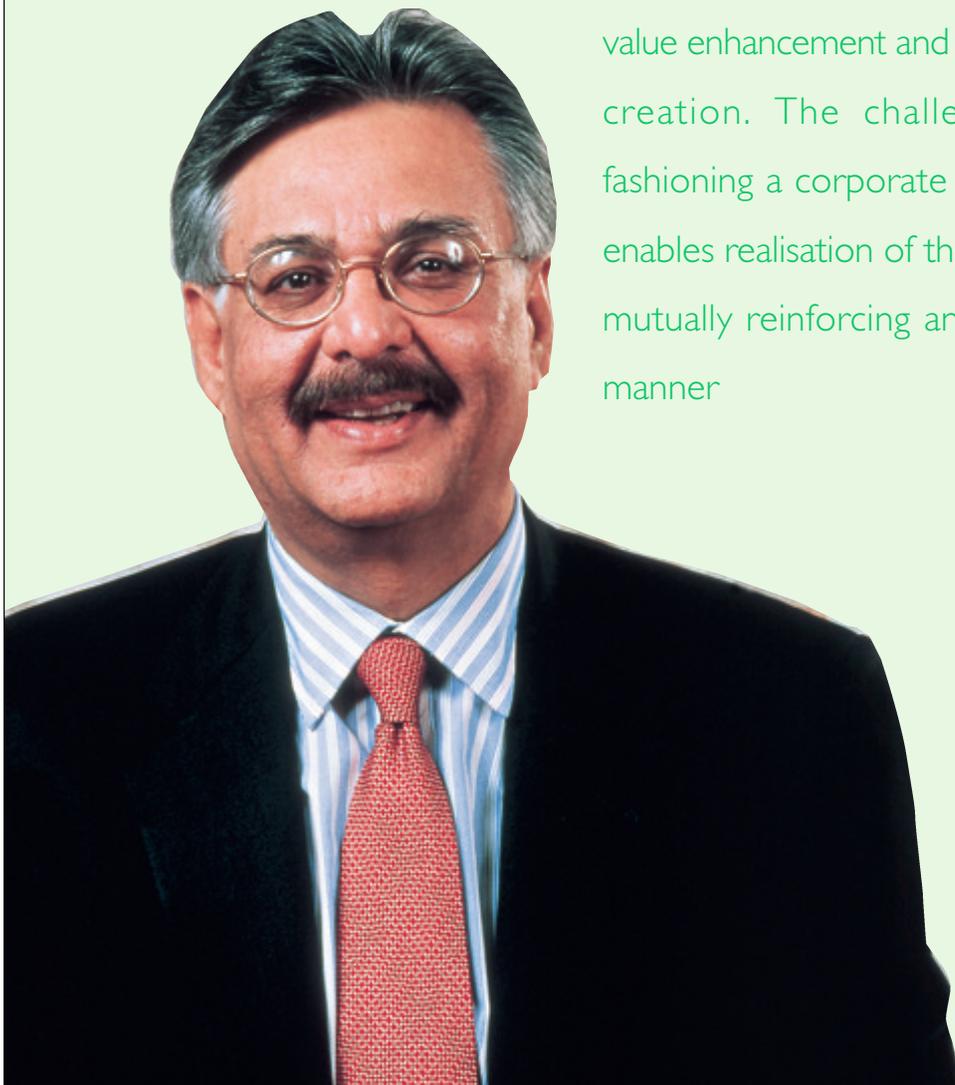
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Chairman's Statement

ITC's Vision and Strategy

“Envisioning a larger societal purpose ('a commitment beyond the market') has always been a hallmark of ITC. The Company sees no conflict between the twin 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”



I am delighted to present ITC's third Sustainability Report. This Sustainability Report, prepared in accordance with G3, the latest Revision of the Global Reporting Initiative guidelines and assured by PricewaterhouseCoopers Pvt. Ltd., represents a balanced and reasonable presentation of ITC's economic, social and environmental performance.

ITC is committed to sustain its position as one of India's most valuable corporations through world-class performance, creating growing value for the Company's stakeholders and the Indian economy. Over the last decade, Total Shareholder Returns, measured in terms of increase in market capitalisation and dividends, grew at a compound rate of over 30% per annum, placing ITC among the foremost in the country in terms of efficiency in servicing financial capital. ITC aims to sustain its premier market standing and leadership position in each of the business segments.

Sustainability reporting by corporates is of significant relevance and meaning in these times of escalating global opportunities and challenges. Business leadership worldwide is confronted with the realisation that the limits to sustainable growth will be determined less by access to financial capital and more by the commitment to preserve and augment social and ecological capital. Given 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. In keeping with this belief, ITC, along with the Confederation of Indian Industry, launched the 'CII-ITC Centre of Excellence for Sustainable Development' in January 2006. The Centre seeks to address the institutional void in developing the requisite capability among Indian industry to pursue sustainability goals. The Centre will endeavour to transform Indian businesses by providing thought leadership, promoting awareness and building capacity.

Development in a country as large and diverse as India poses special challenges. As India embarks on a trajectory of high rates of economic growth, it is imperative 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.

Envisioning a larger societal purpose has always been a hallmark of ITC – ‘a commitment beyond the market’. 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 sees no conflict between the twin goals of shareholder value enhancement and societal value creation. The challenge lies in fashioning a corporate strategy that enables realisation of these goals in a mutually reinforcing and synergistic manner. ITC’s e-Choupal and social forestry programmes represents just two of the stellar examples of this philosophy in action.

Apart from crafting business models that establish direct linkages between businesses and societal goals, ITC is also engaged in implementing various other sustainable development initiatives towards making a meaningful contribution in the economic vicinity of its operating locations. The thrust of these initiatives, christened ‘Mission Sunehra Kal’, is in three areas: (i) natural resource management, which includes wasteland, watershed and agriculture development; (ii) sustainable livelihoods, comprising genetic

improvement in livestock and economic empowerment of women; and (iii) community development, with focus on primary education and health and sanitation.

ITC seeks to contribute in meaningful measure towards social empowerment and genderised development

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

standards.

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

It is a matter of pride that ITC became ‘carbon positive’ during the year on the back of several energy conservation measures, usage of carbon neutral fuels and carbon sequestration through large-scale agro-forestry programmes. ITC is making rapid strides towards attaining ‘zero solid waste’ status. Upon this

achievement in the near term, ITC would perhaps be the only global enterprise of its size in the world to have achieved these milestones encompassing all three critical facets of environmental sustainability.

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

ITC dedicates this Report to the cause of the Bharat Nirman programme initiated by the Prime Minister as a leading symbol of public-private partnership in India's development. It also acknowledges the contribution made by the employees of the ITC Group, whose initiative and commitment have enabled the Company make great strides in its sustainability performance.



(YC DEVESHWAR)

Key Impacts, Risks and Opportunities

Economic Impact

If rapid economic growth is to be sustained in a country as large and diverse as India, it is imperative to include those living at the margin as meaningful participants in the economic process. The slow pace of progress so far towards achievement of the Millennium Development Goals highlights the seriousness of the issues relating to human development.

ITC's aspiration to create enduring value for the nation provides it the inspirational motive force to sustain growing shareholder value. ITC practices this philosophy of a 'commitment beyond the market' 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.

Over the past decade, value addition by ITC has grown at a compound annual rate of more than 12% to over Rs. 68,000 crores, representing nearly 1.1% of the value-added by the Industry sector of the economy. Nearly 77% of such value-added accrued to the Exchequer, providing the much-needed resources for deployment in developmental priorities. Foreign exchange earnings of the ITC Group during this period amounted to nearly US \$ 2.5 billion, of which earnings from agri exports constituted nearly 65%. These earnings from linking the Indian farmer with world markets represent well over 2% of the country's agri exports.

ITC's investments of over Rs. 6,000 crores in the last decade towards enhancing the competitiveness of its businesses support direct employment to the tune of 20,000 and indirect employment across the value chains of nearly 5 million people, whose livelihoods are substantially linked to their association with ITC. The investment plans envisaging Rs. 14,000-15,000 crores over the next few years would further enlarge ITC's economic contribution.

ITC's engagement across diverse value chains spans the farming community, small enterprises and shopowners in the small, medium and cottage sectors. The Company's new FMCG businesses alone support the competitiveness of over 120 vendors in the SME sector thereby enabling them to adopt best practices, induct superior capabilities, and eliminate reprehensible practices like child labour. To illustrate, the Incense sticks business sources products from 8 vendors in the cottage sector, who predominantly employ women. Four of these vendors have earned the ISO 9001 certification – a first for this industry. Thus the symbiotic partnership between the Company and such cottage industry vendors leverages complementary strengths for mutual benefit, thereby enabling these enterprises to flourish without the need for public largesse.

ITC's mission of fulfilling a larger social purpose is based on the bedrock of sound financial performance. It is ITC's belief that creation of shareholder value provides the only basis for sustainable contribution to the superordinate goal of creating national value.

ITC aims to sustain its market standing as one of India's most valuable corporations, achieve leadership position in each of the business segments within a reasonable time frame and achieve a Return on Capital Employed (ROCE) in excess of the Company's cost of capital, at all times.

Over the last decade Total Shareholder Returns, measured in terms of increase in market capitalisation and dividends, grew at a compound rate of over 30% per annum, placing ITC among the foremost in the country in terms of efficiency of servicing financial capital. Amongst listed companies in the private sector, ITC ranked 4th in terms of

Gross Turnover and 3rd in terms of pre-tax profits for the financial year ended 31st March 2006. The Company ranked 6th by market capitalisation amongst listed private sector companies in the country, as at 31st March 2006. The Company has consistently achieved a ROCE well in excess of its cost of capital. It is a measure of the continued trust reposed in the Company by consumers that ITC's brands today account for three of the top five FMCG brands in the country.

Just as the Company's businesses have contributed to strengthening its economic value creating ability, their impact on enhancing social and ecological capital is also growing in magnitude and significance.

Environmental Impact

ITC's impact on the environment as a result of its operations mainly concerns three areas: (a) release of greenhouse gases contributing to global warming; (b) consumption of water, both from surface and sub-surface sources, adding to the depletion of freshwater availability; and (c) generation of solid wastes, adding to the non-degradable waste being generated by industry.

ITC has been at the vanguard of Indian industry's attempts to minimise its environmental footprints through strategic initiatives in each of these areas of global concern.

Global Warming: In order to mitigate the effects of global warming, the Company is following a two-fold strategy: (a) reduce specific energy consumption in its operations through improved technology and processes; and (b) sequester greenhouse gases, especially carbon dioxide, through a large-scale forestry programme. These efforts have resulted in greening 41,000 hectares of land, helping ITC sequester more carbon dioxide than its operations emit. The total CO₂ released by ITC's operations in 2005-06 was 1,202 kilo tonnes while CO₂ sequestered was 1,244 kilo tonnes, or 104% of emissions. This positions ITC uniquely as a 'carbon positive' corporation. By 2010, the Company plans to green 100,000 hectares, significantly more than it would require for its expanding paperboards operations.

Solid Waste Management: Non-degradable waste is a growing menace adversely affecting the environment. Three plans are in place to reduce solid waste within the Company and make it a 'zero solid waste' company in the next two years: the major emphasis is on reduction of waste per unit of output so that the total generation of waste comes down significantly; the second step is to ensure recycling of all the wastes generated by the Company's operations; and the third step is to maximise reuse of the wastes as raw material. As a result of the first two steps during 2005-06, 78.7% of all wastes generated was recycled. ITC hopes to become a 'zero solid waste' company in the next two years through 100% recycling/reuse.

Water Conservation: ITC is mindful of the fact that freshwater in the country is increasingly becoming a valuable resource given that India accounts for 18% of the world's population but has only 4% of global freshwater resources. In order to mitigate the negative impact on freshwater depletion due to its operations, ITC has adopted a three-fold strategy: (a) minimise the consumption of fresh water per unit of output in all its businesses; (b) minimise/eliminate discharge of treated effluents to prevent damage to the environment in any way; and (c) create rainwater harvesting potential within the Company's units. Rainwater harvesting within the units has seen a significant increase between 2002-03 and 2005-06 – from 0.24 MKL to 0.61 MKL.

ITC's endeavours towards sustainability go beyond the corporate boundary. The Company has been systematically and strategically investing in creating additional rainwater harvesting capacity through external watershed development projects in water stressed areas. This was prompted by the fact that even though 70% of India's population lives in the countryside and agriculture accounts for 19% of the country's GDP, nearly 67% of the cultivated area faces

severe moisture stress for 5 to 10 months a year. From 3 projects covering 60 villages during 2001-02, ITC's watershed development projects now cover 325 villages in 16 districts, benefiting 15,506 farmers. A total of 1,011 water harvesting structures have been created. These structures provide critical irrigation to 10,277 hectares of farmland and have led to an additional storage potential of 18.99 MKL.

As a result of these measures, ITC has been a 'water positive' Company for the past four consecutive years. Compared to the net freshwater consumption of 4.62 MKL in 2005-06, the Company has created potential storage of 19.60 MKL through its water harvesting efforts both within its units and in moisture-stressed districts of the country.

The Company is keen not only to maintain its status as a 'water positive' corporation but to continue to address one of India's foremost problems – the threat of more and more areas in the country becoming moisture deficit. In the next five years therefore, the Company has planned to bring a total of 50,000 hectares under soil and moisture conservation through the creation of 1,500 additional water-harvesting structures leading to an additional potential storage of about 28 MKL.

Social impact

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

ITC has partnered the Indian farmer for close to a century. ITC is now engaged in elevating this partnership to a new paradigm. The ITC e-Choupal initiative is a powerful illustration of the Company's commitment to empower the small farmer and thus engender rural transformation.

ITC is also engaged in several other CSR initiatives in the economic vicinity of its operating locations. The Company's Sustainable Livelihoods initiative strives to create alternative employment for surplus labour and decrease pressure on arable land by promoting non-farm incomes. The thrust of the Company's social sector investments, christened 'Mission Sunehra Kal', is on: natural resource management, which includes wasteland, watershed, and agricultural development, creating sustainable livelihoods, comprising genetic improvement in livestock and economic empowerment of women and community development, with a focus on primary education, health and sanitation (Detailed plans

for each of the above initiatives are available in the 'Social Performance' section of this Report).

Through its rural partnerships, ITC touches the lives of nearly 4 million villagers across India. In the next 5 years, ITC aspires to empower over 10 million rural Indians.

ITC: Organisational Profile



ITC has been ranked among Asia's 'Fabulous 50' by Forbes magazine

ITC Limited is one of India's foremost private sector companies with a market capitalisation in excess of US \$ 16 billion and a turnover of more than US \$ 3.5 billion. ITC ranks third in pre-tax profits among India's private sector corporations. ITC is ranked among the World's Best Big Companies and Asia's 'Fabulous 50' by Forbes magazine, among India's Most Respected Companies by BusinessWorld magazine and among India's Most Valuable Companies by Business Today magazine.

ITC has a diversified presence in Cigarettes, Hotels, Paperboards & Specialty Papers, Packaging, Agri Business, Packaged Foods & Confectionery, Branded Apparel, Greeting Cards, Safety Matches 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 Packaged Foods & Confectionery, Branded Apparel and Greeting Cards & Stationery. The Company's successful strategy of creating multiple drivers of growth leveraging the diverse competencies residing in its portfolio of businesses is evident in its impressive track record of growth in the last decade and its strong debt-free balance sheet.

FMCG

It is a measure of the continued trust reposed in the Company by its consumers that the top two FMCG brands in the country today belong to ITC. The Company's FMCG businesses leverage one of the largest retail networks in the country, consisting of about 2 million directly serviced dealers. Its reach covers a wide range of the retail spectrum, from premium outlets in the metros to small shops in the interiors of rural India. The Cigarette business continues to occupy its position of leadership on the strength of continued value addition.

The Company rapidly scaled up the Branded Packaged Foods business during the year in the four current categories – Snack Foods, Staples, Confectionery and Ready-to-Eat – now offering over 100 distinctive products. In the Staples category, 'Aashirvaad Atta' further consolidated its position as the clear leader amongst national branded players with market share touching 45%. The year marked the expansion of the 'Sunfeast' range of biscuits with the launch of Cookies ('Sunfeast Golden Bakes')

in 3 variants and Sweet & Salt Crackers ('Sunfeast Snacky') in 2 variants. During the year, outsourced and distributed manufacturing capacities were geared up to support the increase in scale of operations. The business is in the process of establishing its own production facilities across the country with a view to servicing proximal markets in an efficient and cost-effective manner.

The year also saw the roll out to target markets of 'Sunfeast Pasta Treat', a whole-wheat based non-fried product. Product range in the 'Confectionery' segment was expanded with the launch of 'mint-o masti blue' in a new pack design and 'Cofitino' in the hitherto unrepresented Toffees segment. The Ready-to-Eat product portfolio was augmented with the introduction of Instant Mixes in the 'popular' range under the 'Aashirvaad ReadyMeals' banner, launch of new variants of cooking pastes under the 'Aashirvaad' umbrella brand and a range of packaged desserts, conserves and chutneys under the flagship brand 'Kitchens of India'.





The 'Wills Lifestyle' range was further augmented during the year with the extension of 'EsSENZA Di Wills', an exclusive line of prestige fragrance products, to select 'Wills Lifestyle' stores. The products have met with encouraging response from discerning consumers. The year also marked the launch of the 'Wills Lifestyle India Fashion Week' (WIFW), billed as the country's premier fashion event. In the popular segment, the 'John Players' brand delivered a strong performance during the year and created a buzz among its youthful target audience.

The year witnessed the rapid scale-up of the stationery business with volumes of 'Classmate' notebooks trebling over last year – making 'Classmate' the most widely distributed notebook brand across the country. The 'Expressions' brand of greeting cards sustained its leadership status in multi-brand outlets across the country.

In the Safety Matches business, the Company's brands, including 'Aim' which is the largest selling brand of matches in the country, continued to enjoy strong consumer preference, resulting in enhanced market standing. The year also witnessed the successful acquisition of Wimco by a wholly owned subsidiary of the Company.

The Company's incense sticks (Agarbatti) business made rapid gains during the year with the 'Mangaldeep' brand emerging as the only national brand in its first full year of operations.

Hotels

During 2005-06, the Hotels business posted a strong financial performance with Segment Revenues growing by 35.7%. ITC Grand Central, the Company's second property in Mumbai, which was commissioned in January 2005, posted an impressive performance to record a positive bottom line in its first full year of operations. The business also progressed a product upgradation programme during the year with a view to maintaining the contemporariness of the Company's properties.



ITC Hotel Grand Central, Mumbai

Paperboards and Packaging

The Paperboards, Specialty Paper and Packaging segment recorded strong growth during the year both in terms of sales and operating profits. The year marked significant growth in the Paperboards segment on the back of enhanced capacity utilisation at the Kovai unit and the addition of Paper Machine V (capacity 75,000 TPA) at the Bhadrachalam mill. In fulfilment of its commitment to a cleaner environment, the Company's Elemental Chlorine Free (ECF) pulp mill, the only one of its kind in the country, continues to meet world-class environmental standards. The superior quality of the ECF pulp has enabled expansion of the market for value-added paperboards.

The Packaging and Printing business leveraged its recent investments in technology upgradation to expand its range of

offerings to include a wider variety of contemporary packaging formats. During the year, the business entered the high growth flexible packaging business with the induction of world-class equipment.

Agri Business

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



ITC's paperboards mill at Bhadrachalam, Andhra Pradesh



The e-Choupal empowers farmers with relevant information

of goods and services. This pioneering initiative comprising nearly 6,000 choupals, currently reaches out to over 3.5 million farmers in the States of Madhya Pradesh, Haryana, Uttaranchal, Uttar Pradesh, Rajasthan, Karnataka, Maharashtra, Andhra Pradesh and Kerala.

The Company's investments in creating rural infrastructure to support this two-way flow of goods and services is being strengthened through the creation of rural hubs, christened 'Choupal Saagar'. 10 Choupal Saagars are operational in the 3 states of Madhya Pradesh, Maharashtra and Uttar Pradesh while 9 more are in an advanced stage of construction. These Choupal Saagars, in synergistic combination with the e-Choupal network, would serve as the core infrastructure to support ITC's rural distribution strategy.

Information Technology

ITC's wholly owned information technology subsidiary, ITC Infotech, is one of India's fastest growing IT and IT-enabled outsourced solutions providers. The Company leverages domain

knowledge from its parent's market-leading position in Manufacturing, CPG & Retail and Travel & Hospitality, as well as in other domains like Banking, Financial Services & Insurance, to devise business solutions for global customers. ITC Infotech is a US \$ 64 million company with over 1,700 employees. In addition to IT Solutions, Services and Co-sourcing, the Company has a joint venture with ClientLogic in the BPO space that offers a technical helpdesk with over 2,500 employees. ITC Infotech has offices in the United States, Europe and the Asia Pacific, serving Fortune-listed customers across 42 countries.

Overseas Subsidiary

Surya Nepal Private Limited (SNPL) is an Indo-Nepal-UK joint venture, which started operations in Nepal in 1986. SNPL is the largest private sector enterprise in Nepal and a subsidiary of ITC Limited. Its businesses include manufacture and marketing of cigarettes and readymade garments, as well as export of readymade garments with a total turnover of US \$ 60 million and a pre-tax profit of US \$ 8 million.

Citizen First

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

Pan-Indian Organisation

ITC employs over 20,000 people at more than 60 locations across India. ITC continuously endeavours to enhance its wealth generating capabilities in a globalising environment to consistently reward more than 4,45,000 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.'



ITC's afforestation programme greens over 41,000 hectares



A women's self-help group supported by ITC

Report Parameters

Report Scope/Profile

This is ITC's third Sustainability Report. The data and performance indicators in this Report cover the period April 1, 2005 to March 31, 2006, except for the sections on Highlights, Awards and Certifications which include more recent updates. The Company publishes the Sustainability Report annually and the immediately preceding Sustainability Report was published in 2005 covering the period April 1, 2004 to March 31, 2005.

The reporting principles and methodology of this Report are in accordance with GRI guidelines' 3rd revision – G3. The relevant technical protocols have been followed for reporting the core indicators as well as the additional indicators.

ITC is headquartered at: Virginia House, 37 J L Nehru Road, Kolkata 700 071. For additional copies of this Report or any clarifications, please write to Corporate Communications Department at the above address or e-mail: endingvalue@itc.in

Explanation of Processes

The Report covers performance of all the businesses and units directly under ITC Limited. The Company's businesses/units are required to assess their set of stakeholders, who either have a major interest in or are substantially affected by the

performance of any of these businesses or units. Businesses and their units regularly engage with various stakeholders and a summary of this engagement is provided elsewhere in the Report.

Sustainability and sustainable development are integral parts of ITC's ethos, which find expression in its commitment to enhancing the Triple Bottom Line of economic, social and environmental capital. This 'Triple Bottom Line' performance is reported 'in accordance' with GRI – G3 guidelines. No stakeholder engagement is undertaken specifically for the purpose of Sustainability Reporting.

Performance of subsidiary companies and outsourced manufacturing is not included in the scope of this Sustainability Report.

The Report on economic performance is drawn from the Company's Report & Accounts (R&A) 2006. The R&A 2006 was prepared in accordance with the Companies Act, 1956 and has been audited by independent External Auditors – M/s A F Ferguson and Sons. The environment and safety data is compiled from actual operating data maintained by the various businesses, factories, hotels, etc. of the Company. The social responsibility data has been collected on-site.



Reporting Boundary: This report covers the following businesses and their corresponding units:

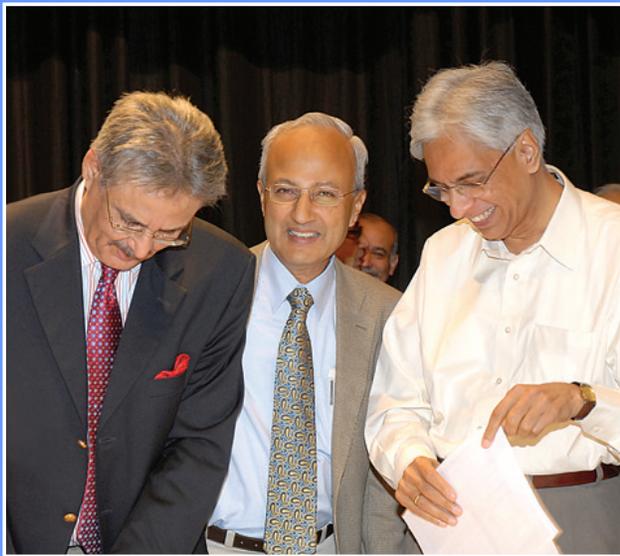
| Business | Units |
|--------------------------------|---|
| FMCG – Cigarettes | Kolkata (West Bengal) Bangalore (Karnataka) Munger (Bihar) Saharanpur (Uttar Pradesh) |
| Hotels | ITC Hotel Maurya (New Delhi) ITC Hotel Grand Maratha (Mumbai) ITC Hotel Grand Central (Mumbai) ITC Hotel Sonar Bangla (Kolkata) WelcomHotel (New Delhi) WelcomHotel Chola (Chennai) WelcomHotel Mughal (Agra) ITC Hotel Windsor (Bangalore) WelcomHotel Rajputana Palace (Jaipur) |
| Paperboards, Paper & Packaging | Munger (Bihar) Tiruvottiyur (Tamil Nadu) Tribeni (West Bengal) Bhadrachalam (Andhra Pradesh) Bollarum (Andhra Pradesh) Kovai (Tamil Nadu) |
| Agri Business | Anaparti (Andhra Pradesh) Chirala (Andhra Pradesh) Research Centre, Rajahmundry (Andhra Pradesh) |
| Lifestyle Retailing | Design & Tech. Centre, Gurgaon (Haryana) |
| Others | ITC R & D Centre, Bangalore (Karnataka) ITC Green Centre, Gurgaon (Haryana) |

The environmental and social impact of outsourced manufacturing in Greeting, Gifting & Stationery, Foods, Safety Matches, Agarbatti and Agri Businesses are not addressed in this Report. We are evaluating the quality of data and information available in these units to commit a reporting target.

There has been no significant change in the size or structure of ownership etc. that could affect the reporting boundary since the previous Report. This Report is comparable with the

previous Report and the only changes in reporting have occurred due to the adoption of the G3 version of the GRI guidelines and relevant technical protocols in place of GRI 2002.

PricewaterhouseCoopers have been engaged to provide independent assurance for the data, processes, report contents and the applications as per GRI guidelines – version G3. The self-declaration on application level (A+) and the assurance statement by PwC are available in the 'Annexure' section of this Report.



GOVERNANCE, COMMITMENTS & ENGAGEMENT

Governance Structure



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

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

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

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

This three-tier governance structure ensures that:

- Strategic supervision (on behalf of the shareholders), being free from involvement in the task of strategic management of the Company, can be conducted by the Board with objectivity, thereby sharpening accountability of management;
- Strategic management of the Company, uncluttered by the day-to-day tasks of executive management, remains focused and energised;
- Executive management of a 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

The primary role of the Board of Directors (Board) is that of trusteeship to protect and enhance shareholder value through strategic supervision of ITC, its wholly owned subsidiaries and their wholly owned subsidiaries. As trustees, the Board ensures that the Company has clear goals relating to 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 following is the composition of the Board as on 31st March 2006:

| Category | No. of Directors |
|-------------------------------------|------------------|
| Executive Directors | 4 |
| Non-Executive Independent Directors | 6 |
| Other Non-Executive Directors | 2 |
| Total | 12 |

The composition of the Board is in conformity with the norms prescribed by the Securities and Exchange Board of India under Clause 49 of the Listing Agreement with Stock Exchanges. In view of the Chairman being an Executive Director, fifty percent of the members of the Board are Independent Directors.

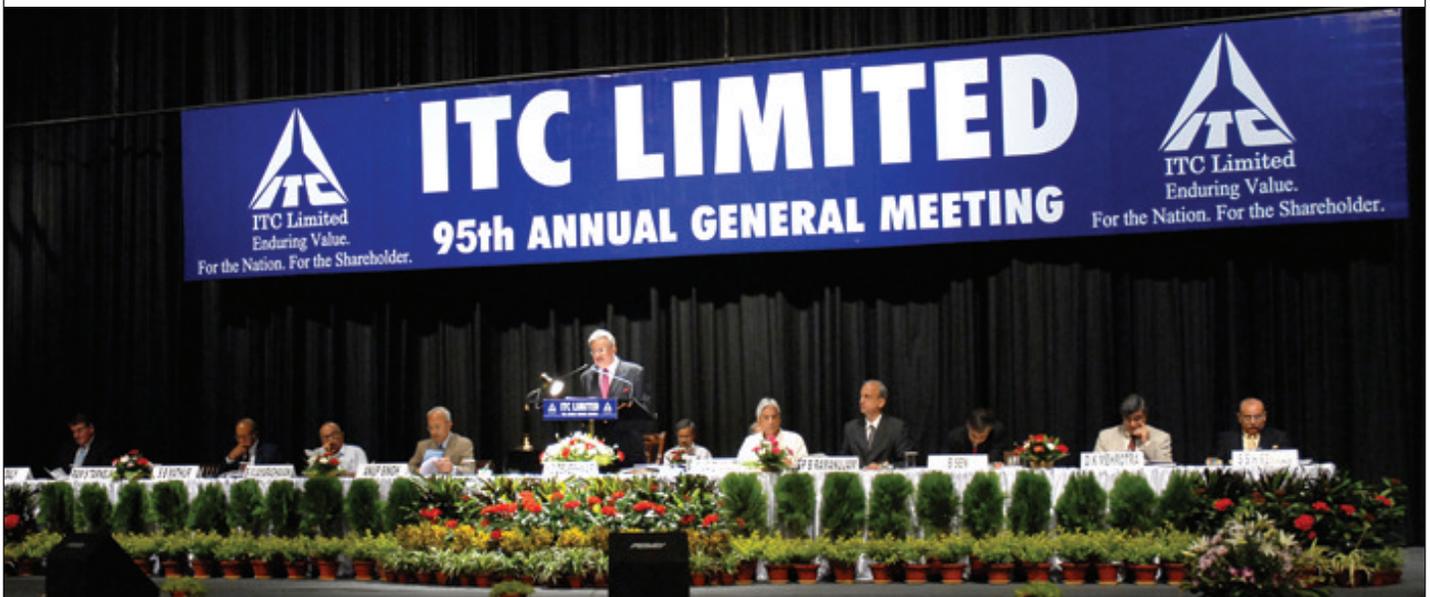
The Non-Executive Directors include independent professionals. The Governance Policy requires that the Non-Executive Directors be drawn from amongst eminent professionals with experience in business/finance/law/public enterprises.

Board Committees

Currently, there are four Board Committees – the Audit Committee, the Nominations Committee, the Compensation Committee and the Investor Services Committee. The role, powers and composition of these Committees is available on the Company's corporate website www.itcportal.com under the section 'Our Values' under the heading 'Corporate Governance'.

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. The Corporate Management Committee comprises all the Executive Directors



and three or four key senior members of management. The Chairman of the Company is the Chairman of the Committee.

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.

Chair of the Highest Governance Body

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

The Company has a diversified business portfolio covering Cigarettes, Hotels, Paperboards & Specialty Papers, Packaging, Agri-Business, Packaged Foods & Confectionery, Information Technology, Branded Apparel, Greeting Cards, Safety Matches and other FMCG products, which enjoins on the leadership to have an in-depth knowledge and understanding of the functioning of the Company, so as to enhance the value-generating capacity of the organisation and contribute significantly to stakeholders' aspirations and societal expectations. The Chairman of the Company, therefore, is chosen from the Executive Management.

Non-Executive Directors

Non-Executive Directors are Directors who are not in the employment of the Company. Non-Executive Directors are drawn from amongst eminent professionals with experience in business/finance/law/public enterprises.

Independent Directors

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

- apart from receiving Director's remuneration, does not have any material pecuniary relationships or transactions with the

Company, its Directors, its senior management, its subsidiaries and associates;

- is not related to persons occupying management positions at the Board level or at one level below the Board;
- has not been an executive of the Company in the immediately preceding three financial years;
- is not a partner or an executive or was not a partner or an executive during the preceding three years, of any of the following:
 - i) statutory audit firm/internal audit firm that is associated with the Company, and
 - ii) legal firm(s)/consulting firm(s) that have a material association with the Company;
- is not a material supplier, service provider or customer or a lessor or lessee of the Company; and
- does not own more than 2% shares of the Company.

Mechanisms for Shareholders to Provide Recommendations or Direction to the Highest Governance Body

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. Any shareholder may propose appointment of a person as Director on the Board of the Company; such proposal will be considered by the general body of shareholders.

For certain items requiring approval of the shareholders, votes of the shareholders are sought by way of postal ballot, thereby providing opportunity to all shareholders to participate.

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 and responded to by the Company. The summary of key sustainability issues raised by the shareholders and ITC's response are available in the 'Stakeholder Engagement' section of this Report.

The Company conducted a Shareholder Satisfaction Survey to formally assess the level of satisfaction of shareholders/ investors on the quality of service rendered. The survey findings convey a high degree of satisfaction with the services provided by the Company.

Compensation (Including Departure Arrangements) for Members of the Highest Governance Body and Senior Managers

Remuneration of the Chairman and Executive Directors is determined by the Compensation Committee comprising only Non-Executive Directors, within the limits approved by the shareholders. The recommendations of the Compensation Committee are considered and approved by the Board. Remuneration of the seniormost levels of management below the Executive Directors is also recommended by the Compensation Committee to the Board for consideration and approval. Remuneration of other managers is approved by the Corporate Management Committee.

Part of the remuneration of the Chairman, Executive Directors and seniormost levels of management below the Executive Directors is linked to the performance of the Company; the quantum of such Performance Bonus paid for each financial year is determined by the Board on the recommendation of the Compensation Committee; such Bonus is determined,

inter alia, on the basis of weightage on parameters of profit & profitability, market standing & organisation vitality and foundations of future growth. Details of compensation paid to the Executive Directors and other managers drawing remuneration above a certain prescribed level are provided to the shareholders every year in the Company's Report and Accounts.

Remuneration to Non-Executive Directors is by way of commission for each financial year; such commission is determined by the Board within the limits approved by the shareholders, based, inter alia, on the Company's performance and regulatory provisions. Such commission is payable on a uniform basis to reinforce the principle of collective responsibility. Non-Executive Directors are also entitled to sitting fees for attending meetings of the Board and Committees thereof, the limits for which have been approved by the shareholders.

Further, Stock Options are also granted to Directors and managers as effective instruments to align interest of employees and build synergy with those of the shareholders by creating a common purpose towards creating sustainable shareholder value, based, inter alia, on the Company's performance, the level/grade of the employee and such other criteria as may be determined by the Board/Compensation Committee.

There is no separate provision for payment of severance fee under the resolutions governing the appointment of Executive Directors who have all been drawn from amongst the management cadre; such appointment is covered by the terms and conditions of a Service Contract. In terms of the Articles of Association of the Company, a notice of one month is required to be given by a Director seeking to vacate office and the resignation takes effect upon the expiration of such notice or its earlier acceptance by the Board. In terms of the Service Contract applicable to the management cadre, employment may be terminated at any time by either party giving to the other one month's notice in writing.



Qualifications and Expertise of the Members of the Board

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

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

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

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

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

Avoidance of Conflicts of Interest

In terms of the ITC Code of Conduct, as adopted by the Board of Directors, all Directors, senior management and employees must avoid situations in which their personal interest could conflict with the interest of the Company. This is an area in which it is impossible to provide comprehensive guidance but the guiding principle is that conflict, if any, or potential conflict, must be disclosed to higher management for guidance and action as appropriate.

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

The Company has a Code of Conduct for Prevention of Insider Trading ('ITC Code') in the shares and securities of the Company. The ITC Code, inter alia, prohibits purchase/sale of shares of the Company by employees while in possession of unpublished price sensitive information in relation to the Company. Designated employees, including Directors and senior management, are also required to make disclosures on shares purchased/sold by them or their dependants. Transactions by such employees in the shares and securities of the Company are also subject to various restrictions, as enumerated in the ITC Code. Instances of violation of the ITC Code, if any, are also reported to the Board.

Vision, Mission, Core Values and Governance Policies

ITC's Vision

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

ITC's Mission

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

ITC's Core Values

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

Trusteeship

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

Customer Focus

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

Respect for People

We are result oriented, setting high performance standards for ourselves as individuals and teams. We will simultaneously respect and value people and uphold humanness and human dignity. We acknowledge that every individual brings different perspectives and capabilities to the team and that a strong team is founded on a variety of perspectives. We want individuals to dream, value differences, create and experiment in pursuit of opportunities and achieve leadership through teamwork.

Excellence

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

Innovation

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

Nation Orientation

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

Corporate Governance Policy ITC Code of Conduct

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

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

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

ITC believes that any meaningful policy on Corporate Governance must empower the executive management of the Company. At the same time, Governance must create a mechanism of checks and balances to ensure that the decision-making powers vested in the executive management are used with care and responsibility to meet stakeholders' aspirations and societal expectations.

From this definition and core principles of Corporate Governance emerge the cornerstones of ITC's governance philosophy, namely, trusteeship, transparency, empowerment and accountability, control and ethical corporate citizenship. ITC believes that the practice of each of these creates the right corporate culture that fulfils the true purpose of Corporate Governance.

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

The ITC Code of Conduct, as adopted by the Board of Directors, is applicable to all Directors, senior management and employees of the Company. This Code is derived from three interlinked fundamental principles, viz. good corporate governance, good corporate citizenship and exemplary personal conduct. The Code covers ITC's commitment to sustainable development, concern for occupational health, safety and environment, a gender friendly workplace, transparency and auditability, legal compliance, and the philosophy of leading by personal example. Any instance of non-adherence to the Code or any other observed unethical behaviour on the part of those covered under the Code is brought to the attention of the immediate reporting authority, who, in turn, reports the same to the Head of Corporate Human Resources. The Code is available on the Company's corporate website.

ITC Code of Conduct for Prevention of Insider Trading

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

Other Policies

Other policies such as EHS Policy, Human Resource Philosophy, etc. are provided in relevant sections of this Report.

ITC is driven by the compelling vision of enlarging its contribution to society. Towards this end, systems and policies, principles and practices in ITC are not only benchmarked to international best practices but also comply with the regulatory requirements.

Performance of the Highest Governance Body

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

Precautionary Approach

As a diversified enterprise, the Company has always had a system-based approach to business risk management. The annual business planning exercise requires all businesses to clearly identify their top risks and set out a mitigation plan with agreed timelines and accountability.

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

- The Corporate Governance Policy has clearly laid down the roles and responsibilities of the various entities in relation to risk management. A range of responsibilities, from the strategic to the operational, is specified in the Governance Policy. These role definitions, inter alia, are aimed at ensuring

formulation of appropriate risk management policies and procedures, their effective implementation and independent monitoring and reporting by Internal Audit.

- A combination of centrally issued policies and divisionally evolved procedures brings robustness to the process of ensuring that business risks are effectively addressed.
- Appropriate structures have been put in place to effectively address the inherent risks in business with unique/relatively high risk profiles.
- A strong and independent Internal Audit function at the Corporate level carries out risk-focused audits across all businesses, enabling identification of areas where risk management processes need to be improved. The Audit Committee of the Board reviews Internal Audit findings, and provides strategic guidance on internal controls. The Audit Compliance and Review Committee closely monitors the internal control environment within the Company and ensures that Internal Audit recommendations are effectively implemented.
- At the Business level, Divisional Auditors continuously verify compliance with laid down policies and procedures, and help plug control gaps by assisting Operating Management in the formulation of control procedures for new areas of operations.



- A robust and comprehensive framework of business planning and performance management ensures realisation of business objectives based on effective strategy implementation.
- Environmental impact assessment for all new projects and operations is carried out and suitable measures are adopted to address concerned areas.

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

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

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

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

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

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

Reports relating to Economic, EHS and Social performance are provided to the Corporate Management Committee on

a monthly basis. In addition to the above, periodic presentations are made to the CMC to ensure performance in accordance with specified targets.

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

Environment Management Systems in all ITC manufacturing units, major hotels and Corporate EHS Department are certified in accordance with ISO 14001.

Occupational Health & Safety Management Systems in all manufacturing units including Corporate EHS Department are certified in accordance with OHSAS 18001.

ITC's social responsibility goals and targets are aligned with stakeholder needs and India's national priorities, which are in line with the UN Millennium Development Goals.

Stakeholder Engagement

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

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

ITC is committed to the timely disclosure of relevant and reliable information on its financial performance, its entire gamut of activities relating to Environment, (Occupational) Health and Safety (EHS), and its social initiatives. ITC believes that the disclosure of all appropriate and useful information with regard to Company activities that can have an impact on stakeholders is at the heart of good governance. Following is a summary of ITC's different key stakeholders, the Company's mode and frequency of engagement with them, their key concerns regarding sustainability and the initiatives undertaken by the Company, whether statutory or otherwise, to positively affect the various sections of stakeholders:

| Stakeholders and their significance | Approaches & frequency of stakeholder engagement | Key sustainability issues and concerns | ITC's Responses |
|---|--|--|--|
| Shareholders: <ul style="list-style-type: none"> • Providers of capital • Owners | <ul style="list-style-type: none"> • Annual General Meeting • Ongoing 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 alongwith the results for the fourth quarter 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 profile, history and evolution, its portfolio of businesses, social responsibility activities and EHS performance. Two exclusive sections on 'Shareholder Value' and 'Investor Relations' serve to inform and service shareholder needs. The entire Report and Accounts as well as quarterly and half-yearly financial results are available in downloadable formats under the section 'Shareholder Value' on the Company's website to facilitate easy access to all information. The 'Newsroom' section includes all major Press Releases from the Company and relevant press clippings. Clarifications as and when provided to institutional investors and analysts, including presentations, if any, made to them, are posted on the Company's website <p>ITC's Investor Service Centre (ISC) provides share registration and other related services. A dedicated and trained team of professionals backed by state-of-the-art infrastructure provides such services. Already a benchmark in-house Registrar, ISC endeavours to keep investor servicing contemporary and efficient. ITC is among the few companies to have obtained the coveted Quality Management System Certification ISO 9001:2000 for its investor servicing, which testifies to the exemplary standards that the Company has achieved in complying with statutory and regulatory requirements and redressing investor grievances.</p> |

| Stakeholders and their significance | Approaches & frequency of stakeholder engagement | Key sustainability issues and concerns | ITC's Responses |
|--|--|--|---|
| Government <ul style="list-style-type: none"> • Policy-maker, regulator and watchdog • Revenue collector | <ul style="list-style-type: none"> • Regular meetings • Written communication | <ul style="list-style-type: none"> • On-time payment of taxes, duties • Statutory compliance | <ul style="list-style-type: none"> • Proactive participation in Government, statutory and business forums on issues relating to regulatory and public policy framework • Monitoring and reporting of relevant parameters to Regulatory Agencies |
| Customers <ul style="list-style-type: none"> • The principal source of sustenance | <ul style="list-style-type: none"> • Customer feedback through meetings, direct interactions, market visits • Market survey to understand customer preferences • B2B portals | <ul style="list-style-type: none"> • Product/service quality • Cost • Availability • Innovation • Product innovation • On-time delivery • Value-added service | <ul style="list-style-type: none"> • Adopting ISO 9001, CANDO (5S), IQRS (International Quality Rating System) and Six Sigma to ensure product quality and consistency • Innovating through research and product development • Leveraging IT to improve supply chain management • Deploying Enterprise Resource Planning for process efficiency and effectiveness • Improving products/processes based on customer feedback • Enhancing employee training to improve service quality |
| Employees <ul style="list-style-type: none"> • The key resource for competitive advantage and sustainable growth | <ul style="list-style-type: none"> • Direct interaction with employees • Mentoring & suggestion schemes • Communication through intranet, emails, and circulars • Formal/informal meetings with Unions • Long Term Agreements • Annual appraisal • Employees'/ Managers' survey | <ul style="list-style-type: none"> • Personal Development and Growth prospects • Individual's future linked to Company's growth • Health & safety | <ul style="list-style-type: none"> • Addressing personal development and career growth issues in various ways such as training & talent recognition, promotions, career options in new businesses, etc • Redressing issues through employee feedback mechanisms and well-established human resource management systems • Ensuring excellent workplace environmental conditions e.g. hygiene, dust and noise control, adequate ventilation, lighting, etc. • Providing medical facilities for employees and their families • Communicating effectively with trade unions and managerial staff • Signing long-term agreements with trade unions for all relevant units |
| Community <ul style="list-style-type: none"> • Communities in the vicinity of ITC's operations can be potentially impacted by its operations | <ul style="list-style-type: none"> • Formal meetings with local and regulatory agencies • Interaction through NGOs • Participatory developmental planning and appraisal | <ul style="list-style-type: none"> • Environmental impact of existing operations and expansion projects • Development of infrastructure • Improvement in health & sanitation • Livelihood generation • Supply of drinking water • Aid for victims of natural disasters | <ul style="list-style-type: none"> • Deploying state-of-art technologies to continuously reduce the environmental impact of operations • Providing infrastructure like roads, electricity, school amenities in operational areas • Offering medical facilities in both urban and rural areas and organising medical camps for eye care, blood donation, etc. • Constructing sanitation facilities • Organising awareness camps on critical health issues like HIV/AIDS and widespread diseases like malaria and gastroenteritis • Creating alternative and sustainable livelihoods through micro enterprises, creation of market linkages, skill development and economic empowerment of women • Ensuring water supply in farms/villages • Extending financial assistance for primary education • Enhancing employment potential of people with disabilities • Helping victims of natural disasters with food and shelter |

| Stakeholders and their significance | Approaches & frequency of stakeholder engagement | Key sustainability issues and concerns | ITC's Responses |
|--|--|--|---|
| Suppliers <ul style="list-style-type: none"> • Critical part of ITC's value chain • Intrinsic to ITC's product and service delivery | <ul style="list-style-type: none"> • Ongoing vendor development • Continuous vendor participation in product/service design and development • Periodic vendor review and audit • Periodic formal and informal interactions | <ul style="list-style-type: none"> • Adequate Return on Investment • Continuity and growth of business • Improvement in technology/ processes | <ul style="list-style-type: none"> • Enhancing the effectiveness of suppliers through value engineering • Supporting small and medium industries with guaranteed buyback arrangements • Sharing best practices to upgrade quality • Documenting and implementing planning cycle • Improving product and services through constant feedback and joint product development |
| Farmers <ul style="list-style-type: none"> • Significant partners in developing quality agri produce for almost all ITC businesses | <ul style="list-style-type: none"> • Day-to-day interaction with the farmers for knowledge sharing • Formal annual farmer meets • Participation in village level community events | <ul style="list-style-type: none"> • Productivity improvement • Assured markets • Improved prices • Supply of agri inputs | <ul style="list-style-type: none"> • Improving market linkages and price realisation through ITC e-Choupal • Developing farm best-practices through knowledge transfer • Boosting productivity through superior high-yielding plant species • Transforming wastelands into productive plantations |



Economic Performance

ITC posted yet another year of impressive results testifying to the robustness of the corporate strategy of creating multiple drivers of growth. The performance is even more satisfying when viewed in the light of the challenging business environment of the cigarette industry, incubation costs of new FMCG business and the rural marketing initiatives and gestation costs of investments in the paperboards business. Gross Turnover for the year 2005-06 grew by 21.5% to Rs. 16,224 crores driven by good topline growth across all businesses of the Company. Pre-tax profit (before exceptional items) increased by 22.3% to Rs. 3,269 crores, while post-tax profit (before exceptional items) at Rs. 2,280 crores registered a growth of 24.1%. The ITC scrip gained 118% during the year outperforming the benchmark BSE Sensex by 44 percentage points.

Management Approach

Policy: The Company's commitment in the area of economic performance is encapsulated in its Vision statement, which is 'to sustain ITC's position as one of India's most valuable corporations through world-class performance, creating growing value for the Indian economy and the Company's stakeholders'. ITC's Mission is 'to enhance the wealth generating capability of the enterprise in a globalising environment delivering superior and sustainable stakeholder value'.

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

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

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

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

Amongst listed companies in the private sector, ITC ranked 4th in terms of Gross Turnover and 3rd in terms of pre-tax profits for the financial year ended 31st March 2006. The Company ranked 6th by market capitalisation amongst listed private sector companies in the country, as at 31st March 2006.

The Company has consistently achieved a ROCE well in excess of its cost of capital.

Of the Rs.10,325 crores of 'value added' by the Company during the financial year ended 31st March 2006, 74% represented Contribution to the Exchequer.

Please refer to the 'Report of the Directors and Management Discussion and Analysis' section of the Report and Accounts 2006 (available on itcportal.com) for a detailed discussion on the Company's market standing in each of the business segments.

Context: Please refer to the 'Report of the Directors and Management Discussion and Analysis' section of the Report and Accounts 2006 for a detailed discussion on the business environment, opportunities, key challenges, etc. pertaining to each of the Company's businesses (available at www.itcportal.com).

Economic Performance Indicators

(Rs. Crores)

| | 2004 | 2005 | 2006 |
|---|-------------|-------------|-------------|
| Key Economic Indicators | | | |
| Gross Turnover | 11815 | 13349 | 16224 |
| Less: Excise Duty & Taxes on Sales of Products/Services | 5345 | 5710 | 6434 |
| Net Turnover | 6470 | 7639 | 9790 |
| Exports Turnover | 977 | 1009 | 1413 |
| Domestic Turnover | 10838 | 12340 | 14811 |
| Taxes Paid/Contribution to Exchequer | 6134 | 6523 | 7677 |
| Cost of Goods | 2388 | 2770 | 3983 |
| Consumption of Raw Materials & Stores and Spares | 2118 | 2142 | 2823 |
| a. Raw materials | 2016 | 2024 | 2684 |
| Imported | 298 | 378 | 439 |
| Indigenous | 1718 | 1646 | 2245 |
| b. Stores & Spares | 102 | 118 | 139 |
| Imported | 37 | 35 | 43 |
| Indigenous | 65 | 83 | 96 |
| Payroll Expenses | 416 | 467 | 541 |
| Interest paid on Debts & Borrowings | 25 | 42 | 12 |
| Dividend Paid (including Tax on Dividend) | 559 | 882 | 1135 |
| Retained Profits | 1034 | 1310 | 1101 |
| Community Investments | 47 | 56 | 65 |

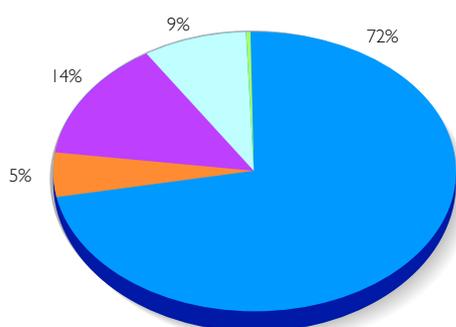
Analysis of Value-Added

(Rs. crores)

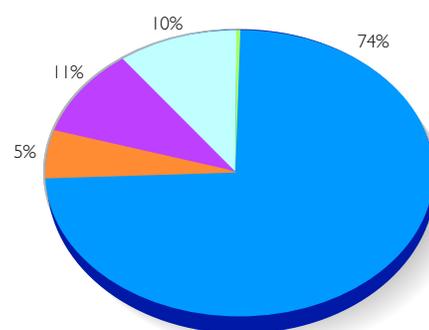
| | 2004-05 | | 2005-06 | |
|-------------------------------------|---------|-----|---------|-----|
| Gross Turnover | 13349 | | 16224 | |
| Cost of Bought-Out Goods & Services | 4233 | | 5898 | |
| Value-Added | 9116 | | 10326 | |
| Percentage Share of Total Income | 68% | | 64% | |
| Share of Value-Added | | | | |
| Exchequer | 6523 | 72% | 7677 | 74% |
| Employees | 467 | 5% | 541 | 5% |
| Providers of Capital | 2126 | 23% | 2108 | 21% |
| • Retained Earnings | 1310 | 14% | 1101 | 11% |
| • Dividend | 773 | 9% | 995 | 10% |
| • Interest | 43 | 0%* | 12 | 0%* |

* Rounded off to the nearest digit

Share of Value-Added 2004-2005



Share of Value-Added 2005-06



■ Exchequer
 ■ Employees
 ■ Providers of Capital: Retained Earnings
■ Providers of Capital: Dividend
 ■ Providers of Capital: Interest (less than 1%)

Putting Customers First

ITC ranks fourth in terms of gross sales in the Indian Private Sector in 2005-2006. Net Sales have grown at an impressive 18% CAGR over the last 5 years. The export turnover grew to Rs.1,413 crores. This signifies a CAGR of 12% over the last 5 years. All businesses in the ITC portfolio are mandated to engage with overseas market in a bid to test competitiveness and seek growth opportunities. The ITC group's contribution to foreign exchange earnings over the last 10 years amounted to nearly US \$ 2.5 billion, of which agri exports constituted 65%. Agri exports earnings are an indicator of ITC's contribution to rural economy through effectively linking the farmers with international markets.

The FMCG – Others segment recorded the highest growth in terms of sales. This segment includes sale of Foods (Atta, Ready-to-Eat Meals, Biscuits, Confectioneries), Garments Retailing, Greeting Cards, Stationery, Agarbatti and Matches. The demand for FMCG products would be driven by rising disposable incomes in the wake of robust growth in the Indian economy; the favourable demographic profile of the country; the relatively low levels of per capita consumption and penetration of these products even as compared to other South Asian countries; improving literacy levels; growing urbanisation trends and the increasing population of working women. ITC is uniquely positioned to tap the emerging opportunities of this sector by synergising and blending the diverse pool of competencies residing in its various businesses.

Turnover (Rs. crores)

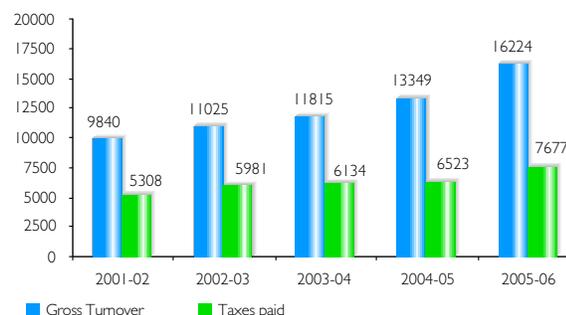


| Product Category | (Rs. crores) | | |
|--------------------------------------|--------------|--------------|------------|
| | 2004-05 | 2005-06 | Growth (%) |
| FMCG – Cigarettes | 10003 | 11330 | 13 |
| FMCG – Others | 562 | 1012 | 80 |
| FMCG – Total | 10565 | 12342 | 17 |
| Hotels | 573 | 777 | 36 |
| Agri Business | 1220 | 1955 | 60 |
| Paperboards, Paper & Packaging | 991 | 1150 | 16 |
| Total | 13349 | 16224 | 22 |

Contributing to the National Exchequer

ITC's contribution to the exchequer is significant in terms of payment of excise duties, income tax and other rates and taxes. The share of ITC's contribution to the exchequer constitutes nearly 74% of its Value Added. In terms of Direct Taxes, the Company's contribution to the exchequer is amongst the top three companies in the private sector in India and in Indirect Taxes in relation to excise payments it accounts for more than 5% of the country's total excise collection.

Turnover & Taxes Paid (Rs. crores)



Rewarding Shareholders

The Company has been making dividend payments consistently over the past several years and its dividend payment reflects the striking of a balance between the need to sustain strategic investments for a secured future and the annual expectation of shareholders for growing income. The Company continues to retain profits at a level of upwards of the Rs. 1,000 crore mark. Total Shareholder Returns measured in terms of increase in market capitalisation and dividends grew at a compound rate of 30% per annum during the period 1995-96 to 2005-06, placing ITC among the foremost in the country in terms of efficiency of serving financial capital. ITC was ranked 6th amongst listed private sector companies in terms of market

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|-----------------------------|------|------|------|------|------|
| Dividend Paid* (Rs. Crores) | 334 | 419 | 559 | 882 | 1135 |
| Dividend Per Share** (Rs.) | 0.90 | 1.00 | 1.33 | 2.07 | 2.65 |

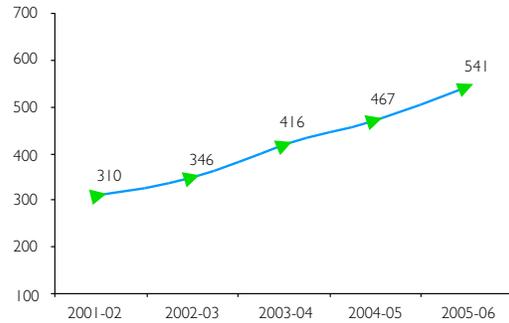
* Includes dividend distribution tax

** Includes adjustment for 1:10 Stock Split and 1:2 Bonus Issue

Nurturing Talent

ITC continues to attract and retain talent of the highest quality. It ensures that employees retain a cutting edge by nurturing and mobilising individual potential and providing a challenging and exciting environment. The emphasis on offering people opportunities for cross-functional and cross-business exposure nurtures and challenges their ability and creativity. The enabling and empowering work environment propels them to deliver high performance. ITC's human resource management systems and processes aim to create a responsive, customer-centric and market-focused culture that enhances organisational capability and vitality, so that each business is internationally competitive and equipped to exploit emerging market opportunities.

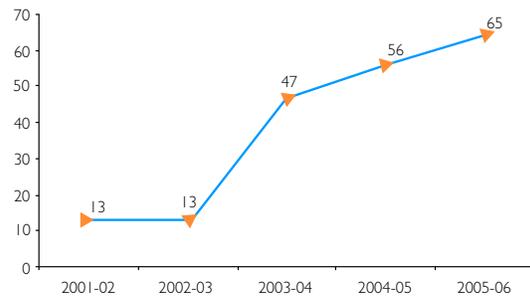
Payroll Costs (Rs. crores)



Citizen First

ITC continuously strives to be 'Citizen First', attaching critical importance to its responsibility to contribute to the 'Triple Bottom Line', namely, augmentation of economic, ecological and social capital. This commitment finds expression in the Company's sustainable development philosophy, which recognises the need to not only preserve but also enrich precious environmental resources while providing a safe and healthy workplace for its employees. ITC's social development initiatives harmonise the Company's endeavour to create shareholder value with making a substantial contribution to society.

Community Investments (Rs. crores)





Climate Change & its Financial Implications

India is a vast country covering 3.28 million sq km, occupying nearly 2.4% of the world's geographical area. The country is endowed with varied soils, climate, biodiversity and ecological regimes.

India is a party to the United Nations Framework Convention on Climate Change (UNFCCC) and the Government of India attaches great importance to climate change issues and is, therefore, seriously concerned with the possible impacts of climate change, such as: water stress and reduction in the availability of freshwater; threat to agriculture and food security, since agriculture is largely monsoon dependent; threats to biodiversity with adverse implications for forest-dependent communities; adverse impact on natural ecosystems; adverse impact of sea-level rise on coastal agriculture and settlements; impact on human health due to the increase in vector and water-borne diseases; increased energy requirements and impact on climate-sensitive industry and infrastructure.

ITC Strategy and Action Plans

ITC has adopted a very proactive approach and has constituted a Carbon Committee which, among others, consists of two Executive Vice-Presidents, one each from the Finance and Environment, Health & Safety departments. The Carbon Committee proactively participates in global forums; studies emerging trends to identify various risks/threats and opportunities from climate change; formulates strategy and supports businesses in evaluation and mitigation measures. The Carbon Committee is also reviewing the India – specific climate change impacts to implement various adoption measures relevant to ITC

businesses.

The Company is seriously tackling Green House Gas emissions and related energy use issues. Not only has the Company achieved significant reduction in specific energy consumption, it uses significantly large amounts of environmentally neutral bio-fuels and has already created nearly 41,000 hectares of plantations – thereby sequestering more CO₂ than its operations emit. This makes the Company 'Carbon Positive'. With ITC committed to reducing specific energy consumption further and expand its plantation activities to 100,000 hectares in the next few years, the extent of CO₂ sequestration will be even more noteworthy.

India, as a Non-Annexure I country, does not have any GHG emission reduction targets in the first commitment period up to 2012. However, being part of the United Nations Framework Convention on Climate Change (UNFCCC), India is committed to improving its sustainability index and participating in the use of the Clean Development Mechanisms (CDM) under the Kyoto Protocols.

ITC's businesses/units are, therefore, actively engaged in reducing Green House Gases emission and a number of CDM projects are in various stages of development. Seven projects have already been sent for registration with the CDM Executive Board. The sale of Certified Emission Reductions obtained from these CDM projects will provide financial incentive and motivation to enlarge ITC's contribution to this important global concern.

Pension Obligations

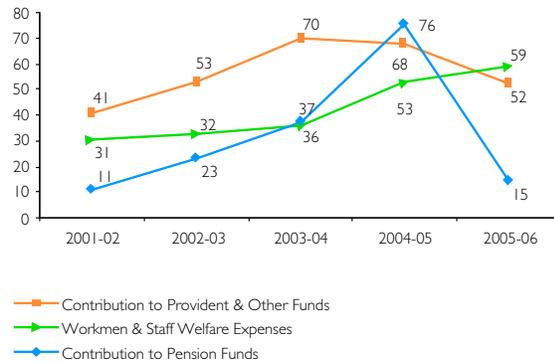
The Company administers various funds in respect of Employees' Retirement Benefit Schemes through duly constituted and approved independent trusts.

Provident Fund and Family Pension contributions in respect of unionised staff, in accordance with statutes, are deposited with the Government.

The pension plan obligations covers all permanent employees of the Company, both in management and unionised levels.

The Company carries out actuarial valuation annually and based on such valuation, if required, the defined benefit plans are funded fully. The funds are sustained at all times, at a level necessary, to meet any commitment for superannuation. The contribution is made entirely by the Company.

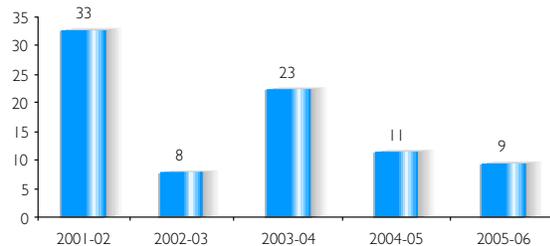
Company's Contribution (Rs. crores)



Financial Assistance from Government

The Central as well as State Governments support initiatives in a number of priority sectors. ITC benefits from some of the applicable government schemes. The Paperboards and Specialty Papers business, under the liberalised state incentive scheme of the Governments of Andhra Pradesh and Tamil Nadu, enjoys incentives such as deferment of sales tax for setting up a new unit or modernisation/expansion/diversification of existing units in the State.

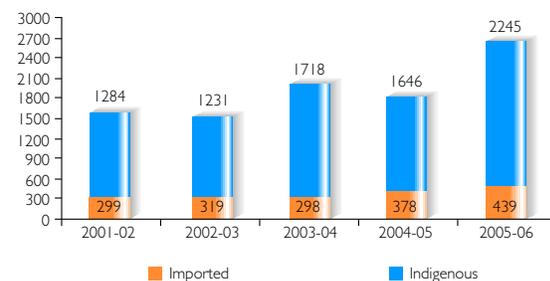
Subsidies Received (Rs. crores)



Locally Based Suppliers

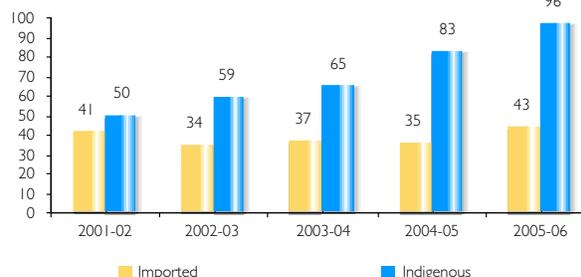
The considerable size and wide geographic dispersion of ITC's operations necessitates working with an array of suppliers. To ensure sustainable competitiveness, all the businesses have state-of-the-art facilities and use the most contemporary technologies to ensure that the customer gets the best quality and value. Specialised production machinery is sourced globally, including from reputed Indian manufacturers. Top class machinery for utilities like boilers, gensets, air-conditioners, refrigerators, electrical and electronic systems are sourced from Indian or India-based suppliers. Competent Indian contractors carry out the construction of new factories, hotels and implementation of large-scale technology upgrades.

Raw Materials Consumed (Rs. crores)



A very significant proportion (around 84%) of raw materials used by ITC businesses are indigenous and most of it is agriculture based. Apart from value of raw materials, stores and spares are consumed in the normal course of manufacture. Indigenous stores and spares comprise nearly 70% of total consumption in terms of value.

Stores & Spares Consumed (Rs. crores)



Local Hiring and Senior Management

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

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

Local employment in the workforce is encouraged in manufacturing and hotels and primarily depends on the availability of requisite skills.

Infrastructure Investments & Services

ITC's multipronged social sector investments are further complemented by its endeavour to create enduring symbols of excellence, be it in the field of culture or sustainable development.

ITC Sangeet Research Academy

ITC established the ITC Sangeet Research Academy to preserve and promote Indian cultural heritage. ITC-SRA plays a major role in reviving and nurturing India's rich heritage of Hindustani classical music. It has created a residential learning centre in Kolkata which captures the mood and ambience of the traditional gurukul. Details of this unique institution have been provided elsewhere in this Report (please visit www.itsra.org).

CII-ITC Centre of Excellence for Sustainable Development

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





Environmental Performance

ITC's commitment to contribute to the development and regeneration of the nation's social and environmental capital is growing in strength with every passing year. The Company's uncompromising dedication to internationally benchmarked 'beyond compliance' performance has ensured that all its units excel in the fields of safety, occupational health and environmental performance. It is a matter of pride that ITC, already a 'water positive' corporation, became 'carbon positive' during the year on the back of several energy conservation measures, use of carbon neutral fuels and carbon sequestration through large-scale agro-forestry programmes. ITC is now making significant progress towards becoming a 'zero solid waste' corporation through reduction of waste and 100% recycling.

Management Approach

Policy: ITC endeavours not only to minimise its environmental footprint but wherever possible create a positive environmental footprint. The Corporate Management Committee of the Company has issued an Environment, Health & Safety Policy (available in the 'Annexure' section of this Report). ITC's EHS Policy extends to all sites of the Company.

Goals & Performance: The Company has adopted 4 goals in the area of Environment:

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

Responsibility: It is the overall responsibility of the Divisional/Strategic Business Unit (SBU) Chief Executives, through the members of their Divisional Management Committees, General Managers and Unit Heads, to ensure implementation of this Policy and Corporate Standards on EHS, including formation of various committees and designating individuals for specific responsibilities in respect of their Division/SBU.

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

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

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

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

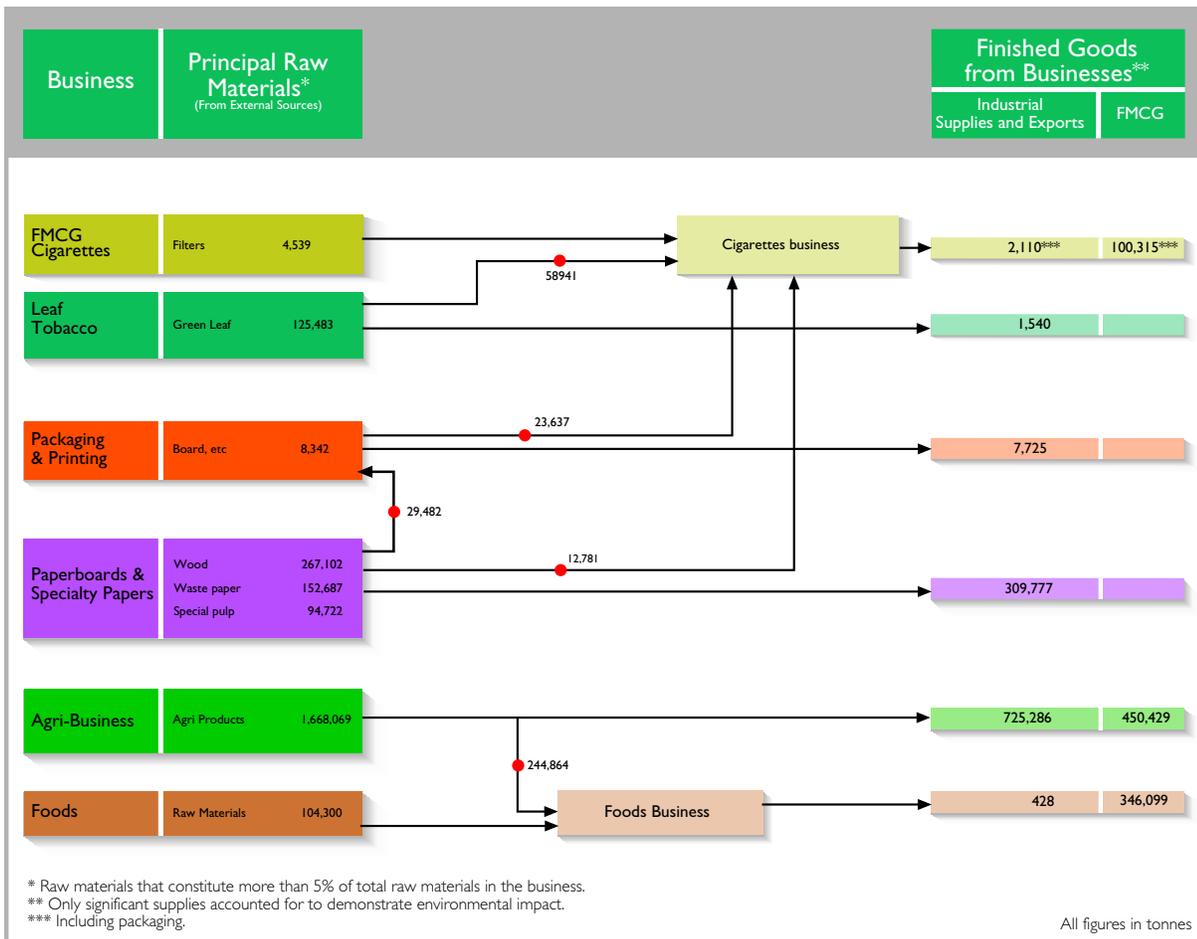
Materials and Products

Raw Materials

All ITC businesses strive to ensure long-term availability of necessary raw materials at optimum and competitive prices. Not only are these businesses required to ensure sustainability of raw material sources, they are mandated to aggressively pursue efficient use of raw materials through extensive R&D and waste minimisation through product and process improvements.

A very significant proportion of ITC's raw materials come from agricultural sources. The Company's large scale involvement in forestry and water harvesting programmes, upgrading farmers' knowledge, skills and marketability through the e-Choupal initiative and sharing resources and R&D results have helped in ensuring raw material sustainability on a long-term basis.

The diagram depicts the principal raw materials used, integration within ITC businesses and broad classification of product destinations. Vertical as well as horizontal integration of ITC's businesses provides the Company a unique opportunity to establish synergy, thereby minimising its environmental impact through ideal use of raw materials, recycling/reuse of wastes and optimising logistics and transportation. This synergy also significantly reduces the environmental footprint of ITC's products and services. Moreover, the use of waste paper as raw material in the manufacture of paperboards has also gone up significantly, further reducing ITC's environmental footprint.



Environmental Footprint of Our Products

ITC products can be broadly classified into the following categories:

FMCG Products

Cigarettes, Branded Packaged Foods, Branded Garments, Safety Matches, Greeting Cards and Stationery items, etc.

Apart from transportation, the very nature of these products renders it very difficult to measure and quantify environmental impact. The Company believes that one significant impact could be that of solid waste. Along with the Company's endeavour to recycle all solid wastes generated by its operations,

it has launched a study to identify the nature and quantum of environmental impact caused by one of its main FMCG products. The scope of the study, being carried out by a reputed consultant, also includes remedial measures to minimise the impact.

Industrial Supplies and Exports

Paper, Paperboards, Packaging, Leaf Tobaccos, Agri produce, etc. ITC believes that the user industries will take adequate measures to minimise the environmental impact from these supplies.

Services: Hotels

ITC's Fibre Strategy: Breaking New Ground in Sustainability

Wood is the major source of fibre for the paper and paperboards industry. Availability of wood remains a major challenge and a serious sustainability concern, specially with the forest cover in India being a meagre 11% against a desirable 33%.

ITC's paperboards mill at Bhadrachalam is one of the most modern and contemporary plants of its kind in the world. The mill manufactured over 300,000 tonnes of paperboards in 2005-06 (more than 7 times its first gross production in 1980-81). The raw material requirement for this level of production was 269,516 tonnes of wood, apart from waste paper and some special pulp.

ITC has effectively leveraged its need for wood fibre to provide significant opportunities to the economically backward by helping them raise plantations. ITC's forestry project aims at building grassroots capacities to initiate a virtuous cycle of sustainable development. At the heart of this comprehensive greening project is ITC's state-of-the-art Research & Development Centre, consistently striving to improve the productivity of several tree species in order to give attractive land-use alternatives to traditional farmers and wasteland owners.

ITC's Research & Development Centre has evolved high-yielding, site-specific, disease-resistant clones and a comprehensive package of plantation management practices. This knowledge of best practices is continuously transferred to the growers right from the delivery of clonal saplings to completion of harvest. ITC distributed 49 million high quality clonal saplings to farmers during the year.

Apart from the obvious benefits of increasing the green cover, this effort also directly contributes to in situ moisture conservation, groundwater recharge and significant reduction in top-soil losses due to wind and water erosion. As a result of the leaf-litter from multi-species plantations and the promotion of leguminous inter-crops, depleted soils are constantly enriched.

Over 91% of the Bhadrachalam mill's total wood requirement came from plantations under its forestry project. Only 1,301 tonnes (0.5%) was sourced from private farmlands. The mill also utilised 74,662 tonnes of waste paper. Its bamboo requirement of 22,881 tonnes was met from government authorised/approved open market sale.

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

ITC is committed to greening 100,000 hectares in a decade under its forestry programme. This would far exceed the wood fibre requirement for its paperboards business. This will create livelihood opportunities for 1.2 million people in tribal areas and sustain ITC's position as a 'carbon positive' corporation.

ITC is Committed to Energy Sustainability

Global, national and local level measures are needed to combat the adverse impacts of climate change induced damages. Developing countries such as India have low adaptive capacity to withstand the adverse impacts of climate change. This is due to a number of factors including the high dependence on climate-sensitive sectors such as agriculture, forestry and fisheries, coupled with weak institutional mechanisms and lack of financial resources.

ITC's strategy on energy sustainability and its commitment towards reducing Green House Gases (GHG) emission can be summarised as follows:

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

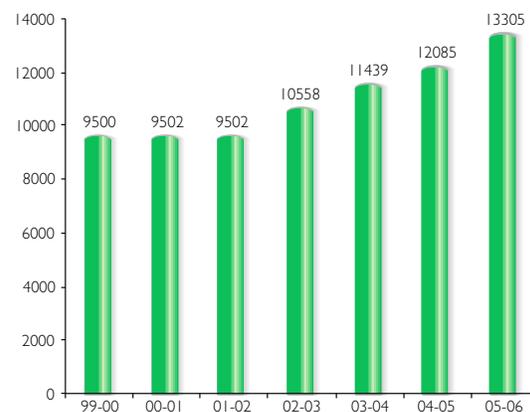
Energy Consumption

ITC's operations consumed 13,305 TJ (Terra Joules) of energy in 2005-06 (12,085 TJ in 04-05).

Total increase in energy consumption was only 10% more than the previous year in spite of a significant growth in production. For example, the Paperboards/Paper business, which accounts for 89.1% of ITC's energy consumption, grew by 18.9% in volume terms.

This was the result of a focused effort by all ITC units to conserve energy through continued technology upgradation, implementing recommendations by Certified Energy Auditors, training a large number of engineers in various units to be Certified Energy Managers and conducting awareness programmes to involve all employees in energy conservation.

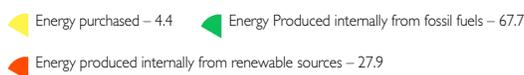
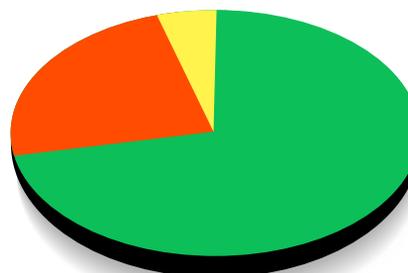
Total Energy Consumption by ITC units (Terra Joules)



Reducing Specific Energy Consumption

Of the total energy (steam and electricity) consumed by ITC units, 95.6% was generated internally and 4.4% was purchased from State Electricity Boards/Public utilities.

3712 TJ (27.9% of ITC's total requirement) was generated from renewable sources including wastes in Bhadrachalam.



Benchmarked Specific Energy Consumption

Bhadrachalam unit alone accounts for 67.4% of ITC's total energy requirements.

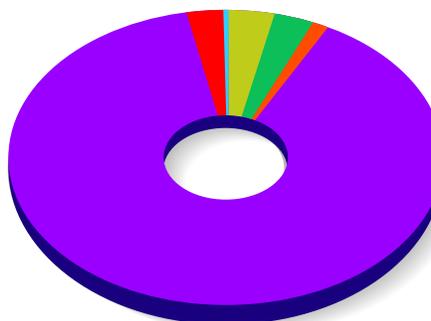
Significant efforts, therefore, continue to be directed towards minimising specific energy consumption, a measure of energy requirement per unit of production, in this unit.

The Bhadrachalam unit achieved 10.7% reduction in specific energy consumption over the previous year – a very significant achievement for a mill that is not only the greenest* paperboards mill in India but also amongst one of India's most energy efficient ones.

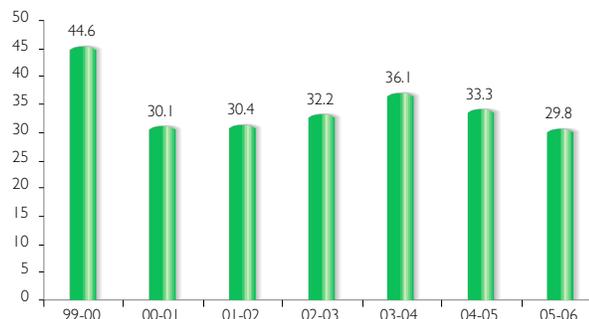
ITC's Cigarette units achieved 3.03% reduction in specific energy consumption over the year 2004-05. The average specific energy consumption for the Cigarette business units now stands at 7.99 GJ/million cigarettes.

(*All about Paper – The life cycle of the Indian pulp and paper industry, Green Rating Project by The Centre for Science and Environment, 2004.)

Energy Consumption(%) by ITC businesses



Specific Energy Consumption in the Bhadrachalam Mill (GJ/gross tonne).



Energy Conservation at Bhadrachalam

Energy conservation measures at Bhadrachalam primarily consist of maximising energy from waste and co-generation, adopting energy efficient technologies/equipment, installing state-of-the art technologies for monitoring and benchmarking against best-in-class.

A dedicated Energy Cell has been set up with experienced and certified Energy Managers who have been given specific responsibilities. The Cell is also empowered to carry out audits, feasibility studies and implement recommendations. Some of the major initiatives undertaken to reduce consumption of electrical and thermal energy include:

- Energy efficient pumps, lighting and air conditioners
- Retrofitting capacitor banks, automatic delstar etc.
- Variable frequency drives for pumps and fans
- Automatic power factor controller
- Frequency control operation for co-generation
- Optimisation of distribution voltage
- Use of bio-refining enzymes in pulping process
- Electronic governing system for turbo generators
- DCS Monitoring of steam distribution and on-line steam, compressed air and water leak arresting

Renewable Energy & Use of Biomass

Efforts by ITC businesses towards use of renewable energy and replacement of fossil fuels by environmentally neutral bio-fuels resulted in generation of 3,712 Terra Joules of energy (2,965 TJ in 2004-05). Out of this, 3,108 TJ was generated from black liquor in Bhadrachalam unit.

The Kovai unit utilised locally available sawdust, wooden chips and deoiled bran to generate 603 TJ of energy. Plans are in progress to increase the proportion of black liquor and increasingly use other forms of locally available biomass in preference to fossil fuels.

Solar thermal systems for preheating boiler feed water, use of solar cells to power e-Choupals, and solar heating in canteen kitchens continued to be used at a number of ITC units.



Solar panels used as power backup for e-Choupal kiosks

ITC is now a 'Carbon Positive Corporation'

Total Green House Gas (GHG) emissions from all the ITC units during the year amounted to 1,202 kilotonnes of CO₂ (1,058 kilotonnes in 04-05).

ITC continued to rapidly upscale its farm and social forestry initiatives and added another nearly 12,000 hectares of plantations in 2005-06.

The total area under ITC's farm and social forestry plantations now amounts to nearly 41,000 hectares. This initiative has not only led to raw materials sustainability for ITC's Paperboards business, but has helped sequester 1,244 kilotonnes of CO₂, thereby making ITC a 'Carbon Positive Company'.

| | Unit | 03-04 | 04-05 | 05-06 |
|--|------------|-------|-------|-------|
| CO ₂ released (Manufacturing and Freight) | Kilotonnes | 1013 | 1058 | 1202 |
| CO ₂ sequestered | Kilotonnes | 311 | 906 | 1244 |
| CO ₂ sequestered | Percent | 31% | 86% | 104% |



These plantations help ITC sequester more carbon dioxide than it emits

ITC Continues to be a 'Water Positive Corporation'

Merely 2.7% of water available on earth is fresh water and out of that only 4% is available in India, which accounts for almost 18% of the world's population. Water will, therefore, continue to remain one of the most crucial elements in developmental planning in the country. All efforts to develop, conserve, utilise and manage this important resource in a sustainable manner will be essential.

ITC's corporate strategy on water comprises:

1. Conservation, Audits and Benchmarking –

to achieve the lowest specific water consumption (water per unit of production).

2. Zero Waste Water Discharge –

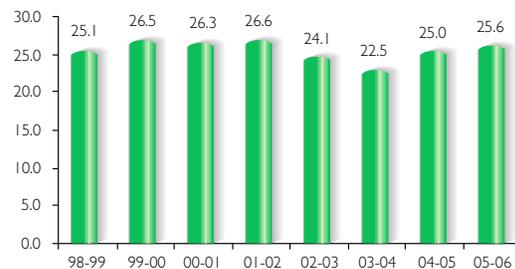
treating and recycling all wastewater, thereby not only reducing fresh water intake but also preventing pollution of fresh water resources.

3. Creating Positive Footprint –

through rainwater harvesting, both at the Company premises and through relevant watershed projects.

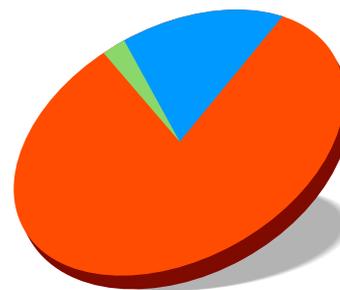
Total fresh water intake by all ITC units during the year amounted to 25.6 MKL (million kilolitre). This is marginally (2.4%) higher than the previous year's (25 MKL), despite very significant growth in all ITC businesses.

Fresh water intake by ITC units in million KL



Water Sources

Of the total water used by ITC units, 82.04% (20.98 MKL) was drawn from rivers/surface water. 16.51% (4.22 MKL) was from ground water and only 1.45% (0.38 MKL) was received from Municipal/other sources. Out of 4.22 MKL of ground water, nearly 60% was utilised by the Tribeni specialty papers unit, where high turbidity in river water renders its use unviable.



■ Ground Water (4.22 MKL)
 ■ River/Surface water (20.98 MKL)
 ■ Municipal/others (0.38 MKL)

Water Conservation

The two paperboards units at Bhadrachalam and Kovai and the specialty papers unit at Tribeni account for 91.9 % of ITC's total fresh water intake. By implementing water audit recommendations, use of advanced technology, better water management and heightened awareness, these units have reduced specific water consumption by 13%, 2% & 18%, respectively, over the previous year.

Sustained Improvements

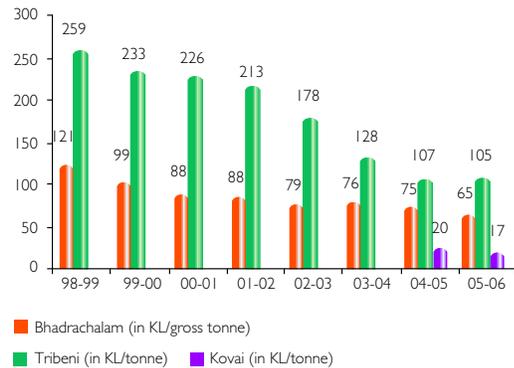
The Bhadrachalam unit, the largest consumer of water in ITC (77.1% of the total fresh water drawn), has recorded 88% growth in production since 1988-89 but only a 2% increase in fresh water intake. This has been made possible by improvements in technology and sustained water conservation efforts.

ITC's Cigarette factories achieved specific water consumption of 6.33 KL/million cigarettes in 2005-06, an improvement of 12.1% over the previous year (7.2 KL/million cigarettes in 2004-05).

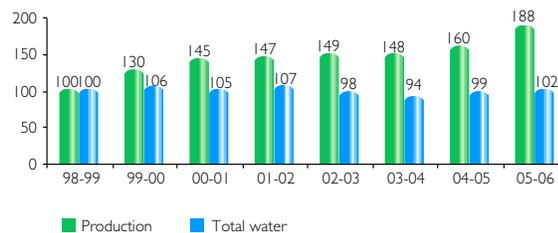
In 2005-06, the Leaf Threshing units brought down fresh water intake by 19% over the previous year, in spite of a 2.2% increase in production – a very significant 21% reduction in specific water consumption.

The Packaging & Printing factories also achieved a major reduction (16%) in fresh water intake over the previous year – a notable achievement given a 9.4% growth in production. This amounted to 23.4% improvement in specific water consumption.

Specific water consumption at Bhadrachalam, Tribeni and Kovai units



Production versus fresh water intake at Bhadrachalam Paperboards unit (1998-99, base year, taken as 100)



Zero Waste Water Discharge

Closing the water loop in a factory/hotel not only results in minimum fresh water usage, it also prevents pollution of the environment including fresh water sources.

The Cigarette factories at Bangalore & Saharanpur, Leaf plants at Anaparti and Chirala, Packaging & Printing unit at Tiruvottiyur, Research Centres at Bangalore and Rajahmundry, Paperboards unit at Bollaram, ITC Green Centre at Gurgaon, ITC Sonar Bangla, Kolkata and Welcomhotel Rajputana Palace Sheraton, Jaipur, recycled all the treated effluents. The recycled water was mostly used in flushing toilets, cooling towers, gardening, etc. This not only saved 1.095 million KL (4.28% of total consumption) of fresh water intake but also prevented outflow of any wastewater.



ITC has created 18.99 million KL of rainwater harvesting potential through watershed projects

Creating a Positive Footprint: Rainwater Harvesting

ITC continued to invest in additional rainwater harvesting (RWH) potential, within the Company units as well as in watershed projects in relevant areas.

The following table demonstrates constant improvement in ITC's water balance, making it Water Positive for the fourth consecutive year.

All units in MKL

| Water balance at ITC | 2002-03 | 2003-04 | 2004-05 | 2005-06 |
|---|---------|---------|---------|---------|
| Freshwater intake | 24.10 | 22.48 | 24.98 | 25.58 |
| Treated effluents discharged | 14.64 | 14.04 | 19.55 | 20.96 |
| Net water consumption | 9.49 | 8.44 | 5.43 | 4.62 |
| RWH potential created within ITC units* | 0.24 | 0.39 | 0.34 | 0.61 |
| RWH potential created through watershed projects* | 12.50 | 15.67 | 16.52 | 18.99 |
| Total RWH potential created* | 12.74 | 16.06 | 16.86 | 19.60 |

* Cumulative till year todate

Significant Effluent Discharges

ITC units continue to improve the quality of effluent discharges to minimise adverse impact on the environment.

Almost all ITC units have state-of-the-art effluent treatment facilities to reduce undesirable effluent characteristics and the quality of treated waste water is significantly better than statutory standards.

In 2005-06, of the total 20.96 million KL wastewater, 86.8% (18.19 million KL) was used for irrigation. 8.4% (1.76 million KL) was discharged to surface water bodies and balance 4.8% to the municipal drains/sewage.

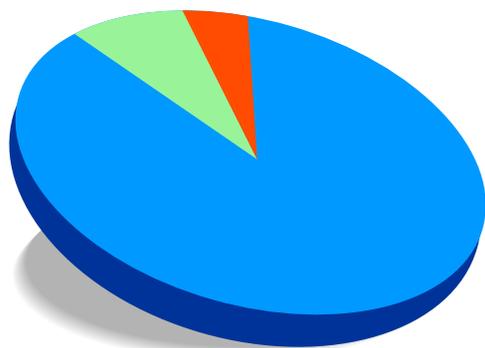
The Bhadrachalam, Tribeni and Kovai units contributed 19.95 million KL of the total treated wastewater discharged. Average monitored effluent levels in these units, in 2005-06, were substantially lower than the National Standards:

All values average for the year

| | Standard | Bhadrachalam | Tribeni | Kovai |
|------|----------|--------------|---------|-------|
| BOD* | 100/30 | 26 | 9 | 5 |
| COD* | 250 | 176 | 57 | 83 |
| TSS* | 100 | 79 | 25 | 23 |

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

Treated Wastewater Discharge (%)



For irrigation (86.8) River(8.4) Municipal drains (4.8)

The average Adsorbable Organic Halides (AOX) level in Bhadrachalam effluents was 0.0025 kg/tonne of paperboard. This is remarkably below the average discharge level of 2kg/tonne by Indian Paper/Paperboard mills. It is also significantly better than the World Bank guidelines for new paper mills which stipulate a level of 0.2kg/tonne.

The effluent treatment plant at Bhadrachalam



Towards Zero Solid Waste

Urban India alone generates an estimated 48 million tonnes of solid waste each year. More than 25% of the municipal solid waste is never collected for clearance. 70% cities lack adequate transportation facilities for garbage disposal and there are no sanitary landfills. The situation in semi-urban and rural areas is even more challenging.

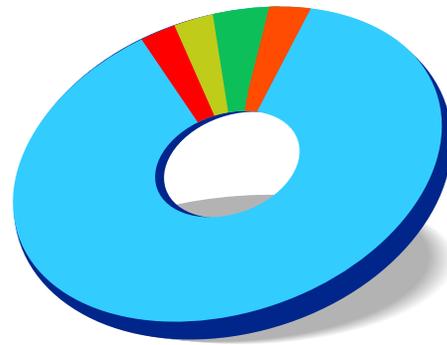
ITC endeavours to recycle all solid wastes from its manufacturing units and hotels.

In 2005-06, the total solid waste generated by ITC units amounted to 3,14,585 tonnes (2,80,891 tonnes in 2004-05). Although the Leaf Tobacco and the Paperboards & Specialty Papers businesses achieved 19% and 6% reduction in specific wastes (waste per unit of production), respectively, a very substantial growth in all ITC businesses led to 12% higher generation of solid waste.

The 3,14,585 tonnes of solid waste includes 13,653 tonnes of hazardous solid waste (bio-medical wastes, used lead acid batteries, 13,273 tonnes of sludge from the effluent treatment plants and certain empty containers – designated hazardous by Indian statutes). Bio-medical waste, in accordance with Bio-Medical Waste Rules, is sent to authorised incineration facilities; used lead acid batteries are returned to the original manufacturers/suppliers, for recycling, in accordance with Battery Management Rules; sludge from effluent treatment plants, the largest component of hazardous waste, is recycled to make trays, etc. and empty containers of hazardous materials, after decontamination, are returned to original suppliers/recyclers.

ITC units also generated 251 tonnes of used oil from lubrication and maintenance activities of various machinery. This used oil was sold for recycling to authorised dealers in accordance with the Hazardous Waste (Management and Handling) Rules.

Breakup of solid waste generated by ITC Businesses (%)



- Cigarettes (2.8)
- Leaf Tobacco (4.1)
- Packaging (2.8)
- Paper (87.5)
- Hotels (2.8)



Fly ash bricks – an effective way of recycling waste

Waste Recycling

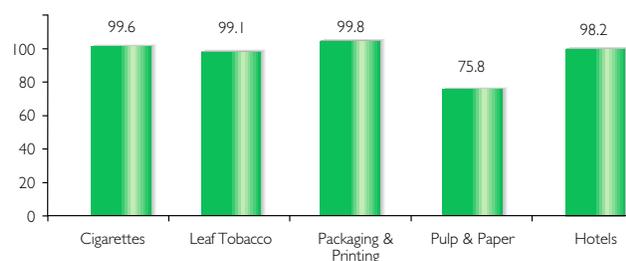
ITC businesses recycled 2,47,728 tonnes (78.7%) of wastes in 2005-06 (2,26,006 tonnes recycled in 2004-05). A large number of businesses/units in ITC have made significant progress in furthering ITC's endeavour to attain 100% recycling and reuse.

The Cigarette factories at Saharanpur and Kolkata, ITC Green Centre at Gurgaon, ITC Welcomgroup hotels Maurya, Mughal, Grand Maratha, Grand Central and Rajputana recycled the entire solid waste generated in the respective units.

The Paperboards and Specialty Papers business, contributing 87.5% of total waste generated in ITC, has made significant improvements in reducing/recycling waste.

The businesses/units continued to identify waste reduction/recycling opportunities. Plans are in place to recycle the balance waste items and this should, in the next two years, help ITC become a 'Zero Solid Waste' company.

Recycling of solid wastes by ITC businesses 2005-06 (%)



| Waste item yet to be recycled | Quantity in Tonnes | Plans for recycling |
|-------------------------------|--------------------|---|
| Fly ash | 47881 | <ul style="list-style-type: none"> Improves brick making capacity Enhances supplies to cement manufacturers |
| Lime sludge | 14412 | <ul style="list-style-type: none"> Enhances supplies to cement factories |
| Mixed plastic | 1051 | <ul style="list-style-type: none"> Vendor identified to make furniture/pellets |
| Wood bark/chip dust | 2976 | <ul style="list-style-type: none"> Used as boiler fuel Gasification plant |

Bhadrachalam Initiatives in Waste Recycling

The Paperboards unit generated 2,10,987 tonnes of solid waste in 2005-06 (only 8.4% higher than the previous year in spite of 17.7% volume growth). The unit adopted a two-pronged strategy for reducing specific waste and improving recycling.

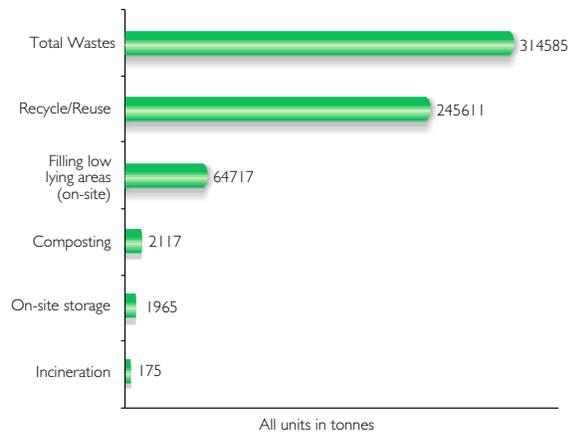
Specific waste was reduced to 700 kg/tonne of manufactured paperboards in 2005-06 (from 760 kg/tonne in 2004-05). According to the Centre for Science and Environment, Delhi, study on 'Green rating of Indian pulp and paper industry, 2004', specific solid waste generation by all large scale Indian mills amounted to 1.2 tonnes/tonne of production. The unit has also started a number of initiatives (described elsewhere in the Report) to improve recycling/reuse.

Reuse, Recycle, Recovery, Composting, Incineration, Landfill and On-site Storage

In 2005-06, 78.1% of waste in ITC units was recycled/reused, and 0.67% was composted, 20.6% was used for filling low-lying areas within the plant premises and 0.62% was stored on-site for recycling in future. Incineration was limited to only 0.08% of the total waste produced.

The main constituents of the total solid waste and their destination are given below:

Total Solid Wastes & their destination in ITC (2005-06)



| Waste Item | Tonnes | Destination |
|---------------|--------|---|
| Fly ash | 150970 | 74.3% reused in brick making The balance used in filling low-lying areas (on-site) |
| Lime sludge | 72833 | 80% reused in lime plant The balance to be supplied for cement manufacturing |
| Boiler cinder | 23425 | 100% recycled/reused |
| ETP sludge | 15731 | 99.6% recycled for making useful materials like trays |
| Wet garbage | 3329 | 97% used in piggeries or vermi-composted |

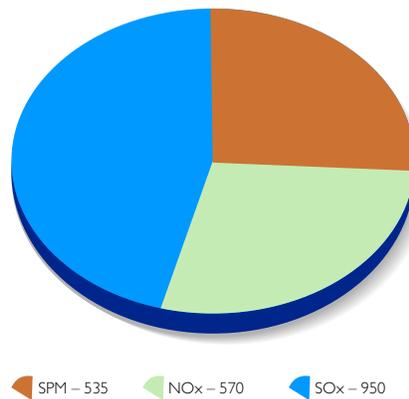
Significant Air Emissions

All ITC units have state-of-the-art pollution control and monitoring systems and regularly monitor air emissions to measure Suspended Particulate Matter (SPM), Sulphur Dioxide (SO₂), Nitrogen Oxides (NO_x) and other pollutants. Additionally, the Bhadrachalam unit also monitors Hydrogen Sulphide (H₂S) levels regularly. The measured levels have always been well within stipulated norms.

The average SPM levels of 1.04 kg/BDMT (Bone Dry Metric Tonne) of paperboards in 2005-06 showed a reduction of 27% from 2004-05 emission levels. The specific NO_x emission was 0.69 kg per tonne of paperboard (9.2% less than the previous year).

The Cigarettes business brought down the SPM levels from 2.65 kg in 2004-05 to 1.65 kg per million cigarettes in 2005-06. The average specific SO₂ emission level measured at 2.48 kg/million cigarettes in 2005-06 showed a reduction of 37% from the previous year, while NO_x at 1.23 kg/million cigarettes showed 18% reduction from the previous year.

Significant Air Emissions by ITC units (tonnes)



Air pollution control equipment at the Bangalore factory

Ozone Depleting Substances (ODS)

The ozone layer surrounding the earth, around 15-30 km from the surface, acts as a natural filter to prevent the sun's biologically harmful ultra-violet radiation. The Montreal Protocol, adopted in 1987, regulates/bans the use of ozone-depleting substances internationally. India, one of the signatories to this Protocol, has formulated rules and committed a schedule to phase out ODS production and use in India.

ITC guidelines require that:

- All newly purchased equipment is free of Chlorofluorocarbons (CFC), Halons and Methyl Chloroform (MCF).
- Units should monitor and reduce consumption of ODS.
- Units should plan replacement of all the affected existing equipment well before ODS Rules' deadlines.
- ODS should be recovered from all the equipment being replaced for recycling or safe disposal.

The Corporate EHS department audits implementation of these guidelines in all the units. Total consumption of ODS (CFC-11 equivalent) in 2005-06 was 198 kgs, down 72.3% from 716 kgs last year.

Significant Spills of Chemicals, Oils and Fuels

Corporate EHS guidelines require all ITC units to have effective spill control measures to eliminate or contain any spills of chemicals, oils, fuels and hazardous wastes/substances to prevent any adverse impact on environment and sub-soil. The storage facilities are designed to international standards with adequate controls such as impervious flooring, dyke walls, leak detection

systems and spill control procedures, etc. All hazardous wastes, before disposal, are stored in suitable containers to prevent any leakage or spill. Once a year, every ITC unit is audited to ensure effectiveness of these measures. No chemical, oil, fuel or waste spill was reported in any of the ITC units during 2005-06.

Biodiversity

None of ITC units/operations is situated in a biodiversity sensitive zone. In 2005-06, construction of a new factory in Uttaranchal has been taken up in a government identified industrial area. Construction of a new hotel in Bangalore is taking place at a site previously occupied by a housing colony for ITC managers.

Both these projects have been undertaken after detailed Environmental Impact Assessment and Stakeholders' Consultations. All the issues from these studies and consultations have been suitably addressed.

Beyond Compliance

ITC's uncompromising dedication to internationally benchmarked performance ensures that all units continue to comply with relevant statutes on Environment Occupational Health and Safety.

During the year 2005-06, world-class, third party certified, management systems like ISO 14001 & OHSAS 18001 and the use of state-of-the-art processes/technologies – supported by audits by the Corporate EHS – ensured that all ITC units continued to be free of any violations of regulatory or voluntary requirements.



Social Performance

ITC continued with its 'beyond compliance' efforts at ensuring a safe workplace, upholding best labour practices and human dignity, and demonstrating its 'consumer is king' philosophy.

As a responsible corporate citizen, ITC has made remarkable contributions to the social sector. The Company is engaged in poverty alleviation initiatives in some of the most underdeveloped parts of the country. The thrust of the Company's social sector investments, christened 'Mission Sunehra Kal', is on: (a) web-enablement of the Indian farmer, (b) natural resource management, which includes wasteland, watershed, and agricultural development, (c) sustainable livelihoods, comprising genetic improvement in livestock and economic empowerment of women, and d) community development, with a focus on primary education, health and sanitation.

ITC's social development projects are spread over the states of Andhra Pradesh, Karnataka, Tamil Nadu, Kerala, Madhya Pradesh, Uttar Pradesh, Rajasthan, West Bengal and Bihar.

Labour Practices and Decent Work Environment Management Approach

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

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

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

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

The Human Resources and EHS functions of each business are the primary custodians of ITC's labour and EHS policies and employment practices, the implementation of which is reviewed periodically at the Unit and the Divisional levels. The Corporate Human Resources and EHS functions provide specialist services to assist in the implementation and monitoring

of the same. The multi-layered and multi-dimensional audit framework of the Company also helps in monitoring compliance with laid down policies and statutory regulations.

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

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

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

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

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

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

Employment

ITC is one of the most valuable corporations in India and provides direct employment opportunities to over 20,000 employees. ITC encourages full time direct employment. It also provides indirect employment across the value chain to nearly 5 million people, whose livelihoods are substantially linked to their association with ITC. Indirect employment covers the supply and distribution network, agri-sourcing, social and farm forestry, e-Choupals, women's empowerment and micro-enterprises, and livestock development.

The employment base is primarily in India and spread across the country. Though some of the businesses are in the agriculture and tourism domains, direct manpower numbers do not fluctuate significantly, except in the Leaf Tobacco business where about 2,300 employees are engaged on a seasonal basis.

The newer businesses, and the growth of the traditional businesses, have facilitated a significant increase in net employment, reflecting the sustainable nature of ITC's businesses and its contribution to social and economic capital. It should also be noted that manpower costs have increased from Rs. 377 crores in 2003-04 to Rs. 546 crores in 2005-06, an increase of over 45% over a period of 2 years, showing ITC's commitment to attracting and retaining talent and paying its people a competitive remuneration. All employees are paid salaries which are significantly higher than the statutory minimum wages.

The market for talent is extremely competitive in India. There

is a huge mismatch between demand and supply of talent across levels. In spite of these challenges, attrition amongst the unskilled, semi-skilled and skilled categories was less than 5% per annum (excluding Hotels) and 11% including Hotels. Amongst management staff, including frontline staff in retail, hotels and FMCG businesses, the attrition was about 13%. Over 25% of this attrition was amongst employees who had put in less than 2 years of service, and the primary reason for the same was market demand. Attrition amongst middle and senior management was not significant, reflecting the solidity of the work culture and leadership capability. Employee turnover did not impact business growth and profitability as reflected in an increase of about 28% in Net Turnover and 22% in PBT in 2005-06 as compared with 2004-05.

| | 2004-05 | 2005-06 |
|-------------------------------------|---------|---------|
| Total number of employees | 15692 | 20362 |
| Total number of unionised employees | 10605 | 13657 |

Trade Union Membership

Of the 20,362 employees, 13,657 belong to the unionised cadre. The remaining are frontline staff, supervisory staff, management staff, lady confidential secretaries and administrative assistants. The Company permits freedom of association and does not discourage or discriminate against employees who are members of trade unions. The Company follows a policy of dealing with recognised unions and has a robust collective bargaining process through which it discusses and negotiates monetary and non-monetary aspects of employment impacting unionised employees. All management staff, lady confidential secretaries, and others who are not part of the unionised cadre have their terms and conditions of service governed by Company policies and individual contracts of employment, which are reviewed periodically and mutually agreed.

Consultation and Notice for Significant Changes

ITC's core values support an employee engagement process that aligns its employees with a shared vision and purpose in the belief that every individual brings a different perspective and capability to the team. ITC thus harnesses the creative potential of all its employees by promoting a culture of partnership to unleash relevant synergies amongst different groups of employees.

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

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

The responsibility for the implementation of the policy rests with the Unit's Human Resources Department in the case of unionised employees and with the concerned Divisional Management Committees for other employees.

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

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

Compliance during 2005-06: During 2005-06, nine long-term agreements (LTAs) were signed with the elected representatives of employees across different businesses. These LTAs covered

major changes in operations, practices and technology and changes in compensation that were mutually agreed upon between the Company and the Unions. For all LTAs, management proposals included operational changes being envisaged and were submitted to the Unions well before bi-partite discussions were initiated. Apart from LTAs, joint minutes are signed to deal with issues that arise in the interim and, in all such cases, management proposals were presented to the Unions at joint meetings, which formed the basis for the bi-partite discussions that followed. The final joint minutes that were signed contained explicit references to the manner in which the consensus positions were reached.

Occupational Health & Safety

The Indian 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).

EHS Committees

All ITC factories, hotels and large offices have Environment, Occupational Health and Safety Committees, consisting of an equal number of representatives from unionised employees and management.

The Central and Departmental EHS Committees help improve employee involvement at all levels and foster a culture of 'Safety' at the work place. The Unit Head or a very senior executive heads the Central Committee. Departmental EHS Committees are established in units with either more than 250 employees or with 'hazardous' operations. The committees, which meet at least once every three months, discuss EHS issues and review measures taken to improve EHS performance.

Towards Zero Accident

ITC EHS guidelines go well beyond the provisions of applicable Indian statutes and the implementation of these guidelines, at every ITC Unit, is audited by the Corporate EHS Department, at least once a year. 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 property or environment.

All incidents (accidents without injury, property or environmental damage), accidents including first aid injuries, serious accidents, dangerous occurrences and fires are recorded and investigated by trained managers (including the Unit EHS Manager) to

identify the root cause and recommend measures to prevent recurrence. The findings and recommendations are discussed at the Safety Committee meetings and circulated to all Departmental Heads/Chiefs to take necessary preventive measures.

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

In any accident where the injured person is unable to resume duty within 48 hours, the report in the prescribed format is sent to the Inspector of Factories. In case of any fatal accident, a report is sent to relevant authorities within 12-24 hours of the accident, as required by the respective State Rules. All ITC units continued efforts to achieve the Company's 'Zero Accident' goal. ITC units achieved 56 % reduction in 'Lost Time Accidents' in 2005-06 compared to the previous year (A 'Lost Time Accident' means that the injured employee has not returned to work the next morning).

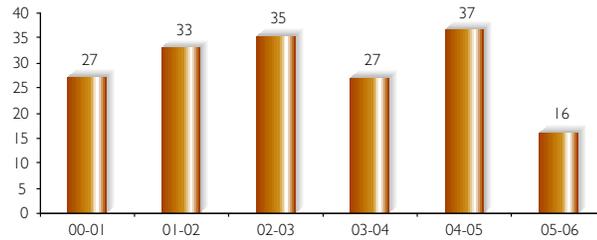
This was made possible through the involvement of all employees and service providers and by implementing sound strategies, comprehensive guidelines and international best practices. Training and awareness programmes played a critical role as did safety measures like fully interlocked machine guarding, comprehensive fire safety management systems and protection measures, first class electrical systems, coupled with audits, proactive risk management and OHSAS 18001 certified management systems.

20 units did not have a single lost time accident and did not lose a single workday due to an accident. These 20 units are: Cigarette factories at Munger, Saharanpur, Bangalore & Kolkata; the Research Centers

at Bangalore & Rajahmundry; Leaf Threshing plant at Anaparti, Packaging & Printing units at Tiruvottiyur & Munger, the Paperboards unit at Kovai; the Pilot Plant of the Lifestyle Retailing business at Gurgaon; ITC Welcomgroup Hotels Maurya, Mughal, Chola, Sonar Bangla, Grand Maratha, Grand Central, Rajputana, WelcomHotel New Delhi and Windsor.

'Lost Time Accidents' in ITC included one fatal accident at

Number of lost time accidents



Chirala Factory Tops the World in Winning Swords of Honour

The Sword of Honour, one of the most prestigious International Health and Safety accolades, is awarded by the British Safety Council. Of the 40 Swords awarded each year, units outside the UK can win only 10. The winner of this 'Oscar of the Safety World', apart from maintaining the highest standards, must also have a proven record in the pursuit of excellence in Health and Safety.

Starting in 1994, ITC's Leaf Threshing plant at Chirala has won a staggering 11 Swords of Honour. The Chirala unit shares this ultimate honour with a French multinational engaged in offshore oil exploration.

The Chirala plant, located in a small coastal town in Andhra Pradesh, while competing with the best in the safety world, has tripled its production volumes during the period.

The unit, with a young workforce (50% of the employees are in their early 20s), is proud of its deep-rooted values inherited from the older generations and the dynamism and vitality of the younger generation.

This unique recognition for a unit reflects its commitment not only to the highest levels

of Safety and Occupational Health, but to Quality and Social Responsibility as well. It is not surprising that the unit was the first of its kind in the world to get ISO 14001 Environment Management Systems and SA 8000 Social Accountability certifications, apart from being certified to ISO 9001, IQRS level 7 and OHSAS 18001.



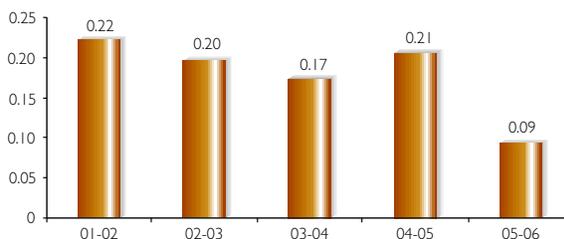
At the time of going to press, Chirala factory received its 12th Sword of Honour, making it the only unit in the world to have accomplished this unique feat

while leaning over a staircase railing in the coal crushing plant, lost balance and fell from a height. There were no witnesses to the accident and the body was recovered from the ground floor. All the railings were found to be in good condition and met the requirements of internationally accepted design codes. The accident was reported to the requisite regulatory bodies.

Injury Rate (IR)

A measure of accidents in a company for every 2,00,000 employee-hours, showed an improvement of 57% in 2005-06 over the previous year.

Injury Rate (IR)



IR: Number of lost time accidents for every 2,00,000 employee-hours worked

Lost Day Rate (LDR)

LDR is yet another measure of safety performance of a company, signifying the impact of occupational injuries and diseases. This is reflected in the time off work by the affected employees and is measured by the number of total days lost due to accidents for every 2,00,000 employee hours.

In 2005-06, the LDR for all ITC units amounted to 6.47 (excluding the fatal accident). Indian Standards (IS 3786-1983) consider each fatality equivalent to 6,000 man-days lost. The LDR (including the fatal accident) was 41.29.

Fire safety training in progress. ITC invested over 40,000 man-days in training employees to develop varied capabilities





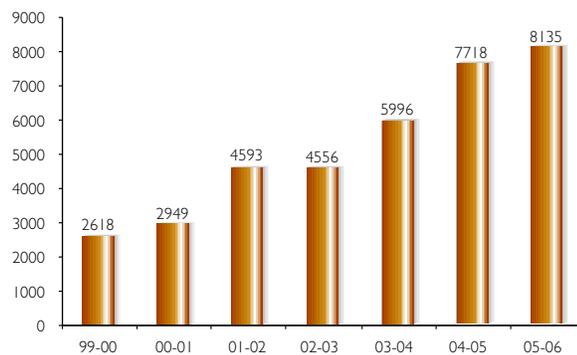
Occupational Health

ITC believes that a healthy workforce is critical for the sustainable growth of an organisation.

Apart from maintaining an excellent workplace with high standards of hygiene, a strict control is exercised on noise and dust levels and the adequacy of other parameters like lighting, ventilation, etc. is ensured in accordance with national/international codes and best practices. The Company encourages a comprehensive preventive medical examination to ensure the well-being of all its employees. This helps in pre-empting occupational illness. 8,135 employees were medically examined in 2005-06 (5.4% more than in 2004-05).

In 2005-06, there was no occupation-related disease reported by any Unit of the Company.

Number of Persons Medically Examined



Risk Control Programmes: HIV/AIDS

ITC is committed to providing a safe and healthy work environment to all its employees. Policy guidelines on HIV/AIDS are an endorsement of this commitment and, in particular, of the Company's commitment to specific programmes and actions in response to the HIV/AIDS pandemic. The Company's position is based on scientific and epidemiological evidence that people with HIV/AIDS do not pose a risk of transmission of the virus to co-workers by casual, non-sexual contact in the normal work setting.

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

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

The Company will not discriminate against any employee infected by HIV/AIDS with regard to promotions, training and other privileges and benefits as applicable to all employees. All HIV positive employees will be allowed to continue to work in their jobs unless (a) medical conditions interfere with the specific job being done, in which case reasonable alternative working arrangements will be made; or (b) the employee is incapacitated to perform his/her duties and is declared medically unfit by a medical doctor, in which case the employee will be assisted to rehabilitate himself/herself outside the Company.

The Company will not make pre-employment HIV/AIDS screening mandatory as part of its fitness-to-work assessment. Screening of this kind refers to direct methods (HIV testing), indirect methods (assessment of risk behaviour), and questions about HIV tests already taken. HIV/AIDS test will not be part of the annual health check-up unless specifically requested for by an employee.

Voluntary testing for HIV/AIDS, when requested for by the employee, will be carried out by private or community health services and not at the workplace. There will be no obligation on the part of the employees to inform the Company about their clinical status in relation to HIV/AIDS. Information on clinical diagnosis of an employees' status in terms of his/her HIV/AIDS status, if advised to the Company, will be kept strictly confidential.

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

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

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

Compliance during 2005-06: During the reporting period, various Units held 209 HIV/AIDS awareness camps and programmes both within the Units to cover the Company's employees and the communities around the Units. The total number of employees covered was 10,264 and the community members covered were 7,265. The workshops/programmes laid emphasis on preventive aspects and the treatment that is available. The importance of not ostracising those infected was also highlighted.

Training and Education

ITC's Human Resource philosophy focuses on meritocracy and capability development. The Capability Development Agenda aims at strengthening the organisational capability required in pursuit of ITC's Mission, its Strategic Agenda, the Three Horizon Growth Strategy and Vision 2010. In line with this agenda, several customised training and development interventions were offered at Corporate and Divisional levels aimed at developing functional, behavioural, leadership and management capabilities. Ongoing core programmes were also redesigned to reflect the new capability requirements. The development approach had elements beyond training, with the objective of increasing knowledge of systems and procedures, providing opportunities for on-the-job learning, encouraging employee participation, etc.

The training matrix in the Company endeavours to provide a balance, with a strong functional bias in the early years, and

an emphasis on managerial and business skills in the mid and late career stages.

| Training | Management | Unionised |
|------------------------------------|------------|-----------|
| No. of employees | 6,705 | 13,657 |
| Man-days of training provided | 15,479 | 24,741 |
| Average hours of training provided | 18 | 14 |

The programmes include high-level international training events at key points. Training also seeks to continuously build awareness of other functions at every stage of the process.

During 2005-06, ITC invested over 40,000 man-days in training employees across categories. Apart from this, training was also provided to various employees of service providers at different locations. The Company, on an average, provided 2 person-days of training per employee in 2005-06.



Diversity and Equal Opportunity

ITC acknowledges that every individual brings a different and unique set of perspectives and capabilities to the team. A discrimination-free workplace for employees provides the environment in which diverse talents can bloom and be nurtured. This is achieved by ensuring that a non-discrimination policy and practice is embedded across the Company in line with Corporate principles and benchmarked business practices.

Governance Bodies and Diversity

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

The Board of Directors at the apex, as trustees of shareholders, is responsible for the strategic supervision of the Company. There are 9 Non-Executive Directors and 4 Executive Directors on the Board which is headed by the Chairman. An indicator of meritocracy is the appointment of the current Chairman as Director when he was only 37 years old. The Non-Executive Directors come from different fields, thereby ensuring multi-dimensional perspectives in setting the strategic agenda.

The strategic management of the Company rests with the Corporate Management Committee comprising full time Executive Directors and 4 members drawn from senior management. The 4 members from senior management represent diverse functions like Technical, R&D, Human Resources and Corporate Affairs.

The executive management of each business Division is vested with the Divisional Management Committee (DMC), headed by the Chief Executive. The DMC draws resources from different functions. Each DMC is responsible for and totally focused on the management of its assigned business. About 60 senior managers across different age groups and functional specialisations are represented on the DMCs and SBUs.

Equal Remuneration

ITC's compensation philosophy does not differentiate on gender, caste or age. It is linked to responsibility levels of the role that the incumbent is performing and based on performance.

As part of its compliance, ITC also ensures compliance with the Equal Remuneration Act which mandates every employer to pay equal remuneration to men and women employees for the same work or work of similar nature.

Human Rights Management Approach

Policy: ITC is committed to conducting business in a manner that reflects its high ethical and moral standards. It expects its employees and business partners to subscribe and adhere to this philosophy, which honours all local laws and upholds the spirit of human rights as enshrined in existing international standards such as the Universal Declaration and the Fundamental Human Rights Conventions of the ILO. The Corporate Management Committee of the Company has approved policies covering crucial human rights areas. ITC's Human Rights policies extend to all its operating sites.

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

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

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

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

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

Objective: The Company's primary objectives in the area of

Human Rights performance and the goals for the next five years are to ensure that:

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

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

Human Rights Consideration in Significant Investments

ITC upholds the spirit of human rights as enshrined in existing international standards such as the Universal Declaration and the Fundamental Human Rights Conventions of the ILO in all its operations. It does not condone human rights abuses and endeavours to create and nurture a working environment where human rights are respected without prejudice.

Policy: ITC's commitment to human rights extends to all its significant investment decisions in order to ensure integration of statutory compliance, environmental, occupational health

and safety, human rights and progressive labour policies into business decision-making processes.

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

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

Compliance during 2005-06: During the year 2005-06, a significant portion of ITC's total capex cash flow of Rs.758 crores was incurred on machinery and technology. These were sourced from reputed and globally benchmarked suppliers/vendors who follow internationally accepted norms and standards on Human Rights. Over Rs 50 crores was incurred on various renovation projects in hotels of ITC where suppliers/service providers are required to follow all human rights practices as mandated by ITC.

All large contracts given by ITC, for the construction of hotels, factories, and significant upgrades, include environment, health, safety and human rights' clauses covering decent workplace and 'beyond compliance' labour practices.

All large construction and installation projects – the ITC hotel in Bangalore and the ITC composite factory project in Uttaranchal during 2005-06 – were managed and supervised by ITC managers, who ensured proper implementation of Human Rights compliance. Corporate Internal Audit and Corporate EHS departments audit all major projects in ITC and also check for compliance.

ITC managers are positioned at all significant 'outsourced' manufacturing facilities (cigarettes, apparels and packaged foods) to ensure high standards of product quality and adherence to ITC's guidelines on EHS and labour practices. All such units were covered under the relevant labour and factory Acts, which, inter alia, provide for the necessary EHS and labour practices standards. Government officials routinely inspect these units to verify implementation.

The Company is currently formulating detailed guidelines for the phased implementation of this policy to ensure that all agreements, contracts or purchase orders arising out of new investments will incorporate Human Rights clauses. These will seek confirmation that at the time of contracting and thereafter, neither the organisation nor any of its service providers will utilise child labour, any form of forced labour and provide a healthy and safe workplace free from discrimination. It will also ensure that a detailed assessment of the implementation of policies on health and safety, Human Rights and the environment will be taken up prior to the selection of service providers for all significant and strategic investments.

Human Rights Consideration Across the Supply Chain

ITC provides products and services of superior quality and value by sourcing technologies, equipment and inputs from reputed international and Indian manufacturers and vendors. ITC ensures that common values, relating to Human Rights performance, are shared across the entire supply chain because ITC is committed to the importance of a socially responsible and an accountable supply chain.

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

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

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

Compliance during 2005-06: As a large and multi-product enterprise whose products are benchmarked nationally

and internationally, ITC's main supply chains can be grouped into three distinct categories:

- ITC's major businesses are vertically integrated across several Divisions. A substantial part of the supply chain is therefore internal through strategic backward linkages. Common values relating to Human Rights performance are shared across this supply chain.
- The agriculture sector is a major supplier of inputs for its agri-based businesses. Agricultural commodities are procured entirely from state controlled trading platforms and the open market.
- Only a small proportion of ITC's business consists of supply chains comprising Indian manufacturers and local service providers. The execution of ITC's Human Rights policies is obligatory for all such service providers operating within ITC's establishments. The HR managers of the units

concerned ensure compliance of these policies. ITC managers are positioned at significant outsourced manufacturing sites to ensure that these service providers follow Company mandated policies.

During the year under consideration, the total number of service providers was 2,638 of which 802 operated within the Company's premises and 1,836 worked off-site. All contracts, both on and off site, included important clauses on Human Rights, environment, health and safety. No contracts were cancelled during the year as a result of non-compliance with ITC's Human Rights clauses.

The Company is currently preparing a detailed set of guidelines for phased implementation of this policy over the next 3-5 years to ensure that all agreements, contracts or purchase orders will seek confirmation that the service providers will not utilise child labour, any form of forced labour, and provide a healthy and safe workplace free from discrimination at the



time of contracting and thereafter. It will also ensure that a detailed assessment of the implementation of these policies will be taken up prior to the selection of major service providers.

Prevention of Discrimination at the Work Place

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

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

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

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

Monitoring & Auditing: The accountability for the application

of this policy rests with the Unit Head who reviews anti-discriminatory complaints annually or on a case-by-case basis.

The HR department of the Division/SBU reports annually on incidents of discrimination, if any, to the SBU Head or the Divisional Chief Executive. Corporate Human Resources conducts non-discrimination reviews annually on a sample basis with Unit Heads and through on-site assessments.

Compliance during 2005-06: Compliance with the policy is evident from the transparent system of recruitment and the practice of exit interviews, which are undertaken by a manager not directly connected with the employee.

During 2005-06 no incident of discrimination in any of the ITC units was reported.

Freedom of Association

ITC's culture is characterised by collaborative relationships and high employee engagement that relies on building partnerships and interdependence. Adhering to these principles has helped build, sustain and strengthen employee engagement in the organisation.

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

Implementation: The policy is communicated to all employees through induction programmes, policy manuals and intranet portals. The custodian of this policy is the HR Head of each operational unit who reports directly to the Unit Head on such issues. The employees are informed of these rights by the unions who solicit their support to represent them formally before the management.

Monitoring & Audit: Each ITC Unit has appropriate systems to ensure compliance with the Policy and statutory provisions,

bargaining agreements and minutes of worker meetings. The HR department of the concerned unit submits annual reports to the functional head in cases of identified incidents of violation of freedom of association and collective bargaining. Divisional and Corporate HR regularly monitor compliance with the Policy. Corporate HR compiles these on a half-yearly basis and reports to the Corporate Management Committee.

Compliance during 2005-06: For unionised employees, compliance is ensured through a robust grievance handling procedure and the presence of a union that brings violations to the notice of the unit HR Head. During 2005-06 no incident of violation of freedom of association was reported either to the concerned units or statutory authorities. Within ITC's operations, there is no area where the right to exercise freedom of association and collective bargaining is at risk.

Prohibition of Child and Forced Labour

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

Policy: ITC does not employ any person below the age of eighteen years at the workplace. ITC prohibits the use of forced or compulsory labour at all its units. No employee is made to work against his/her will or work as bonded/forced labour, or subject to corporal punishment or coercion of any type related to work.

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

The implementation of the policy is the responsibility of the Unit's HR Department and the security staff who do not permit minors to enter the factory as workers.

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

The unit provides an annual report on all reported, if any, incidents of child or forced labour to the functional head.

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

Compliance during 2005-06: During 2005-06 no incidents of child or forced labour were reported either to the concerned units or statutory authorities.

Society

Management Approach

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

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

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

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

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

Management: The Corporate Management Committee is the primary custodian of ITC's social initiatives. Implementation is reviewed periodically at the Unit, Divisional and the CMC levels. A dedicated team in the Corporate Human Resources Department provides specialist services to assist in implementation and monitoring of projects. The Units are responsible for responding to specific needs spelt out by local communities and implementation is monitored by the Divisional Management Committees. In discharging social responsibility projects, all applicable rules and regulations are complied with.

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

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

Objective: The primary focus of ITC's Social Development Initiatives is to create sustainable sources of farm and off-farm livelihoods and to improve the social infrastructure especially in areas where it impacts women and children. In pursuit of these objectives, the following goals have been set for the next five years:

- Web-enable 10 million farmers through 20,000 e-Choupals in 100,000 villages.
- Bring at least 50,000 hectares under soil and moisture conservation practices.

- Transform at least 1,00,000 hectares of wastelands into productive and revenue-generating assets for the poor.
- Create at least 10,000 women entrepreneurs with a sustainable source of supplementary incomes.
- Improve the genetic stock of at least 150,000 cattle through artificial insemination practices.
- Provide supplementary education support services to at least 100,000 children.

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

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

Impacts of Operations on Communities

New projects

During the reporting period, the two significant projects under implementation were the composite project at Uttaranchal and the construction of a major hotel in Bangalore.

Prior to the implementation of all these projects, independent parties carried out environmental impact assessments. Public hearings were also conducted at both the sites to take on board the concerns of the local community and other civil society groups.

On-going Operations & Community Engagement

Rural households who engage with the Company through its agri-operations in the course of its business, comprise millions of farmers. In the case of manufacturing operations, the communities falling within a 15 km radius are considered as direct stakeholders.

A liaison officer is available at every location with direct access to the Unit Head. Communities are encouraged to share their feedback with this individual. Participatory surveys are undertaken to assess the needs/aspirations of such communities. Partner NGOs serve as one of the most important agencies for providing regular stakeholder feedback to the unit managers as a result of their grassroots engagement with such communities.

ITC responds to this feedback through a comprehensive social development programme that addresses most needs voiced through these feedback mechanisms. These have been detailed in the next section.

Community Development

Mission Sunehra Kal

ITC's social development initiatives harmonise the Company's objective of creating shareholder value whilst simultaneously making a substantial contribution to society. The multiple drivers that have given shape to the strategy and ITC's responses can be illustrated as follows:

| Compelling Agenda | Primary Stakeholders | Strategic Responses |
|-----------------------------------|--|--|
| Creating sustainable value chains | Indian farmers partnering ITC to supply agri-commodities | <ul style="list-style-type: none"> • Web-enablement of the Indian farmer through the e-Choupal initiative • Natural resource management to develop wastelands and soil and moisture conservation, and promote improved agricultural practices • Genetic improvement in livestock productivity |
| Harmonious community relations | Communities residing around production sites | <ul style="list-style-type: none"> • Sustainable livelihoods creation through the economic empowerment of women; • Community development with focus on universalisation of primary education, health and sanitation |
| Commitment to Nation building | Indian society | <ul style="list-style-type: none"> • Patronage of classical music, art and heritage |

Creating Sustainable Value Chains

Web-enablement of the Indian Farmer

Through the e-Choupal initiative, ITC aims to confer the power of expert knowledge on even the smallest individual farmer. Thus enhancing his competitiveness in the global market.

The e-Choupal initiative, the single-largest information technology-based intervention by a corporate entity in rural India, is transforming the Indian farmer into a progressive knowledge-seeking netizen. It enriches the farmer with knowledge and elevates him to a new order of empowerment.

A digital transformation

e-Choupal delivers real-time information and customised

knowledge to improve the farmer's decision-making ability, thereby better aligning farm output to market demands; securing better quality, productivity and improved price discovery. The model helps aggregate demand in the nature of a virtual producers' co-operative, in the process facilitating access to higher quality farm inputs at lower costs for the farmer. The e-Choupal initiative also creates a direct marketing channel, eliminating wasteful intermediation and multiple handling, thus reducing transaction costs and making logistics efficient.

Linking farmers to remunerative markets

Varying grades of wheat have the potential to meet diverse consumer preferences and therefore generate better prices.



Nearly 6,000 e-Choupal kiosks reach out to over 3.5 million farmers

But the benefit never trickled down to the farmers because all varieties were aggregated as one average quality in the mandis. e-Choupal is now helping farmers discover the best price for their quality at the village itself. The site also provides farmers with specialised knowledge for customising their produce to the right consumer segments. The new storage and handling system preserves the identity of different varieties right through the 'farm-gate to dinner-plate' supply chain, encouraging farmers to raise quality standards and attracting better prices.

Managing Risks through Technology

The risks faced by the aqua farmers, arising from contaminated soil, wrong levels of salinity in the water or the killer

'White Spot' virus, could wipe out an entire shrimp crop, e-Choupal provided them the support and the know-how to cope with and manage such risks. Information equips farmers with comprehensive know-how to keep abreast of food safety norms to compete in the international market. All these factors help to neutralise the risks involved in aqua farming. Making it economically much more attractive, benefiting hundreds of aqua farmers.

A Dependable Knowledge Partner

Coffee planters in India have been victims of extreme volatility of the international coffee market, especially since price updates and prevalent trends in coffee trading were not available to them. echoupal.com has equipped India's coffee planters with

| The e-Choupal Footprint | 2003-04 | 2004-05 | 2005-06 |
|---------------------------|---------|---------|---------|
| No. of e-Choupals | 3298 | 4959 | 5880 |
| No. of farmers (millions) | 2.00 | 3.00 | 3.50 |
| No. of villages | 20000 | 31000 | 36000 |
| No. of States covered | 6 | 7 | 9 |

appropriate knowledge base and risk management tools. The site arms them with the latest prices posted on commodity exchanges like CSCE in New York and LIFFE in London. Planters have access to technical analysis by experts to help them comprehend trends, trading ranges and chart patterns in simple language. Tradersnet, a special link on the site, brings together a large number of coffee planters, traders and roasters, creating a virtual market for transparent price discovery.

Continuing the expansion of its rural footprint, ITC scaled up the total number of e-Choupals to nearly 6,000. The reach of the initiative has widened to nearly 36,000 villages, empowering over 3.5 million farmers in the states of Madhya Pradesh, Uttar Pradesh, Haryana, Uttaranchal, Rajasthan, Maharashtra, Karnataka, Andhra Pradesh and Kerala.

During the year, significant progress was made in the marketing of products and services through the e-Choupal channel, with throughput doubling to almost Rs 100 crores. The channel now distributes products from 45 companies – both public and private sector – in categories ranging from FMCG and consumer durables to automotive and agri inputs.

Wasteland Development

Social and Farm Forestry : At the close of the planting season of 2005-06, 2,283 hectares had been brought under plantations of eucalyptus, subabul, casuarina, bamboo and teak in Khammam

and Prakasam districts of Andhra Pradesh under the Social Forestry Programme, taking the total to 6,821 hectares. A total of 8 million saplings were planted during the period, taking the cumulative total to 27 million.

ITC's social and farm forestry programmes have together greened nearly 41,000 hectares with over 149 million saplings.

| Activities under Social Forestry | Cumulative to 2003-04 | 2004-05 | 2005-06 | Total |
|------------------------------------|-----------------------|-------------|-------------|-------------|
| Coverage | | | | |
| No. of new mandals | 10 | 4 | 5 | 19 |
| No. of new villages | 163 | 61 | 74 | 298 |
| No. of new beneficiaries | 4742 | 1653 | 1624 | 8019 |
| Area under Plantations (Ha) | | | | |
| Bhadrachalam Clones | 2341 | 1088 | 1322 | 4751 |
| Subabul | 477 | 389 | 585 | 1451 |
| Casuarina | 40 | 100 | 292 | 432 |
| Bamboo/others | – | 187 | – | 187 |
| Total – hectares* | 1765 | 1765 | 2199 | 6821 |

*Additional 34,179 hectares under farm forestry

The collaboration with the Government of Andhra Pradesh under the aegis of Indira Kranthi Patham, which was piloted last year, was scaled up significantly and successfully during the current year with the collaboration contributing nearly 43% of the total area brought under plantations. The Social Forestry beneficiaries in Khammam continue to earn generous sums of money by harvesting mature plantations. To date, 630 poor households have harvested 566 hectares with a total yield of 16,000 tonnes. The total value that accrued to the farmers from the sale of timber was Rs. 2.47 crores.



Soil & Moisture Conservation

From 5 projects covering 100 villages during 2004-05, the activity was extended to 11 additional districts covering another 225 villages. The programme today covers 16 districts and 325 villages. A total of 460 water-harvesting structures were created during the period, taking the total number of structures to 1,011. This has led to additional storage capacity of 2.47 MCuM with an irrigation potential of 2,444 hectares benefitting 3,425 farmers.

In order to enhance the quality of interventions by such projects, a process of technical mapping of micro-watershed in a few

projects were initiated as pilots. Similarly, ecological and geo-hydrological studies are also being piloted in a few districts. Based on these studies, GIS based databases will be prepared for these districts for more comprehensive planning, monitoring and evaluation of the project. Such studies will be extended to all the watershed project sites during the coming years.

Efforts towards capacity building of Water User Groups through intensive training programmes and exposure visits by the primary stakeholders are gradually bearing fruit. This is quite evident in the farmers' willingness to make cash contributions towards project costs.

| Watershed Development | Cumulative to 2003-04 | 2004-05 | 2005-06 | Total |
|------------------------------------|-----------------------|------------|------------|--------------|
| Water Harvesting Structures | | | | |
| Checkdams | 5 | 14 | 87 | 106 |
| Stopdams | – | 11 | 18 | 29 |
| Large Percolation Tanks | 63 | 11 | 27 | 101 |
| Village tanks | 5 | 2 | 3 | 10 |
| Nalabunds | 22 | 42 | 82 | 146 |
| Farm Ponds | 224 | 115 | 199 | 538 |
| Small percolation tanks | 8 | 29 | 44 | 81 |
| Number of Structures | 327 | 224 | 460 | 1,011 |
| Catchment Area Treatment | | | | |
| Gully plugs/boulder checks | 65 | 92 | 1,051 | 1,208 |
| Contour trenches/bunds (Cmt) | 55379 | 9199 | 66309 | 130887 |
| Water-user groups | | | | |
| No. of groups | – | 86 | 213 | 299 |
| No. of members | – | 1443 | 3068 | 4511 |
| Coverage (hectares) | | | | |
| Catchment treated | 873 | 137 | 8,980 | 9,990 |
| Command area | 5353 | 2480 | 2444 | 10277 |
| Land reclaimed/treated | 1190 | 189 | 152 | 1,531 |
| Beneficiaries | | | | |
| Direct (No. of households) | 7899 | 1498 | 3425 | 12822 |
| Indirect (employment mandays) | 12606 | 25540 | 105862 | 144008 |

Integrated Agriculture Development

ITC, in its constant endeavour to provide value to its farmers, promotes efficient agricultural solutions for enhancing land productivity and efficient management of water. Through these efforts, 235 sprinkler sets and 70 group irrigation wells were installed during the period, taking the cumulative total to 325 and 128, respectively. During the period, 2,712 vermi-compost units and 1,379 NADEP units were established, taking the cumulative total to 3,102 and 1,663, respectively. 842 new varietal demonstration plots for wheat, paddy and soybean crops were established for better productivity, taking the cumulative total to 1,092. Its success is evident from the high rate of adoption of the new varieties and package of practices.

| Agriculture Development | Cumulative to 2003-04 | 2004-05 | 2005-06 | Total |
|-------------------------|-----------------------|---------|---------|-------|
| Irrigation | | | | |
| Wells | – | 58 | 70 | 128 |
| Sprinkler sets | – | 90 | 235 | 325 |
| Composting | | | | |
| Vermi | – | 390 | 2,712 | 3,102 |
| Nadep | – | 284 | 1379 | 1663 |
| Demo plots | | | | |
| IPNM | – | 207 | 728 | 935 |
| Others | – | 43 | 114 | 157 |
| IAP Trainings | 1 | 365 | 244 | 610 |

Livestock Development Programme

With the objective of bringing about a significant increase in yield rates during the lactation period, ITC stepped up its breed improvement programme initiated in 2004-05. From 32 Cattle Development Centres (CDCs) at the close of 2004-05, the number increased to 72 CDCs covering 1,500 villages during 2005-06. A total of 27,392 Artificial Inseminations (AIs)

were conducted during the period, taking the cumulative total to 46,200. The programme recorded 3,531 live births during 2005-06, taking the cumulative total to 5,544 high-yielding crossbreds.

34,447 animals were vaccinated against HSBQ and FMD, taking the cumulative total to 47,731. 14,068 animals were treated with dewormers, taking the cumulative to 17,480. Of those animals that were confirmed pregnant, 10,266 were provided with special mineral supplements as part of the prenatal services. Capacity building for good animal husbandry practices continued during the period. Several calf rallies organised in Bihar, UP and MP showcased the crossbred progenies to thousands of farmers.

The most significant breakthrough in Munger, Bihar, was that the tie-up with Sudha Dairy (COMFED) for supply of milk from this region finally became a reality. Ten milk producers' societies began supplying milk on a regular basis from December



| Livestock Programme | Cumulative to 2003-04 | 2004-05 | 2005-06 | Total |
|---|-----------------------|---------|---------|-------|
| No. of CDCs | 10 | 22 | 40 | 72 |
| Breed Improvement | | | | |
| No. of AIs | 963 | 11068 | 27392 | 39423 |
| No. of pregnancies | 134 | 3375 | 8999 | 12508 |
| No. of calving | 22 | 703 | 3,531 | 4,256 |
| Vaccination & health programme | | | | |
| HS&BQ | – | 11034 | 22253 | 33287 |
| FMD | – | 2250 | 12194 | 14444 |
| Deworming | – | 3412 | 14068 | 17480 |
| Mineral & Vitamin supplements | – | 3316 | 10266 | 13582 |
| Dry fodder enrichment | 13 | – | 206 | 219 |
| Dehorning | – | – | 197 | 197 |
| Training & Capacity Building | | | | |
| Training in IAHP | – | 225 | 188 | 413 |
| Infertility camps | 5 | 87 | 245 | 337 |

last year. A similar pilot is now under way in Badaun district with milk societies which have been linked with a local private dairy.

Harmonious Community Relations

Sustainable Livelihoods for Women

630 SHGs were operational during 2005-06 with a total membership of 10,610 women and a total thrift of Rs 34.70 lakhs. During the period, 687 women set up their own self-employment units and another 1,255 were gainfully employed in micro-enterprises, taking the cumulative total to 2,154 and 1,865, respectively.

Agarbatti production continued to be the major income generation option for the women. Over 607 women are directly involved in the production of raw battis supplying 35.94 Mt of raw agarbattis to converters at an average of about 3 MTs per month. In addition to agarbattis, chunari-making

has emerged as an important micro-enterprise in Saharanpur. Chikankari enterprise in Hardoi also witnessed an expansion during this period. Two new Chikan groups have already started getting regular work. In addition, a Silaishala (tailoring training centre) was started in Hardoi with the objective of promoting stitching as a micro-enterprise linked with the business cycle of Chikankari. The Chikan cooperative clocked a turnover of Rs 5 lakhs during the year.

| Women's Empowerment | Cumulative to 2003-04 | 2004-05 | 2005-06 | Total |
|----------------------------------|-----------------------|---------|---------|-------|
| Micro-Credit Groups | | | | |
| SHGs (cumulative) | 269 | 104 | 257 | 630 |
| Members (cumulative) | 3561 | 1789 | 5260 | 10610 |
| Savings (cumulative – Rs. lakhs) | 10.22 | 17.06 | 7.42 | 34.70 |
| Insurance | – | 418 | 693 | 1,111 |
| Self Employment | | | | |
| No. of women | 1225 | 242 | 687 | 2154 |
| Loans disbursed (Rs lakhs) | 25.97 | 6.56 | 3.56 | 36.09 |
| Micro-enterprises | | | | |
| No. of SHGs | 227 | 100 | 245 | 572 |
| No. of women | 130 | 480 | 1255 | 1865 |
| Loans (Rs lakhs) | 1.00 | 12.90 | 24.63 | 38.53 |
| Turnover (Rs lakhs) | – | 7.43 | 19.42 | 26.85 |
| Wages (Rs lakhs) | – | 2.73 | 8.75 | 11.48 |

A chunari-making unit in Saharanpur supported by ITC





ITC's rural education programme supports 37,000 children

Primary Education

In line with the Government's concern for universalisation of primary education in India, ITC too is making significant contributions in its operational areas to ensure maximisation of enrolment and minimisation of school drop-outs by providing support to state-run primary schools.

A total of 674 supplementary learning centres, up from 71 in 2004-05, provided extra coaching to about 37,000 primary school-goers. 1,696 children from poor families received school uniforms and another 8,969, text/exercise books. A network of 52 rural libraries and resource centres enriched the process of learning for these children. About 42 government primary schools were provided with infrastructure support benefiting nearly 6,800 students. The support comprised mainly of benches and chairs. However, in the case of three primary schools in Bhadrachalam, Andhra Pradesh, extra classrooms were also constructed.

Primary Health & Sanitation

452 new toilets were constructed during the year, taking the cumulative total to 1,741. A total of 3,430 under-5 children and 1,231 at-risk mothers were monitored regularly for any form of deficiency. 31 health camps addressed the curative needs of 4,803 villagers. To ensure good quality affordable health care services, a clinic was set up in Munger during the

| Primary Education | Cumulative to 2003-04 | 2004-05 | 2005-06 | Total |
|------------------------------|-----------------------|---------|---------|-------|
| Supplementary Centres | | | | |
| Centres | 88 | 6 | 580 | 674 |
| Students | 7427 | 2959 | 36804 | 47190 |
| School Infrastructure | | | | |
| Benches/shelves | 847 | 340 | 2108 | 3295 |
| Electrical facility | 21 | 9 | - | 30 |
| Compound walls/gates/roof | 9 | 2 | 51 | 62 |
| Classrooms | 2 | 2 | 11 | 15 |
| Toilets | 16 | 3 | - | 19 |
| Teaching aids | - | 7 | 47 | 54 |
| Sports kits | - | 21 | 452 | 473 |
| Libraries | | | | |
| | | | 52 | 52 |
| Text/Exercise books | 5449 | 2553 | 8969 | 1,971 |
| Uniforms | 2203 | 1067 | 1696 | 4966 |
| Cultural & sports events | 848 | 17 | 19 | 884 |

| Health & Sanitation | Cumulative to 2003-04 | 2004-05 | 2005-06 | Total |
|-------------------------------|-----------------------|---------|---------|-------|
| Toilets | 965 | 324 | 452 | 1,741 |
| Saplings | 2500 | 3804 | 4250 | 10554 |
| Drip Kits | 9 | 20 | - | 29 |
| Care of at-risk women | 8,396 | 975 | 1231 | 10602 |
| Care of U-5 children | 24449 | 6206 | 3430 | 34085 |
| Awareness/Health camps | | | | |
| No. of camps | 34 | 51 | 31 | 116 |
| No. of patients | 4,005 | 3482 | 4803 | 12290 |

Commitment to the Nation: Preserving India's Rich Cultural Heritage

ITC is also actively involved in the preservation and promotion of India's rich cultural heritage. The ITC Sangeet Research Academy, WelcomArt and WelcomTheatre are unique initiatives to promote Indian classical music and arts.

Indian Classical Music

ITC established the prestigious ITC Sangeet Research Academy (ITC-SRA) at Kolkata in 1978 with the objective of preserving and promoting Hindustani Classical Music. It is a pioneering and unique corporate initiative aimed at creating an institutional substitute for India's ancient tradition of royal patronage of the arts. It was also a pathbreaking experiment in reviving India's age-old tradition of 'guru-shishya parampara', a knowledge management process in which teachers and students live together to facilitate continuous learning.

Since its inception, ITC-SRA has played a major role in reviving and nurturing India's rich heritage of Hindustani classical music. It has created a residential learning centre that captures the mood and ambience of the traditional gurukul. At ITC-SRA, the gurus are still venerated and the shishyas are committed to dedicated learning. In a telling demonstration of the effectiveness of the gurukul system, ITC-SRA, in the 28 years since its inception, has produced several maestros of Hindustani classical music.

The ITC Sangeet Sammelans, showcasing the best in Indian classical music, have become an annual feature and are admired and appreciated by music lovers across the country.

WelcomTheatre

ITC's Hotels business actively supports the cause of theatre. 'WelcomTheatre', launched more than a decade ago, showcases the best of Indian theatre productions, especially at the experimental stage.

WelcomArt

ITC also supports contemporary Indian art under the banner of 'WelcomArt'. The Shristi art galleries located at various ITC-Welcomgroup hotels regularly sponsor the works of upcoming Indian artists. WelcomArt also conducts art camps where senior accomplished artists guide budding talents, often leading to new discovery of promising young artists.

WelcomHeritage

WelcomHeritage represents some of the best traditions of heritage hospitality and tourism in India. ITC has supported and assisted the restoration of over 45 exclusive heritage destinations, ranging from grand palaces to traditional havelis and magnificent forts; from adventure-filled jungle lodges to tea garden homes and quiet nature resorts. All these properties are steeped in history and are extolled in verse and song by traditional bards and folk singers. Through this initiative, ITC keeps local history alive and brings it to the rest of the world.

More information on ITC's contribution in these areas is available on the Company's website.

Prevention of Corruption at Workplace

ITC believes that corporations like itself have a responsibility to set exemplary standards of ethical behaviour, both within the organisation as well as in their external relationships. The Company believes that unethical behaviour corrupts organisational culture and undermines shareholder value.

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

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

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

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

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

Compliance during 2005-06: A booklet on ITC's Code of Conduct, that also contains the policy against corruption, exists and is periodically circulated to all managers. In addition, it is posted on the corporate intranet sites and the ITC Portal.

The Audit Committee of the Board met nine times during the year to review, inter alia, the adequacy and effectiveness of the internal control environment and monitored implementation of internal audit recommendations, including those relating to strengthening of the Company's risk management policies and systems.

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

Public Policy Advocacy

ITC not only participated in a large number of industry fora to help contribute to debates on public policy and issues related to ITC's businesses, but has also established a number of institutions – namely the Tobacco Institute of India and the CII-ITC Centre of Excellence for Sustainable Development – to promote public debate and shape policies on important issues concerning industry and the nation.

The Tobacco Institute of India is a tobacco industry body, which helps support industry norms and Government policy initiatives.

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

A number of senior executives of the Company participated in various industry fora and expert committees of the Government. In 2005-06, Mr. Y. C. Deveshwar, Chairman of the Company, was the President of CII, and Mr. Anup Singh, Executive Director, was President of the Indian Chamber of Commerce. Mr. S. S. H. Rehman, Executive Director, is a founder President of the Hotels Association of India and was the Chairman of the CII Tourism Committee. Mr. K. Vaidyanath, Executive Director, is a Committee member of the Bengal Chamber of Commerce and Industry.

Product Responsibility Management Approach

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

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

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

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

All the manufacturing units in the Company are certified in accordance with ISO 9001, ISO 14001 and OHSAS 18001 managements systems. All major hotels have been certified to ISO 14001 and 4 hotels have received HACCP certification. Others are in the process of receiving the certifications. International Quality Rating System (IQRS) for Business Excellence, which rates key processes against international benchmarks, has already been introduced in a number of businesses. In addition, various other quality improvement tools such as 'Six Sigma' initiatives and 'Total Productive Maintenance' (TPM) are integrated with the Quality Management Systems.

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

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

Customer Safety : Our Prime Concern

In the **FMCG Cigarettes Business**, all product-related processes are not only extremely well-documented and institutionalised but are constantly benchmarked to 'best in class' practices.

The Product Development stage involves interaction amongst experts from various diverse disciplines who create contemporary products with exacting product specifications. Projects are controlled and monitored using Windchill software, a proprietary trademark of Parametric Technologies, USA. Various provisions of law relating to the manufacture and sale of cigarettes including display of the statutory warning are not only fully complied with but are regularly audited.

All input raw materials are selected on the basis of a formal policy for utilisation and inclusion. Further, all inputs as well as final products are well within all standards prescribed by statutory and international bodies. Raw materials used in manufacture are procured after extensive validation to conform with product specifications. Further, vendor facilities are constantly benchmarked and upgraded and quality management systems and processes instituted.

The manufacturing facilities of the Cigarettes business are constantly evaluated to ensure that they are state-of-the-art,

thereby ensuring product quality and consistency through online detection, multiple checks during different stages of the manufacturing process and rejection of products and batches that do not conform to specifications. An Internationally acclaimed Product Quality Rating System (PQRS) has been institutionalised at all manufacturing locations. All aspects of product quality are measured at every stage of the manufacturing process to ensure the highest standards. All manufacturing units are also certified to ISO 9001, ISO 14001 and OHSAS 18001 standards. In addition, preliminary work on obtaining certification under International Quality Rating System (IQRS) standards has also commenced.

Post the manufacturing process, a sample analysis of the final product, with regard to various parameters and packaging, is carried out at the ITC Research & Development Centre in Bangalore, which is recognised by the Department of Scientific and Industrial Research (DSIR) and is one of the few laboratories to have been certified with the global standard of ISO 17025. 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 requirements including statutory provisions.

Norms have also been established for the storage and transportation of the final product to ensure that the product as designed is made available to the Customer. Freshness is a cornerstone of the distribution philosophy and systems are in place to ensure that products available to the Customer are always within the freshness norms laid down.

With the objective of preserving customer health and safety, the **Foods business** ensures adherence to the highest levels of quality standards in manufacturing and selling its packaged branded products.

The Product design/development process is an integrated process of assessing consumer needs for quality and designing the product accordingly.

With a view to ensuring consumer satisfaction, health and safety, the business selects raw materials through established internal/external vendors, who are periodically monitored for quality of supplies. There is an established vendor selection, evaluation and rating system on parameters of quality and consistency.

The business operates on a model of outsourced manufacturing. The base premise of the agreements with the manufacturers is adherence to quality standards, which are more stringent than existing statutory requirements. Through systems of quality monitoring at each location, the quality performance of each manufacturer is monitored on a daily basis apart from quality audits conducted from time to time.

The supply chain ensures highest levels of hygiene across the material/product handling chain. The selection of vendors, manufacturing locations and storage locations are all based on the hygiene norms set by the business. Systems of identification and destruction of old/damaged/defective products are strictly implemented and monitored in the entire chain.

26 out of the 30 outsourced manufacturing locations are HACCP/ISO certified. All manufacturing agreements require the manufacturing locations to be HACCP certified within a stipulated time frame.

In the year 2005-06, the business conducted consumer satisfaction surveys (in different parts of India) on 3-4 occasions. In most cases, ITC's Food products were rated better than competition.

All the manufacturers of the **Greeting, Gifting and Stationery business** use approved non-hazardous materials, especially ITC's Elemental Chlorine Free paper as well as ink, dyes etc. Since most of the consumers of these products are children below the age of 15, the quality control initiatives taken by ITC at the manufacturing level strive to ensure safe products.

In the **Hotels business**, policies are in place to ensure the highest standards of customer health and safety. These policies

are prominently displayed at conspicuous locations in the hotels. Customers are encouraged to participate in various safety exercises and activities.

In the **Paperboards & Specialty Papers business** products can be broadly classified into

- 1) Value-added Paper and Boards: These are manufactured with 100% virgin pulp.
- 2) Recycled Paperboards: These are manufactured with a certain percentage of recycled fibre.

The samples of 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. Further, all units are certified to ISO 9001 and ISO 14001 series. The Bollaram unit, which manufactures food grade board for direct food contact, is also certified as per BRC IoP standards.

In respect of other products (Category 2) which are manufactured with recycled pulp, ITC ensures that the correct manufacturing practices are followed so that these products do not cause any risk during storage, distribution or usage. All these products are manufactured with cellulose fibres. They do not pose any contamination risk.

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



In **Agri business**, products are sold domestically or exported entirely as per customer specifications and requirements. The customers are primarily industrial/bulk food/feed/juice processors, both domestic and international. Also, if required by customers, independent surveyors check on quantity and quality parameters and certify adherence. Products are normally in secondary packaging.

In the **Leaf Tobacco business**, products are manufactured as per customer specifications. The customers for this business are large cigarette manufacturers and international tobacco merchants who themselves lay down guidelines which are meticulously complied with during packing at the Leaf Threshing units. These units, including the central storages, are also governed by 'Hygiene and Infestation Management Systems' designed to control infestation levels in product and prevent mould. The business has complied with social responsibility system models, which ensure 'Seed Integrity', 'Pesticide Residue level monitoring', 'Non Tobacco Related Matter Elimination', etc. and promote product hygiene for the customer. Besides, both the Anaparti and Chirala threshing units have been certified to ISO 9001 for Quality Management, International Quality Rating System (IQRS) Level 7, ISO 14001 Environmental Management and OHSAS 18001 for Occupational Health and Safety Management Systems. The systems deployed are governed by internal and external audits by third party certification agencies.

The Lifestyle Retailing business ensures improvement in the safety of its products by following OECD Guidelines for Multinational Enterprises.

Identification and choice of fibres and fabrics is preceded by rigorous evaluation of the mills and their facilities as well as validation of conformity to product specifications. These specifications are drawn out through benchmarking conducted with the assistance of internationally accredited textile testing laboratories.

All raw materials/products are tested in ITC's in-house state-of-the-art Testing Laboratory and only those products

conforming to the standards set through Product Protocols pass muster.

ITC's products are manufactured in state-of-the-art plants equipped with the best-of-breed. The laid down processes are designed to deliver quality as per internationally accepted statistical quality control norms.

ITC's products are also evaluated from the 'Consumer's View Point' by subjecting them to an internal Product Quality Rating System (PQRS).

Product Information & Labelling

The FMCG – **Cigarettes business** complies fully with the following Acts with relevant amendments:

- Standards of Weights and Measures Act (Packaged Commodities Rules)
- Cigarettes Act
- Central Excise Act
- COTPA [Cigarettes and Other Tobacco Products (Prohibition of Advertisement and Regulation of Trade and Commerce, Production, Supply and Distribution) Act]

The business has provisions in place to ensure validation of the product with respect to all relevant statutes prior to commercial launch.

At the design stage of any new product, a rigorous system of approval, following the principles of Six Sigma, has been instituted. One of the defined stages is the confirmation of adherence to all the statutes listed above by an internal legal expert (further reinforced with opinions from external counsel). This ensures that every new product complies with all the relevant Acts and laws before specifications are finalised. Finally, the product design is approved by the Corporate Management Committee.

In addition, for every product and process of manufacture, there are quality protocols to ensure adherence to specifications.

The statutes applicable to factory operations have been converted into standardised checklists. These checklists are constantly updated by a central expert panel to reflect any changes in Acts and laws.

Each operating business unit ensures that these checklists are adhered to and there is a formal reportback from the Heads of departments/units confirming adherence. The Divisional and Corporate Management Committees also review this periodically.

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

- Prevention of Food Adulteration Act
- Standard of Weights & Measures Act
- Food Products Order
- Packaged Commodity Rules

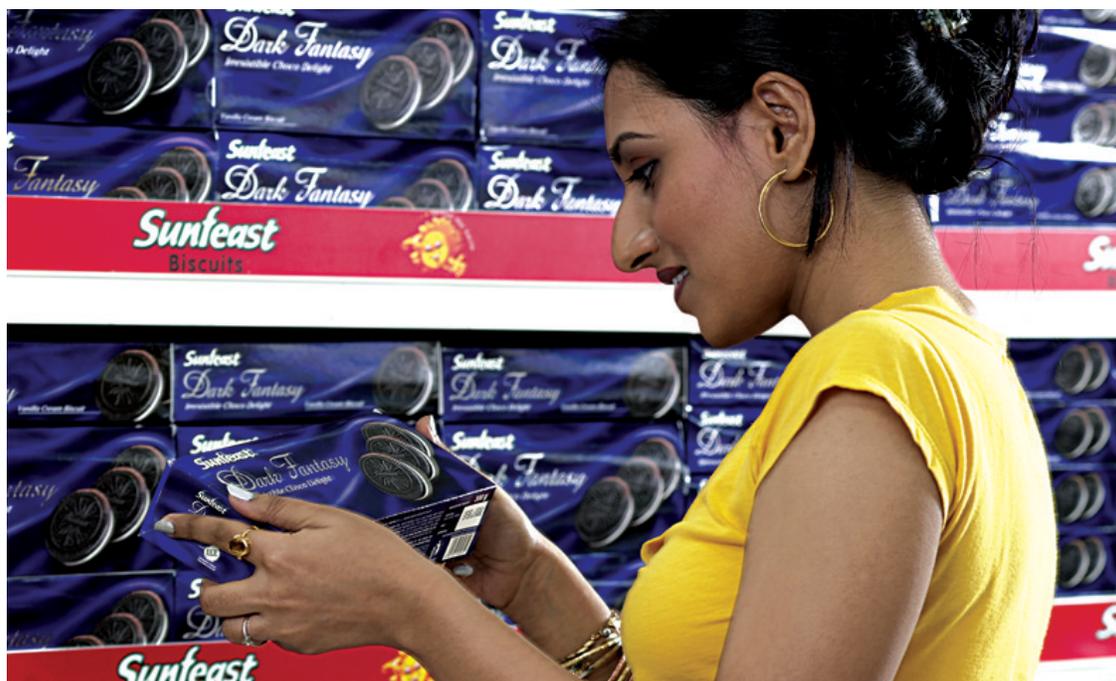
To ensure continuous compliance with the statutes, there is

an internal mechanism of checks and compliance certification by operating managers.

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

In the **Greeting, Gifting and Stationery business** every 'Expressions' product is sold under strict adherence to product information and labelling requirements. Every stationery product carries on its label the month/year of manufacture, paper parameters (size and GSM), number of pages and category (consumer choice). The business complies with the requirements of the Standards of Weight and Measures Act (including the Packaged Commodity Rules) and has in-built systems to ensure compliance including review before the launch of a new category.

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



In the **Paperboards & Specialty Papers business** product development is an integral part of the marketing and process functions. All new product ideas are taken through the product development protocol and after establishing technical feasibility and commercial viability, trials are undertaken at the manufacturing locations. At this stage a development specification is drawn out which, after three manufacturing runs, is drawn out into a final specification sheet keeping in mind the customer requirement and the process capability.

In this business, information about the product, covering relevant technical parameters agreed and finalised with the customer, is documented in the product specification sheet. Quality Assurance Certificates are issued for the consignments on request from customers. The label on each product pack bears the product name, substance (gsm), size, weight and batch/reference number for effective traceability. All product specifications are reviewed once a year and changes are incorporated wherever necessary.

In the **Packaging and Printing business**, all packages are barcoded. The products are checked as per internal quality procedures/agreement with customers before despatch.

In **Agri business**, products are primarily on a B2B basis and are labelled to meet customer requirements on either quality parameters, shipping marks or any importing country labelling requirements. These may, where required, be accompanied by phytosanitary certifications, surveyor quality and quantity reports, Chamber of Commerce certificates etc. All statutory requirements for export are complied with.

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

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

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

The barcode label on packed product ensures 'Product Traceability' in the tobacco supply chain from Farm to the Customer. This initiative enables tracking the sourcing of Green Leaf to the farm, crop year, the operating parameters during processing and the product packing and delivery stages.

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

Marketing Communications

FMCG – Cigarettes business has an internal code for advertising/promotions, which is reviewed every year, and whenever any new law/rules are introduced. The internal code is more stringent than other codes. It not only comprehensively covers all aspects of other codes but also encompasses areas not covered by them. The requirements under Advertising Standards Council of India (ASCI) code of conduct, which is now the Government of India's Governing code, are applied across the business.

All laws related to the product category such as The Cigarettes (Regulation of Production, Supply and Distribution) Act, 1975,

The Cigarettes and Other Tobacco Products (Prohibition of Advertisement and Regulation of Trade and Commerce, Production, Supply and Distribution) Act, 2003, The Cable Television Networks (Regulation) Act, 1995, and The Cinematography Act, 1952, which have provisions for regulations of advertising/promotions in India are strictly followed.

Any State Government laws on advertising/promotion for ITC's products are completely adhered to. There is on-going review of these codes to ensure compliance.

The FMCG Cigarettes business sells a legal product, which is not banned in any market where it sells. Tobacco products are often a subject of public debate. Stringent quality standards/systems are established to respond to queries/concerns and are known to all stakeholders.

The Foods business voluntarily follows the ASCI (Advertising Standards Council of India) Code for all Marketing Communication.

Every time a new Marketing Communication is created, it is checked for compliance with the ASCI Code. In addition, a monthly compliance validation is done by respective managers.

The Foods business does not sell any product which is 'banned in certain markets' or is 'the subject of stakeholder questions or public debate'.

In the **Paperboards & Specialty Papers, Packaging & Printing and Greeting, Gifting and Stationery businesses**, all codes/standards relating to Standard Weights & Measures Rules are followed. These requirements are reviewed on a monthly basis for compliance. None of the products from these businesses is 'banned in certain markets' or subject of stakeholder concern or public debate.

In the **Hotels business**, marketing communication is governed by self-regulation and guided by Indian Society of Advertisers (ISA) Rules and guidelines.

It is reviewed quarterly to ensure compliance with relevant rules and internal guidelines.

The Hotels business does not sell any product banned in the market nor is the subject of stakeholder questions or public debate.

Agri-business has not advertised its product and services in a major way and no voluntary code is therefore required to be followed. Communications and promotions done so far have been in accordance with the law of the land and have been duly approved by the Legal Department of the Company.

The business is in the process of establishing a voluntary code, as it has recently initiated advertising its retail business.

The **Leaf Tobacco business** provides Corporate Advertisements (e.g. 'With best compliments from ITC Ltd.' etc.) to souvenirs published by certain organisations. This is in accordance with the provisions of Cigarettes and Other Tobacco Products Act (Prohibition of Advertising and Regulation of Trade and Commerce, Production, Supply and Distribution) Act, 2003. However, the business does advertise its Organic Agri-inputs. The business also publishes Corporate Advertisements (stating that ITC-ILTD is India's leading tobacco exporter and providing contact details) in reputed International Tobacco Journals.

No product advertisement relating to tobacco is published by the business. The business also maintains a website, 'itc-iltcd.com', which provides the details of Tobaccos grown in different regions of India. All the advertisements published in various fora are reviewed by the Divisional Management Committee (DMC) every month. Any material change in the contents of the website are also approved by the DMC.

Lifestyle Retailing business follows the Voluntary Code on Advertising and Promotion.

The code ensures that the advertisements are not deliberately misleading in terms of claim and representation, and are not offensive to generally accepted standards of public decency (nothing vulgar, indecent or repulsive). Glorification of acts of sex and violence is avoided. References to religion in general

and specific religions are also avoided. It is ensured that advertisements maintain fairness to competition and the contests and promotions are as per the laws of the land. The terms and conditions of promotions are vetted by the Legal Department. There is no deriding of race, caste and community in advertisements or promotion. Packaging of the product is in accordance with Packaging and Weights & Measures Acts.

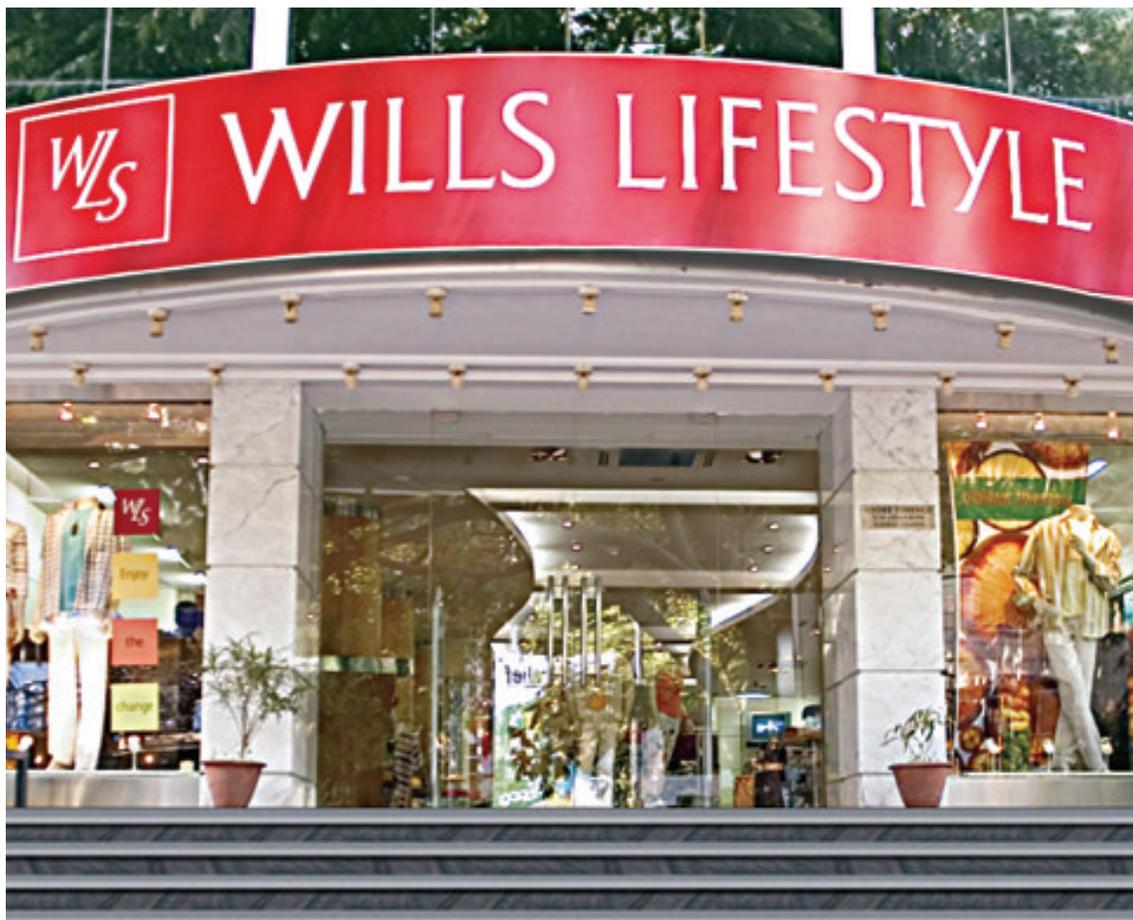
Compliance is ensured through on-going review. Each campaign/promotion is vetted for compliance before release.

The Lifestyle Retailing business does not sell any product that is banned in certain markets or subject of stakeholder questions or public debate.

Compliance

All the businesses/Divisions of ITC have well-established systems, procedures and review mechanisms to identify and comply with the laws and regulations concerning products and services.

ITC continued to comply with all applicable statutes.





ANNEXURES

Certifications

| Business/Unit | Quality | | Environment | Safety & Occupational Health | Social | Food Safety | Others | Remarks |
|--|----------------|-------------|-------------|------------------------------|--------|-------------|-------------------------|--|
| | ISO 9001 since | IQRS* since | | | | | | |
| Cigarette Units | | | | | | | | |
| Munger | 1996 | | 2002 | 2004 | | | | |
| Bangalore | 1997 | | 1998 | 2004 | | | | |
| Saharanpur | 1996 | | 2000 | 2004 | | | | |
| Kolkata | 1995 | | 1997 | 2004 | 2004 | | | <ul style="list-style-type: none"> • 1st Cigarette factory in the world with ISO 9001 and ISO14001 certification • 1st Cigarette factory in India with OHSAS 18001 and SA 8000 certification |
| Leaf Tobacco Units | | | | | | | | |
| Anaparti | 1994 | 2006 | 2000 | 2002 | 2002 | | | IQRS Level 7 |
| Chirala | 1994 | 2006 | 1996 | 2002 | 1999 | | | <ul style="list-style-type: none"> • 1st Company certified to SA 8000 in India • IQRS Level 7 |
| Packaging and Printing Units | | | | | | | | |
| Chennai | 1997 | 1999 | 2001 | 2004 | | | | IQRS Level 6 since 1999 and Level 7 in 2005 |
| Munger | 1997 | | 2000 | 2004 | | | | |
| Paperboards and Specialty Paper Units | | | | | | | | |
| Tribeni | 1999 | | 2002 | 2005 | | | | |
| Kovai | 2004 | | 2004 | 2005 | | | | |
| Bhadrachalam | 2000 | | 2004 | 2005 | | | | |
| Bollaram | 2000 | | 2001 | 2005 | | | BRC/IoP** since 2006 | ** British Retail Consortium /Institute of Packaging certification |
| Hotels | | | | | | | | |
| Maurya | | | 1999 | | | 2005 | | 1st Hotel in India with ISO 14001 certification |
| Mughal | | | 2002 | | | | | |
| Chola | | | 2002 | | | | | |
| Grand Maratha | | | 2004 | | | 2006 | | |
| Sonar Bangla | | | 2005 | | | 2006 | | |
| Grand Central | | | | | | 2006 | | |
| Rajputana | | | 2002 | | | | | |
| WelcomHotel,Delhi | | | 2004 | | | | | |
| Windsor | | | 2002 | | | | | |
| Lifestyle Retailing | | | | | | | | |
| Gurgaon | | | | | | | ISO 17025*** since 2006 | ***Certification for Testing laboratories |
| Others | | | | | | | | |
| ITC R & D Centre – Bangalore | 1998 | | 2004 | | | | ISO 17025*** since 2006 | ***Certification for Testing laboratories |
| Corporate EHS Department | | | 2005 | 2005 | | | | |

* IQRS: International Quality Rating System

Honours: 2005-06

Environmental, Health and Safety Performance

The following awards received during the year bear testimony to the excellent EHS standards practiced in the various units of the Company:

British Safety Council, UK:

Five Star Rating & Sword of Honour, 2005

Awarded to Cigarette factories at Bangalore, Munger, Saharanpur and Kolkata; Packaging & Printing units at Tiruvottiyur and Munger; Leaf processing plants at Chirala and Anaparti

British Safety Council, UK:

Five Star Rating, 2005

Awarded to ITC Hotel Sonar Bangla

Royal Society for Prevention of Accidents (ROSPA):

Gold Award 2005 for Occupational Safety

Awarded to Packaging & Printing unit at Munger; Cigarette factories at Bangalore and Munger

ROSPA Gold Award 2006 for Occupational Safety

Awarded to Cigarette factories at Saharanpur & Kolkata
 ROSPA & Ryder Marsh (Safety) Ltd., UK: Achievement Award in Behavioural Safety – Best Practice 2005

Awarded to the Cigarette factory at Munger

National Energy Conservation Award 2004-05 from Ministry of Power, Govt. of India

Bhadrachalam Paperboards unit won the First prize, Specialty Paper unit at Tribeni got the Third prize and WelcomHotel, New Delhi received the Commendation Certificate

Best Eco-friendly Hotel Award from Ministry of Tourism, Govt. of India, 2004-05

Awarded to WelcomHotel, New Delhi

Andhra Pradesh Pollution Control Board: Cleaner Production Award 2004-05

Awarded to the Leaf processing plant at Chirala

Bihar State Pollution Control Board: Industrial Pollution Control Award, 2004-05

The Cigarette factory and the Packaging & Printing unit at Munger were ranked First

Corporate Environment Award 2003-04 from TERI, New Delhi

Awarded to WelcomHotel Mughal Sheraton

CII: National Award for Excellence in Energy Management:

Awarded to Paperboards unit at Bhadrachalam

CII, Hyderabad: National Award for Excellence in Water Management 2005

Awarded to Paperboards unit at Bhadrachalam and Cast Coating Plant at Bollaram

World Environment Foundation, New Delhi: Golden Peacock Environment Management Award 2005

Awarded to the Leaf processing plant at Chirala and WelcomHotel, New Delhi

Greentech Foundation, New Delhi: Greentech Safety Award 2004-05

Gold Award for Leaf processing plant at Chirala; Cigarette factories at Munger, Bangalore, Saharanpur and Kolkata; Silver Award for WelcomHotel, New Delhi

Greentech Foundation, New Delhi: Greentech Environment Excellence Award 2004-05

Awarded to the Leaf processing plants at Anaparti and Chirala; Cigarette factories at Bangalore, Kolkata, Saharanpur and Munger; WelcomHotels in Agra and New Delhi

Awards and Accolades

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. Some of the significant recognitions received during the year were:

- The **Stockholm Challenge Award** in the Economic Development category for ITC e-Choupal
- The \$ 100,000 **Development Gateway Award** for ITC e-Choupal
- The **Golden Peacock Global Award** for Corporate Social Responsibility (CSR) in Emerging Economies for the e-Choupal and forestry initiatives. This award is given by the Centre for Social Responsibility supported by Institute of Directors, Centre for Corporate Governance and the World Council for Corporate Governance, UK
- The **Golden Peacock Award** for Excellence in **Corporate Governance**
- **Chairman Y C Deveshwar** was named the **'Business Person of the Year 2006'** by 'UK Trade & Investment', the UK Government organisation that supports overseas businesses in that country
- **Chairman Y C Deveshwar**, along with Prof. M S Swaminathan, was inducted into the **'Hall of Pride'** by the 93rd Indian Science Congress
- The **MIS Asia Award** for IT Excellence for ITC e-Choupal
- The **Pacific Asia Travel Association Gold Award** in the Corporate Environmental category for the WelcomEnviron initiatives of ITC-Welcomgroup
- The **Golden Peacock National Quality Award** towards Total Quality and Business Excellence for the Leaf processing plant at Chirala
- The **World HRD Congress Award** for the International Business Division
- The **Indian Oilseeds and Produce Exporters Association Award** for Excellence in Export for the International Business Division
- The **Capexil Top Export Award** for the Paperboards and Specialty Papers Division
- The **Capexil Certificate of Merit** for Export Performance for the Packaging & Printing business
- The **Best Supply Chain Practices Award** from the Retailers Association of India for the Lifestyle Retailing Business Division
- The **Most Admired Shirt Brand of the Year Award** for John Players at the Images Fashion Awards



Memberships and Affiliations

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

ITC's EHS Policy

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

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

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

In particular, it is ITC's EHS policy:

- To contribute to sustainable development through the establishment and implementation of environment standards that are scientifically tested and meet the requirement of relevant laws, regulations and codes of practice.
- To take account of environment, occupational health and safety in planning and decision-making.
- To provide appropriate training and disseminate information to enable all employees to accept individual responsibility

for environment, health and safety, implement best practices, and work in partnership to create a culture of continuous improvement.

- To instil a sense of duty in every employee towards personal safety, as well as that of others who may be affected by the employee's actions.
- To provide and maintain facilities, equipment, operations and working conditions which are safe for employees, visitors and contractors at the Company's premises.
- To ensure safe handling, storage, use and disposal of all substances and materials that are classified as hazardous to health and environment.
- To reduce waste, conserve energy, and promote recycling of materials wherever possible.
- To institute and implement a system of regular EHS audit in order to assure compliance with laid down policy, benchmarked standards, and requirements of laws, regulations and applicable codes of practice.
- To proactively share information with business partners towards inculcating world-class EHS standards across the value chain of which ITC is a part.

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

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

The Corporate EHS Department is responsible for reviewing and updating Corporate Standards on EHS, and for providing

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Statement from PricewaterhouseCoopers

Objective of Review

We were asked by the Management of ITC Limited ("ITC") to provide an "Independent Verification" for its Corporate Sustainability Report ("Report") for the period 1st April 2005 to 31st March 2006.

Responsibilities During Review

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

The Report and its contents are the responsibility of the management of ITC, while the observations made under Independent Review Report is the outcome of the professional work undertaken by PricewaterhouseCoopers Private Limited.

Limitations of Review

Our review comprised limited assurance on data and information reported against the indicators delineated under Scope of Review, below.

The data and graphs on financial performance, as specified in the Report under Economic indicators, are derived from the audited 2005 financial statements of ITC Limited and were not within the scope of our review.

Scope of Review

The scope of the review covered:

- a) Review of certain statements and data relating to ITC's operations and to provision of limited review in respect of these statements and data;
- b) Checking of monitoring and reporting procedures to support reliable disclosure in the Report;
- c) Assessment whether the Report provides an appropriate representation of existing policies in the areas of human resources, environment and community involvement;
- d) Visits to 8 units viz.
 - Hotels: Welcomhotel Rajputana Palace Sheraton, Jaipur (Rajasthan) and ITC Hotel Sonar Bangla Sheraton and Towers, Kolkata (West Bengal)
 - Packaging and Printing Division (PPD) and India Tobacco Division (ITD): Munger (Bihar)
 - Leaf Processing Plant: Chirala (Andhra Pradesh)
 - Paperboards and Specialty Papers Division (PSPD): Bhadrachalam (Andhra Pradesh), Kovai (Tamil Nadu) and Tribeni (West Bengal)
- e) Checking of the data stated at the following indicators:
 - Energy: Direct Energy use segmented by primary source, Indirect Energy use and Initiatives to use renewable energy

- Water: Total Water withdrawn segmented by source, Water recycled and reused, Significant Effluent discharges and Initiatives for water conservation and harvesting
- Air Emissions: NO_x, SO_x and other significant air emissions, Emissions of Ozone Depleting Substances (ODS), Significant CO₂ emissions during transportation and Carbon sequestration (only for PSPD, Bhadrachalam)
- Solid Waste: Solid waste generated, reused and recycled
- Products and Services: Initiatives to mitigate environmental impacts of products and services and Percentage of products sold and their packaging materials that are reclaimed by category
- Accidents and Spills: Lost Day, injury, absentee rates and work related fatalities and Significant spills
- Employment: Employee Turnover by age group and gender
- Occupational Health and Safety: Education, training, counseling to assist workforce regarding serious diseases
- Diversity and Equal Opportunity: Ratio of basic salary of men to women
- Product and Service Labelling: Product and service information

Basis for Review

We planned and performed our work in accordance with the ISAE 3000 to obtain limited review. Since the Report has been prepared in line with G3, hence these Guidelines formed the basis for carrying out the review. We also referred to GRI's Reporting Framework Application Levels to ascertain the report application level self-declared by ITC.

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

Review Procedures Carried Out

Our work consisted of:

- a) a desktop review of external economic, environmental and social issues facing ITC;
- b) interviews with finance director, senior management responsible for issues related to environment, occupational health & safety, human resources, secretarial, and product packaging;
- c) examination of documentation on economic, environmental and social policies, practices, performance, governance etc.;
- d) an understanding and assessment of systems for data generation, collection, analysis, consolidation and reporting at business unit, divisional and group level;
- e) review and sample testing at eight sites of twenty indicators and associated statements presented in the Report as stated above in light of the findings from the desktop review, site visits, and our cumulative knowledge of the industry and the Company's operations;
- f) review of conclusions drawn from data and corresponding statements for select indicators in the context of completeness and reliability.

Parties Responsible for Review Engagement

Our engagement was carried out by a multi-disciplinary team of requisite skills and experience. The review engagement was led by Mr. Devinder Chawla, Executive Director with PwC. The engagement execution was coordinated by Dr. Muna Ali and executed by PwC's Sustainable Business Solutions team.

Conclusion

- a) On the basis of the work undertaken, nothing has come to our attention that would cause us not to believe that:
- The information for the indicators stated above [at (e) under Scope of Review] in the Report has been fairly stated.
 - The Report presents a fair and balanced account of ITC's material sustainability performance.
 - The Report is in accordance with G3 guidelines.
- b) ITC is working towards becoming a zero solid waste organisation. It has commissioned a study in one of its FMCG businesses to assess the environmental footprint of its product. This initiative is commendable.
- c) Whilst ITC has made efforts to include all its units in reporting all core environmental and social indicators, there is an opportunity for further improvement with respect to expanding the Report scope to include relevant additional indicators and significant subsidiaries such as Surya Nepal Private Limited and ITC Infotech.



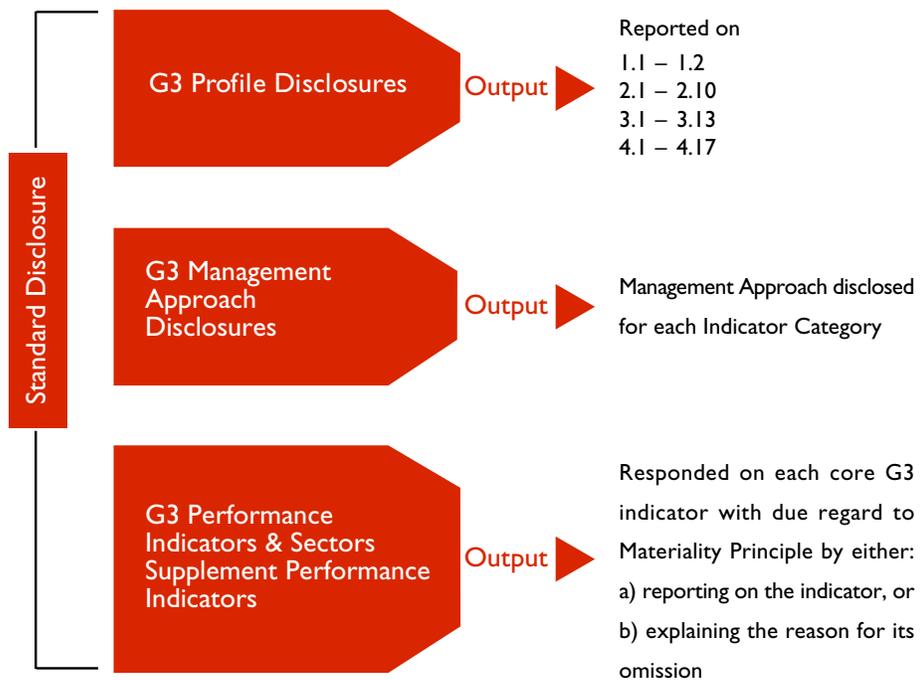
Devinder Chawla
Executive Director
Business Solutions
PricewaterhouseCoopers Pvt. Ltd.

Place: Mumbai, India

Date: November 3, 2006

Application Level

A+



Report Externally Assured by PwC



ITC Limited

Enduring value.

For the nation. For the shareholder.

ONCE AGAIN THE WORLD CELEBRATES THE INDIAN FARMER



And year after year, the global applause gets louder. The Stockholm Challenge Award 2006, conferred on ITC's e-Choupal from among 1154 entries across more than 100 countries, is yet another global recognition of ITC's role in the transformation of rural communities. ITC has creatively leveraged Information Technology to empower over 3.5 million Indian farmers across 9 states.

ITC Limited
**Citizen
First**