



Report and Accounts 2005



ITC Limited

Enduring value.

For the nation. For the shareholder.

“ *Vitality of companies operating in an economy makes the decisive difference in the capacity of a country to create wealth and to upgrade the basis of competition from comparative factor advantages to innovative capability that enables the highest order of value capture.*

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 vision for your Company – the vision that I had referred to in earlier years as “A Commitment beyond the Market”.

Flowing from this vision, and against all odds, your Company chose to not only invest towards acquiring international competitiveness in quality and cost of manufacture of its own paperboards mill, but also to extend its engagement across the fuller value chain. Pulling together the resources at your Company’s disposal, ITC’s insights as a substantial consumer of value-added paperboards were leveraged to support technology upgradation and modernisation of the mill. A biotechnology based research programme that was on a relatively modest scale at that time, was leveraged to convert degraded, private wastelands in the economic vicinity of the mill into productive sources of fibre through a social farm forestry programme. Such a strategic option entailed long gestation and daunting uncertainties.

Today, your Company’s paperboards business is the decisive leader in the Indian market, with value-added products now constituting nearly 50% of sales. The product footprints extend to several markets in Asia, Africa and the EU.

Your Company’s initiatives in energy management have earned national awards for excellence. The modernised pulp mill, besides enhancing competitiveness and substituting imports, also enables the production of elemental chlorine free pulp. It is the only one of its kind in India, thereby setting world-class standards of environment friendly technology.

Societal value has accrued through increasing forest cover, enhancing contribution to restoration of ecological balance and above all, providing sustainable employment to nearly 160,000 people in some of the most remote tribal regions of the country with related multiplier impact on the economy.*”

**- Extracts from Chairman Y C Deveshwar’s speech at the
Annual General Meeting, July 2003**

Delighting the Indian global consumer

ITC's PAPERBOARDS
& PACKAGING STORY

Economic liberalisation has thrown up significant opportunities and challenges for the Indian industry. Foremost among them, is the globalisation of the Indian market, leading to the growing sophistication of the Indian consumer. Rise in disposable incomes, changing attitude towards consumption and the increasing exposure to global lifestyles through the electronic media have powerfully combined to create newer and bigger markets of consumers who demand products and services of international standards. As per the estimates of the National Council for Applied Economic Research, the Indian middle-class has grown two and a half times between 1995-96 and 2001-02.

In keeping with its mission of delivering world-class performance, ITC has focused on achieving international standards in cost, quality and productivity in all its businesses. This is particularly true for ITC's Paperboards, Specialty Papers and Packaging business which provides international-class paperboards and packaging to a diverse range of industry customers.

ITC's paperboards and packaging support some of the biggest brands in India, including the Company's own leading FMCG brands. They feature on every supermarket shelf and retail outlet, straddling all carton-consuming segments including foods, beverages, pharma, personal care & toiletries, durable goods and matches – a testimony to ITC's undisputed leadership in value-added packaging.

This success did not come easily. Behind it lies a saga of business transformation. Of embracing a difficult and challenging corporate strategy. Of delivering a demanding execution plan. Of going beyond the call of duty by a team with the grit and courage to swim against the tide.

The story began over two and a half decades ago ...



Delighting the Indian global consumer

Twenty six years ago, ITC responded to the call of the Nation for backward area development and chose a tribal-dominated village in Khammam district of Andhra Pradesh to set up its first paperboards mill. Today, ITC's Unit in Bhadrachalam is synonymous with the largest and the most contemporary paperboards manufacturing facility in the country. It accounts for over 80% of ITC's total installed paperboard manufacturing capacity of 325,000 tonnes.

Yet, only a decade ago, outdated technology and products, dwindling sources of raw material supply and the high cost and unreliability of power supply had stacked the odds overwhelmingly against the business. Conventional wisdom would have dictated ITC's exit from the business. However, ITC's total commitment to creating sustainable value within India inspired the Company, against all odds, to craft a comprehensive turnaround strategy.

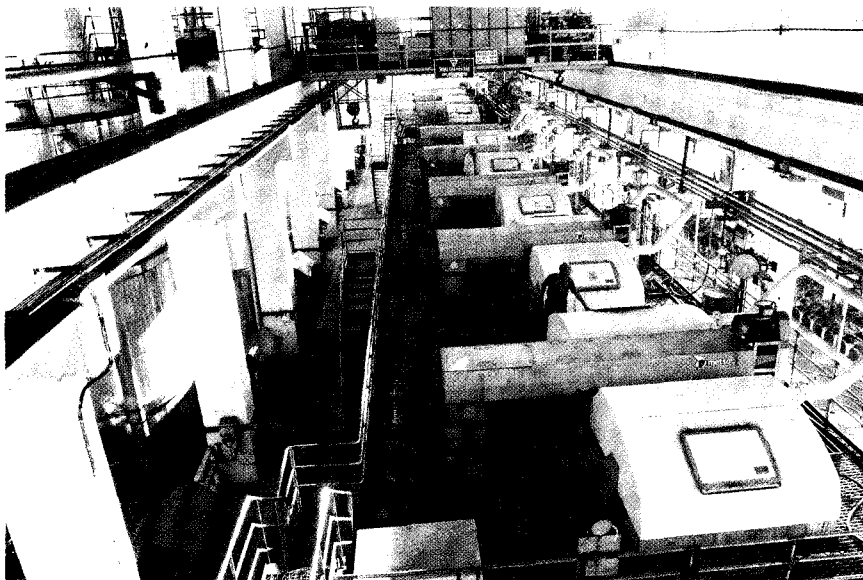
The aggressive pursuit of international competitiveness in cost and quality has enabled ITC's Paperboards business to fundamentally reinvent itself. The implementation of state-of-the-art technology has enabled the Company to create value-added products and packaging solutions, making ITC the decisive leader in this segment. The effective implementation of innovative energy and fibre strategies have provided the Company a distinct competitive advantage in the fast globalising Indian market.

The Second Miracle

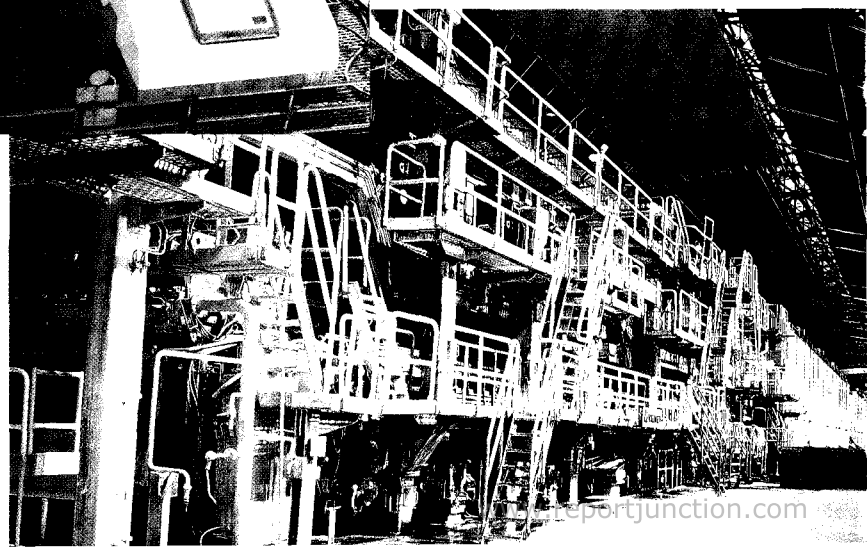
- The year: 1977. The place: The tiny village of Sarapakka on the banks of the river Godavari, near the temple town of Bhadrachalam made famous by the legend of the miracle of 'Bhakt Ramdas'. The people: Poor and deprived tribals, waiting for a miracle to uplift their future. It was in this most backward region of the country that ITC set up its first paperboards mill, triggering an economic transformation of the area. Jobs were created. A school was set up. A housing colony was established. Incomes grew. Local trade flourished. Hopes of prosperity had finally arrived.

For the poor of Sarapakka, what ITC had wrought was nothing short of a second miracle.

Set up in 2002, the state-of-the-art ECF Fibre Line produces eco-friendly elemental chlorine free pulp. This is the first of its kind in India



Paper Machine IV at Bhadrachalam, with a capacity of 120,000 tonnes, produces international quality boards with flawless surfaces for the finest reproduction in print



PAPERBOARDS & SPECIALTY PAPERS

Customerspeak

"Our association with ITC has given us the desired results in terms of both quality and service. The paperboards supplied by ITC offer consistency in quality, resulting in excellent productivity in our packing lines with minimum wastage. Through its Kovai unit, ITC has also ensured faster lead times resulting in optimum inventory at each point of the value chain. Further, given ITC's size, product quality and proactive service levels, we are exploring supply-partnership with the Company for the Asia-Pacific region as a whole".

- Pradip Saha, Associate Director (Materials), Colgate Palmolive India



Set up in January 2005, Paper Machine V at Bhadrachalam is designed for optimum print and conversion performance



Delighting the Indian global consumer

ITC's Paperboards business attained a momentous milestone in September 2002 with the establishment of India's first Elemental Chlorine Free (ECF) Fibre Line at the Bhadrachalam Unit. This state-of-the-art 100,000-tonne fibre line has significantly enhanced ITC's product portfolio. ECF pulp meets the requirements of food-grade and pharmaceutical packaging, as well as those of environment-friendly paper.

In November 2003, ITC acquired a paperboard manufacturing facility near Coimbatore in Tamil Nadu. Now fully integrated with the Paperboards & Specialty Papers business, the Kovai Unit, with a capacity of 65,000 tonnes, has enabled ITC to further improve customer service and reduce lead time for manufacturing customised recycled boards.

ITC set up India's first world-class plant for the manufacture of premium Cast Coated Boards at Bollaram in Andhra Pradesh. The Unit is geared to meet highly sophisticated packaging and printing requirements. It has now been further expanded with the addition of specialised conversion lines. A modern poly extruded line has been added to this production facility to meet the growing demand for food and beverage packaging. A new super calendering line installed at the Unit has enabled production of Art Boards and Ivory Cards, thereby expanding the product range.

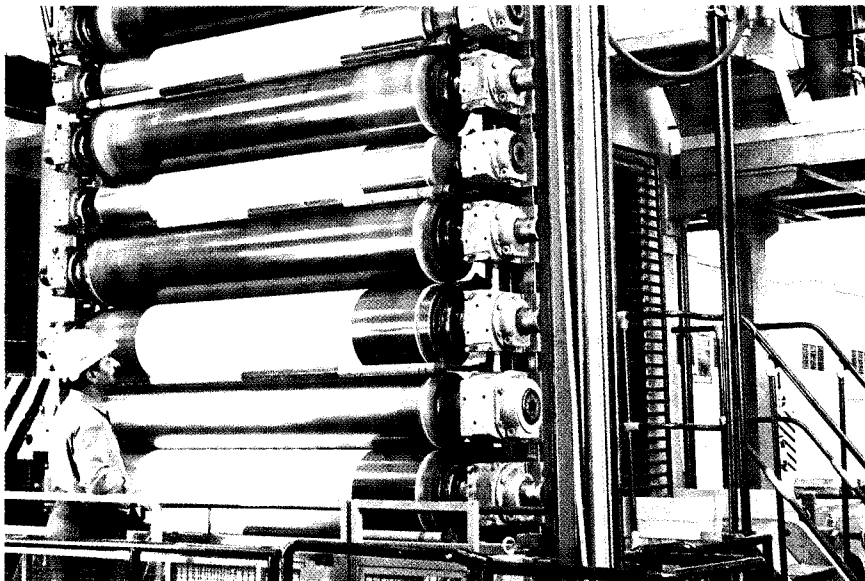
One-stop shop

ITC's commitment to product development is borne out by the breadth of its product portfolio, customised for a wide range of applications. ITC, now a one-stop shop for discerning paperboard users, is the most preferred supplier of premium paperboards for packaging and printing. It services a broad range of industries - FMCG, Textiles, Food & Beverages, Pharmaceuticals and Publishing.

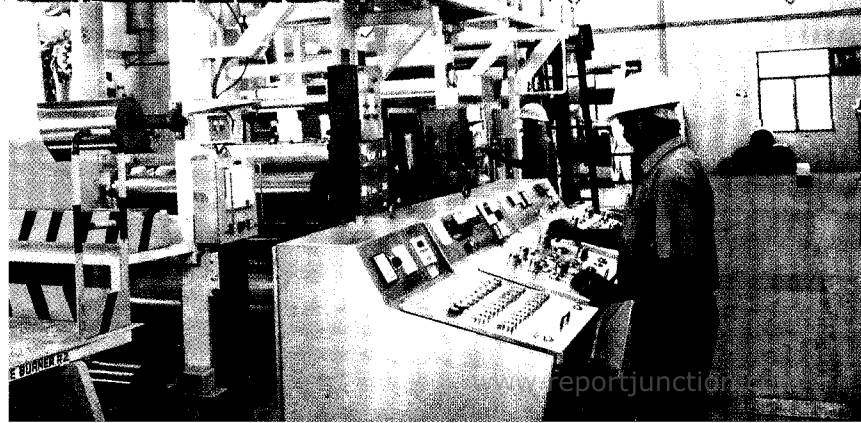
ITC is the largest exporter of coated boards from India, with nearly 20% of its production satisfying exacting customer specifications in over 40 countries.

Report Junction.com

Super Calendering technology at Bollaram



The Poly Extrusion Machine at Bollaram provides barrier properties to boards



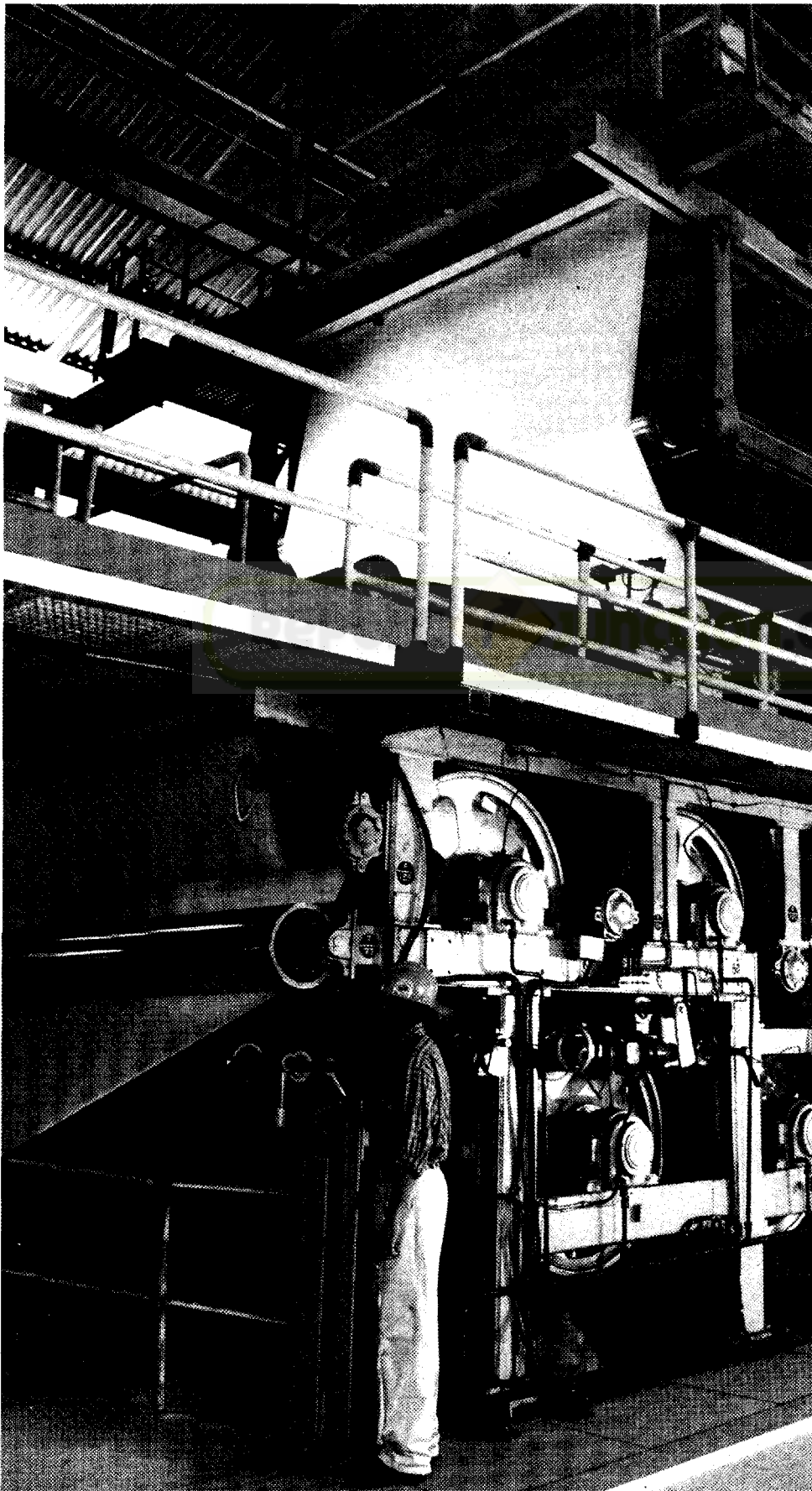
Report Junction.com

PAPERBOARDS & SPECIALTY PAPERS

Power Packed

Over the years specific energy usage at the Bhadrachalam Unit has shown substantial reduction, making this Unit one of the most energy-efficient paperboards producers internationally. The specific energy consumption now stands at 33.30 Giga Joules (GJ) per tonne of paperboard, comparable with the best in the world. The international benchmark for structurally similar mills is 32.00 to 40.93 GJ per tonne of paper.

More than 95% of the energy consumed by the Bhadrachalam Unit is generated internally.



The Paper Machine at Koval uses waste-paper based raw material



Delighting the Indian global consumer

ITC's fibre strategy is a telling example of linking business purpose with the creation of sustainable livelihoods. The Company has creatively leveraged its need for sustainable sources of high quality wood fibre to provide significant livelihood opportunities to economically backward wasteland owners.

The main plank of this initiative is the building of grassroots capacities which initiate a virtuous cycle of sustainable development. ITC, working with select NGOs and the Government of Andhra Pradesh, selects poor tribals with wastelands and organises them into self-supporting forest user groups. The user group leaders are trained in the best silvicultural practices to grow high quality timber as a viable crop. They are also trained to grow other local species to meet their domestic fodder, fuel and nutrition requirements.

ITC provides a comprehensive package of support and extension services to farmers encompassing loans, land development, planting of saplings, plantation maintenance, marketing and funds management. This intervention has been institutionalised by creating village-level natural resource management committees comprising local farmers. At the heart of this comprehensive greening project is ITC's state-of-the-art research centre at Bhadrachalam. Biotechnology research enables ITC to make available high-yielding, disease-resistant clonal saplings, thereby presenting attractive land-use alternatives to traditional farmers and wasteland owners.

The Mist Chamber at ITC's R&D Centre for growing high-yielding, disease-resistant clones



The clonal propagation project is at the heart of the Company's fibre strategy. To date, 100 million saplings have

Delighting the Indian global consumer

ITC is a premier manufacturer of Specialty Papers in India with a diversified product range. The Company's mill at Tribeni in West Bengal, is exclusively dedicated to making Specialty Papers. ITC's Specialty Papers are used in the manufacture of cigarettes, decorative laminates, electrical equipment, fireworks and automotive filters. They are also used for fine printing, packaging and carbonising.

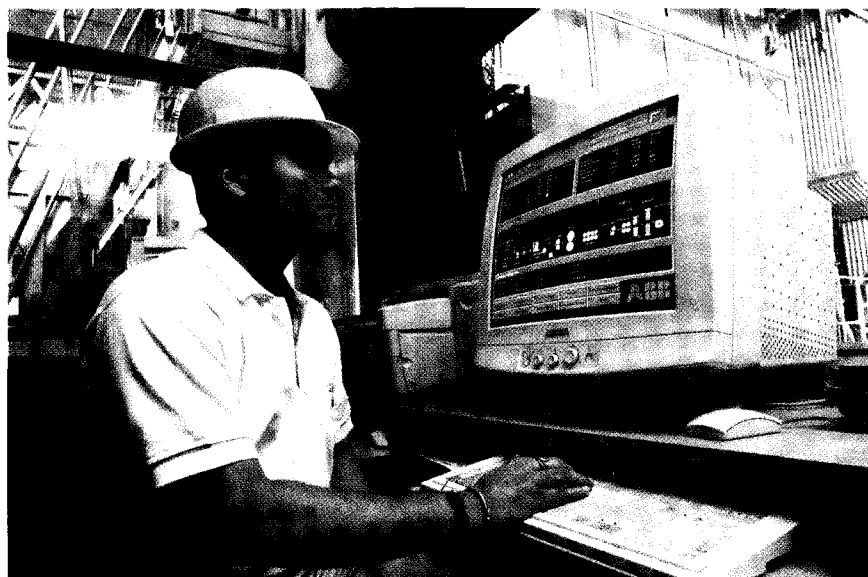
ITC has pioneered the manufacture of Specialty Papers for the Indian cigarette industry. The Company currently offers a comprehensive range of Cigarette Tissues, Plug Wrap, Tipping Base, Printed Tipping Papers and Metallising Base. Behind ITC's success lies its ability to evolve long-term product development solutions on the basis of customer specifications and emerging market trends.

Something Special

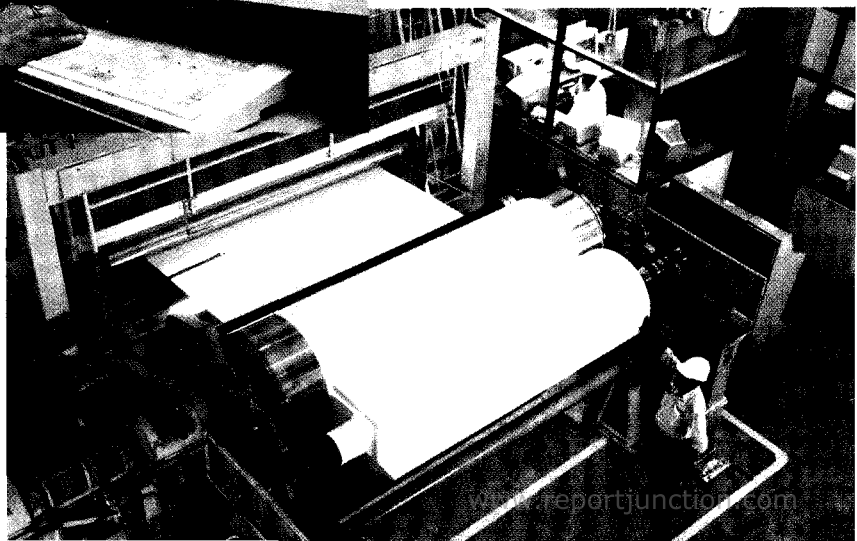
- ITC's Specialty Papers Unit has played a pioneering role in the development of a range of high porosity cigarette papers to exacting benchmarks. Investment in state-of-the-art technology, global sourcing of high quality inputs and a contemporary R&D infrastructure have combined to create capabilities that satisfy demanding customers. Spurred by its success in the domestic market, ITC has now commenced making forays into highly competitive export markets.

Report  junction.com

Control room at the Tribeni Unit. Sophisticated technology ensures adherence to customer specifications



Paper Machine I at Tribeni with a modern web inspection system that helps control quality parameters



www.reportjunction.com

PAPERBOARDS & SPECIALTY PAPERS

Creating Livelihoods

ITC's Social and Farm Forestry programmes generate significant employment opportunities for the rural poor. The development of high-yielding clones for plantations and afforestation involves a host of employment intensive activities like:

- Raising and maintaining gene banks
- Sapling production in various nurseries and their transportation to the field for planting
- Land preparation for planting
- Planting operations like alignment, pitting, levelling and fencing
- Weeding, tending, soil working and inter-cropping.

As at March 2005, ITC's Forestry programmes covered over 29,230 hectares of land, with resultant employment opportunities generated for over 290,000 rural poor.

