

ITC Limited



Report
and
Accounts
2003



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



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



ITC Limited

Enduring value.

For the shareholder. For the nation.

ITC LIMITED
citizen first

Dear Shareholders,

You will recall that in my last annual communication to you, I had outlined ITC's vision of enlarging its contribution to the Indian economy. ITC's aspiration to create enduring value for the nation provides its employees the inspirational motive force to sustain growing shareholder value. I had called this compelling vision "A commitment beyond the market". ITC practises this philosophy by not only driving each of its businesses towards international competitiveness, but by also consciously contributing to enhancing the competitiveness of the larger value chain of which it is a part.

I had also shared with you my belief that it is this aspiration that sets apart ITC as a premier 'Indian' enterprise. ITC, as a truly 'Indian' company, whilst recognising the need to create a fair reward for shareholders, goes the extra mile, in partnership with other participants in the economy, to create conducive conditions for international competitiveness towards maximising value for the Indian society.

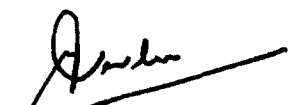
The depth of ITC's commitment to the Indian economy is manifest in the way its diverse businesses contribute to strengthening their related value chains – through R&D, extension services, IT-enablement and the social and economic empowerment of the marginalised. The most telling example of this commitment is ITC's pathbreaking initiative in building sustainable rural partnerships, which carry the potential to transform the landscape of rural India and the lives of our rural population.

ITC's "commitment beyond the market" encompasses the larger social canvas to include the preservation of India's cultural heritage. ITC is particularly proud of its pioneering contribution in the area of Hindustani classical music.

As a concerned corporate citizen, ITC is committed to the highest standards in the key areas of Environment, Occupational Health and Safety (EHS). ITC strives to sustain and continuously improve its EHS standards to match the finest international benchmarks.

The special feature that follows captures ITC's inspired commitment to create and sustain a model that harmonises service to society with enhancing shareholder value. I am sure you share my sense of pride in ITC's exemplary efforts.

ITC is truly proud to be citizen first.

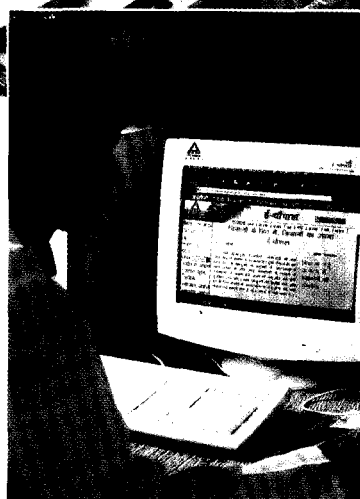

 (Y.C. Deveshwar)
 Chairman



ITC's e-Choupal
Movement -
traditional farmers to
new-age marketers



The e-Choupal movement is transforming the Indian farmer into a progressive knowledge-seeking netizen. Enriching the farmer with knowledge; elevating him to a new order of empowerment.



The immense potential of Indian agriculture is waiting to be unleashed. The endemic constraints that shackle this sector are well known – fragmented farms, weak infrastructure,

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

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.

numerous intermediaries, excessive dependence on the monsoon, variations between different agro-climatic zones, among many others. These pose their own challenges to improving productivity of land and quality of crops. The unfortunate result is inconsistent quality and uncompetitive prices, making it difficult for the farmer to sell his produce in the world market.

ITC's trail-blazing answer to these problems is the e-Choupal initiative; the single-largest information technology-based intervention by a corporate entity in rural India. Transforming the Indian farmer into a progressive knowledge-seeking netizen. Enriching the farmer with knowledge; elevating him to a new order of empowerment.

For the first time, the stereotype image of the farmer on his bullock cart made way for the e-farmer, browsing the e-Choupal website. Farmers now log on to the site through Internet kiosks in their villages to order high quality agri-inputs, get information on best farming practices, prevailing market prices for their crops at home and abroad and the weather forecast - all in the local language. There are 4 crop-specific e-Choupal websites covering soya, coffee, aqua and wheat.

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. It links farmers - large and small alike - to consumers in local and global markets through ITC's farmgate sourcing and traditional capabilities related to branding, trade marketing and distribution. The e-Choupal project is already benefiting 1.2 million farmers. Over the next decade, the e-Choupal network will cover over 100,000 villages, representing 1/6th of rural India, and create more than 10 million e-farmers.



The e-Choupal value chain



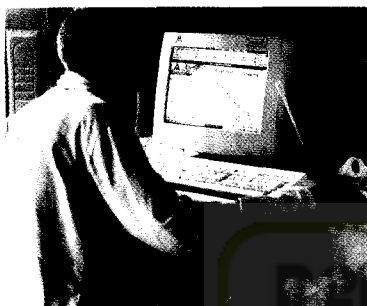
Online information on best farm practices and local weather forecast provides vital support to the farmer.



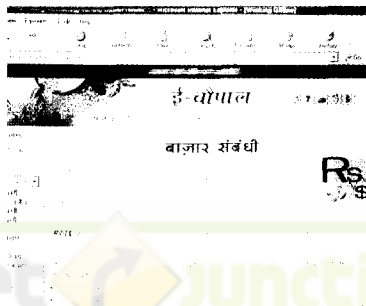
ITC's in-house R&D inputs help the farmer improve quality and productivity. Findings are accessible in the local language from e-Choupal websites.



Lessons from the websites are implemented on the field by the farmer with the assistance of ITC's extension workers.



The e-Choupal helps aggregate demand, in the process enabling the farmer to access higher quality inputs at a lower cost.



The farmer has the advantage of discovering online the prevailing prices across the globe, allowing him to take an informed selling decision.



The farmer is provided confirmation of ITC's intent to purchase at an assured price by the e-Choupal sanchalak, right at the farmgate.



The farmer takes his produce to a nearby ITC multipurpose warehousing hub, where his crops are subject to stringent tests to ensure foodgrade quality.



ITC provides the farmer appropriate documentation which records the quantity and quality of his output. Payment is instant.



Crops are warehoused by ITC in a scientific manner, preserving the identity of each lot, enabling the farmer to obtain better prices linked to source quality.

e-Choupal – at a glance



ITC's watershed management and community development programmes are being extended to all e-Choupal villages. Once complete, the multiplier effect will be extraordinary.

Milestones

Commencement of initiative:

Year 2000

- States covered: 4
- Villages covered: 10,000
- e-Choupal installations: 2,100
- Empowered e-farmers: 1.2 million

Agenda

for the next decade

- States to be covered: 15
- Villages to be covered: 100,000
- e-Choupals to be installed: 20,000
- Farmers to be e-empowered: 10 million

**Social and
Farm Forestry -**
wasteland owners to
productive farmers



ITC's social and farm forestry programmes are being rapidly scaled up. The success of older plantations, seen in the background, is spawning a new generation of plantations, seen in the foreground.

ITC's afforestation project is driven by the realisation that India's poor forest cover – a meagre 11% of the geographical area of the country against a desirable 33% – has serious

plantation maintenance, marketing and funds management. Helping the farmer produce a quality that attracts the best price. After the first harvest, the farmer returns the loan to his

forest resource user group, in the process, creating a village development fund large enough to sponsor aspiring timber growers.



ITC's afforestation mission goes beyond regenerating wastelands and forests. It enhances farm incomes and generates sustainable employment.

implications for the rural poor. Forests and common property resources constitute as much as 20% or more of the total income source of such households. ITC has effectively leveraged its need for wood fibre to provide significant opportunities to economically backward wasteland owners. The main plank of ITC's forestry projects is the building of grassroots capacities to initiate a virtuous cycle of sustainable development.

Or meet other village development needs. Making sustainability a reality.

ITC also makes available high-yielding, disease-resistant clonal planting stock developed through biotechnology-based research at its Bhadrachalam unit. The commercial viability of these clones is evident from the fact that farmers have brought 16,000 hectares under such plantations. Another 8,000 hectares have been planted by the forest departments of Andhra Pradesh, Tamil Nadu, Karnataka, Maharashtra and West Bengal.



ITC provides valuable extension support to farmers by teaching them silvicultural practices.

In a single year – 2002 – ITC's afforestation programme has resulted in the planting of 20 million saplings. So far, 35 million saplings have been planted over 16,000 hectares, generating employment for 160,000 people. During the next 10 years, 600 million saplings will be planted over 100,000 hectares of private wastelands, benefiting 1.2 million people. ITC, working with select NGOs, identifies poor tribals with wastelands and organises them into self-supporting forest user groups. The user group leaders are trained by ITC to follow best silvicultural practices to grow high quality timber as a viable cash crop, and other local species that meet domestic, fodder, fuel and nutrition requirements.

ITC provides a comprehensive package of support and extension services to farmers – loans, land development, planting of saplings,



ITC has institutionalised its intervention by creating village-level natural resource management committees comprising local farmers.

At the heart of this comprehensive greening project is ITC's state-of-art research centre, consistently striving for productivity improvement of several tree species in order to give attractive land-use alternatives to traditional farmers and wasteland owners. So far 86 high-yielding, fast-growing and disease-resistant 'Bhadrachalam' clones have been produced on a commercial scale with productivity that is 6-9 times that of the normal seedlings. Included in these are 23



site-specific clones adapted to problematic alkaline and saline soils. In the pipeline are research projects on casuarina, subabul, rain-fed bamboo and sustainable agro-forestry models.

These strategic initiatives will, on one hand, make procurement of industrial timber exclusively from sustainable sources a reality within 10 years and on the other hand, benefit 1.2 million people through incremental employment. Additionally, it helps forest conservation by reducing pressure on public forests.

Apart from the obvious benefits of increasing the forest 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. With poor households having access to their own woody biomass under ITC's social forestry programme, they can meet most of their fuelwood requirements in-house through loppings and toppings, thus further reducing pressure on public forests. As a result of the leaf-litter from multi-species plantations and the promotion of leguminous inter-crops, depleted soils are constantly enriched. Soon this will lead to a decline in fertiliser and pesticide consumption, thus reducing the pollution of groundwater sources by such chemicals.



Inter-cropping on plantations provides assured income to farmers during the gestation period of these plantations.

Social & Farm Forestry – at a glance

Milestones

Commencement of initiative: Year 1998

- Area developed:
16,000 hectares
- Saplings planted: 35 million
- Number of beneficiaries through additional employment:
160,000 people

Agenda

for the next decade

- Area to be developed:
100,000 hectares
- Saplings to be planted: 600 million
- Potential beneficiaries through additional employment:
1.2 million people

**Integrated Watershed
Development -**
dry despair to
green hopes



ITC is helping build cost-effective percolation tanks to protect farmlands from acute moisture stress and high soil erosion.