

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-iltld.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.

