

REPORT ON CORPORATE GOVERNANCE

The Directors present the Company's Report on Corporate Governance.

I.T.C. Limited is one of the front runners in India to put in place a formalised system of good Corporate Governance.

THE COMPANY'S GOVERNANCE PHILOSOPHY

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 vast quantum of societal resources, ITC believes that the governance process should ensure that these companies are managed in a manner that meets stakeholders' aspirations and societal expectations.

ITC's Corporate Governance initiative is 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 provide empowerment to the executive management of the Company, and simultaneously create a mechanism of checks and balances which ensures that the decision-making powers vested in the executive management are not only not misused, but used with care and responsibility to meet stakeholders' aspirations and societal expectations.

From the above 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 leads to the creation of the right corporate culture that enables the Company to be managed in a manner that fulfils the purpose of Corporate Governance.

Trusteeship recognises that large corporations have both an economic and a social purpose thereby casting the responsibility on the Board of Directors to protect and enhance shareholder value, as well as fulfil obligations to other stakeholders.

Transparency means explaining the Company's policies and actions to those to whom it has responsibilities. Externally, this means maximum

appropriate disclosures without jeopardising the Company's strategic interests and internally, this means openness in the Company's relationship with its employees and in the conduct of its business.

Empowerment is a process of unleashing creativity and innovation throughout the organisation by truly vesting decision-making powers at the most appropriate levels and as close to the scene of action as feasible. ITC believes that empowerment combined with accountability provides an impetus to performance and improves effectiveness, thereby enhancing shareholder value.

Control ensures that freedom of management is exercised within a framework of checks and balances and is designed to prevent misuse of power, facilitate timely response to change and ensure effective management of risks.

ITC's Corporate Governance processes continuously reinforce and help realise the Company's belief in ethical corporate citizenship and is manifest in exemplary standards of ethical behaviour, both within the organisation as well as in external relationships.

THE GOVERNANCE STRUCTURE

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

- (i) Strategic supervision – by the Board of Directors
- (ii) Strategic management – by the Corporate Management Committee
- (iii) Executive management – by the Divisional Chief Executives of the Businesses assisted by the respective Divisional Management Committees.

This three-tier structure enables the Board of Directors to carry out the task of strategic supervision as trustees of Shareholders, unencumbered by the task of strategic management, in a manner that imparts objectivity and secures sharpened accountability from the management. Similarly, the Corporate Management Committee can engage in the task of strategic management of the Company as a whole, leaving the task of day-to-day executive management with the empowered Divisional Management Committees focussed around each business.

The core roles of the key entities flow from the structure. The core roles, in turn, determine the core responsibilities of each entity. In order to discharge such responsibilities, each entity is empowered formally with requisite powers.

The structures, processes and practices of governance enables focus on the Corporate purpose while simultaneously facilitating effective management of the diverse portfolio of businesses.

The Governance Document that sets out the structures, policies and practices of governance, including the roles of the various entities within the organisation, are available at the Company's website www.itcportal.com for general information.

BOARD OF DIRECTORS

In terms of the Company's Corporate Governance Policy, all statutory and other significant and material information are placed before the Board to enable it to discharge its responsibilities of strategic supervision of the Company as trustees of the Shareholders.

Composition

The composition of the Board of Directors of the Company is balanced, consisting of eminently qualified Executive and Non-Executive Directors. The total number of Directors of the Company is fourteen, of which four are Executive Directors.

The following is the composition of the Board as on 31st March, 2001:

Director	Category of Director	No. of other Directorships (*)	No. of Memberships/ Chairmanships of other Board Committees (**)
Executive Directors			
Y. C. Deveshwar	Chairman	5	1 as Chairman
S. S. H. Rehman		11	1
A. Singh		5	Nil
K. Vaidyanath		9	7
Non-Executive Directors			
B. Sen	Independent Director	2	Nil
Ram S. Tarneja	Independent Director	14	4 (including 2 as Chairman)
B. Vijayaraghavan	Independent Director	Nil	Nil

Director	Category of Director	No. of other Directorships (*)	No. of Memberships/ Chairmanships of other Board Committees (**)
B. G. Daga	Independent Director – Representative of Unit Trust of India as Investor	3	1 as Chairman
Y. P. Gupta	Independent Director – Representative of Life Insurance Corporation of India as Investor	5	4
P. B. Ramanujam	Independent Director – Representative of General Insurance Corporation of India and its subsidiaries as Investor	2	1
A. C. Ahuja	Independent Director – Nominee of IFCI Ltd. as Lender	5	2
R. Vasudevan	Independent Director – Nominee of Industrial Development Bank of India as Lender	2	1
C. R. Green		Nil	Nil
A. A. F. Rodrigues		Nil	Nil
Alternate Director			
N. T. Gourlay (Alternate to Mr. C. R. Green)		Nil	Nil

* Excludes Directorships in Indian Private Limited Companies, Foreign Companies, memberships of Managing Committees of various Chambers / bodies and Alternate Directorships.

** Represents Memberships / Chairmanships of Audit Committee, Investor Grievance Committee and the Remuneration Committee of other Indian Companies.

Meetings and Attendance

The Company's Corporate Governance Policy requires the Board to meet at least six times in a year. As against this, during the financial year ended 31st March, 2001, eleven meetings of the Board were held.

Details of Board Meetings held during the year

Sl. No.	Date	Board Strength	No. of Directors present
1	24th May, 2000	13	12
2	27th July, 2000	13	10
3	28th July, 2000	13	11
4	29th July, 2000	14	9
5	20th September, 2000	14	11
6	25th October, 2000	14	13
7	25th October, 2000	14	13
8	29th November, 2000	14	12
9	17th January, 2001	14	13
10	12th February, 2001	15	11
11	21st March, 2001	14	14

Attendance of Directors at Board Meetings and at Annual General Meeting (AGM)

Director	No. of Board Meetings attended	Attendance at last AGM
Y. C. Deveshwar	11	Yes
S. S. H. Rehman	10	Yes
A. Singh	11	Yes
K. Vaidyanath ¹	3	NA
A. C. Ahuja ¹	2	NA
B. G. Daga ²	4	NA
C. R. Green	5	No
Y. P. Gupta ³	6	NA
P. B. Ramanujam	11	Yes
A. A. F. Rodrigues	9	Yes
B. Sen	6	No
Ram S. Tarneja	9	Yes
R. Vasudevan	11	Yes
B. Vijayaraghavan	11	Yes
B. Mitter ⁴	10	Yes
T. Ganguli ⁵	7	Yes
K. P. Narasimhan ⁶	3	Yes

1 - Appointed a Director of the Company w.e.f. 17th January, 2001.

2 - Appointed a Director of the Company w.e.f. 28th July, 2000.

3 - Appointed a Director of the Company w.e.f. 25th October, 2000.

4 - Ceased to be a Director of the Company w.e.f. 7th March, 2001.

5 - Ceased to be a Director of the Company w.e.f. 17th January, 2001.

6 - Ceased to be a Director of the Company w.e.f. 25th October, 2000.

COMMITTEES OF THE BOARD

The Board of Directors has constituted five Committees of the Board – the Audit Committee, the Compensation Committee, the Investor Services Committee, the Nominations Committee and the Legal And Safety Audit Committee. The role and composition of these Committees, including the number of meetings held and the related attendance, is as follows:

A. AUDIT COMMITTEE

The Audit Committee of the Company, inter alia, provides reassurance to the Board on the existence of an effective internal control environment that ensures:

- efficiency and effectiveness of operations, both domestic and overseas.
- safeguarding of assets and adequacy of provisions for all liabilities.
- reliability of financial and other management information and adequacy of disclosures.
- compliance with all relevant statutes.

The role of the Committee includes the following:-

- (a) Overseeing the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible;
- (b) Recommending the appointment and removal of external auditors, fixation of audit fee and also approval for payment for any other services;
- (c) Reviewing with the management the annual financial statements before submission to the Board, focussing primarily on:
 - Any changes in accounting policies and practices
 - Major accounting entries based on exercise of judgement by management
 - Qualifications in draft audit report
 - Significant adjustments arising out of audit
 - The going concern assumption
 - Compliance with accounting standards
 - Compliance with Stock Exchange and legal requirements concerning financial statements

- Any related party transactions i.e., transactions of the Company of material nature, with the top management or their relatives, with shareholders with large holdings in the Company or their subsidiaries etc., that may have potential conflict with the interests of the Company at large;
- (d) Reviewing with the management, external and internal auditors, the adequacy of internal control systems and the Company's statement on the same prior to endorsement by the Board;
- (e) Reviewing the adequacy of the internal audit function, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure, coverage and frequency of internal audit;
- (f) Reviewing reports of Internal Audit and discussion with internal auditors on any significant findings and follow up thereon;
- (g) Reviewing the findings of any internal investigations by the internal auditors and the executive management's response on matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board;
- (h) Discussion with the external auditors, before the audit commences, on nature and scope of audit, as well as after conclusion of the audit, to ascertain any areas of concern and review the comments contained in their management letter;
- (i) Reviewing the Company's financial and risk management policies;
- (j) Looking into the reasons for substantial defaults, if any, in payment to the depositors, debentureholders, shareholders (in case of non-payment of declared dividends) and creditors;
- (k) Considering such other topics as may be required by the Board;
- (l) Reviewing any other areas which may be specified as role of the Audit Committee under amendments, if any, from time to time, to the Listing Agreement, Companies Act and other statutes.

Composition

The Audit Committee comprises five Non-Executive Directors, with four of them being independent Directors. The Director responsible for the Finance function, the Head of Internal Audit and the representative of the Statutory Auditors are Permanent Invitees to the Audit Committee, and the Company Secretary is the Secretary to the Committee. The Chairman of the Committee is a Non-Executive Independent Director.

The names of the members of the Audit Committee, including its Chairman, are provided elsewhere in the Report and Accounts.

Attendance

Details of Audit Committee Meetings held during the year

Sl. No.	Date	Committee Strength	No. of Members present
1	24th May, 2000	5	5
2	29th July, 2000	5	5
3	21st September, 2000	5	5
4	25th October, 2000	5	5
5	28th November, 2000	5	4
6	18th January, 2001	5	4
7	12th February, 2001	5	4
8	20th March, 2001	5	4

Attendance at Audit Committee Meetings

Director	No. of meetings attended
P. B. Ramanujam	8
Y. P. Gupta ¹	3
A. A. F. Rodrigues	4
R. Vasudevan	8
B. Vijayaraghavan	8
T. Ganguli ²	5

1 - Appointed a Member of the Audit Committee w.e.f. 17th January, 2001.

2 - Ceased to be a Member of the Audit Committee w.e.f. 17th January, 2001.

B. REMUNERATION COMMITTEE

The Remuneration Committee of the Company, under the nomenclature 'Compensation Committee', inter alia, recommends to the Board of Directors the compensation terms of Executive

Directors and the seniormost level of management immediately below the Executive Directors. This Committee also has the responsibility for administering the Employee Stock Option Scheme of the Company approved by the Shareholders of the Company at an Extraordinary General Meeting held on 17th January, 2001.

Composition

The Compensation Committee comprises six Non-Executive Directors with four of them being independent Directors. The Chairman of the Committee is a Non-Executive Independent Director.

The names of the members of the Compensation Committee, including its Chairman, are provided elsewhere in the Report and Accounts.

Attendance

Details of Compensation Committee Meetings held during the year

Sl. No.	Date	Committee Strength	No. of Members present
1	28th July, 2000	5	4
2	29th November, 2000	6	4
3	17th January, 2001	7	5

Attendance at Compensation Committee Meetings

Director	No. of meetings attended
B. Sen	3
B. G. Daga ¹	1
Y. P. Gupta ²	1
C. R. Green	1
A. A. F. Rodrigues	2
Ram S. Tarneja	3
T. Ganguli ³	2

- 1 - Appointed a Member of the Compensation Committee w.e.f. 29th July, 2000.
 2 - Appointed a Member of the Compensation Committee w.e.f. 17th January, 2001.
 3 - Ceased to be a Member of the Compensation Committee w.e.f. 17th January, 2001.

Remuneration Policy

ITC's remuneration strategy is aimed at attracting and retaining high calibre talent. The strategy, therefore, takes into account the talent market, the remuneration trends (national and international) and the competitive requirement of each of its businesses. The remuneration policy is market led

so as to attract and retain the best talent and seeks to leverage performance in a significant manner.

Remuneration of Directors

Remuneration of Executive Directors is determined by the Compensation Committee of the Board comprising only Non-Executive Directors. The recommendations of the Compensation Committee are considered and approved by the Board subject to the approval of the Shareholders. Executive Directors are entitled to a Performance Bonus up to a maximum of 50% of their consolidated salary, as may be determined by the Board of Directors on the recommendation of the Compensation Committee. Remuneration of the Non-Executive Directors by way of annual commission is determined by the Board of Directors subject to the approval of the Shareholders.

Details of Remuneration of the Directors for the financial year ended 31st March, 2001

(Rs. in Lakhs)

Director	Consolidated Salary	Perquisites and other benefits	Performance Bonus/ Commission	Sitting Fees	Total**
Y. C. Deveshwar	72.00	12.57	36.00	-	120.57
B. Mitter ¹	33.68	32.98	16.84	-	83.50
S. S. H. Rehman	30.00	11.65	15.00	-	56.65
A. Singh	30.00	6.64	15.00	-	51.64
K. Vaidyanath ²	4.97	2.50	2.48	-	9.95
A. C. Ahuja ³	-	-	0.60*	0.10*	0.70
B. G. Daga ⁴	-	-	2.02*	0.35*	2.37
T. Ganguli ⁵	-	-	2.40*	0.80*	3.20
C. R. Green	-	-	3.00*	-	3.00
Y. P. Gupta ⁶	-	-	1.29*	0.55 [@]	1.84
K. P. Narasimhan ⁷	-	-	1.71*	0.65	2.36
P. B. Ramanujam	-	-	3.00*	1.65*	4.65
A. A. F. Rodrigues	-	-	3.00*	-	3.00
B. Sen	-	-	3.00 [†]	1.10 [†]	4.10
Ram S. Tarneja	-	-	3.00	1.50	4.50
R. Vasudevan	-	-	3.00*	1.75	4.75
B. Vijayaraghavan	-	-	3.00	2.05	5.05

- 1 - Ceased to be a Wholtime Director w.e.f. 7th March, 2001.
 2 - Appointed a Wholtime Director w.e.f. 17th January, 2001.
 3 - Appointed a Non-Executive Director w.e.f. 17th January, 2001.
 4 - Appointed a Non-Executive Director w.e.f. 28th July, 2000.
 5 - Ceased to be a Non-Executive Director w.e.f. 17th January, 2001.
 6 - Appointed a Non-Executive Director w.e.f. 25th October, 2000.
 7 - Ceased to be a Non-Executive Director w.e.f. 25th October, 2000.
 * - Being payable to the Institutions/Companies they represent.
 ** - Reference Schedule 18 (ix) to the Accounts.
 @ - Includes Rs.0.10 lakh paid to the Institution Mr. Gupta represents.
 # - Includes a sum of Rs. 1.18 lakhs paid to the Institution Dr. Sen represented up to 28th July, 2000.

Service Contracts, Severance Fees and Notice Period
The appointment of the Executive Directors is governed by resolutions passed by the Board of Directors and the Shareholders of the Company, which covers the terms and conditions of such appointment read with the service rules of the Company. A separate Service Contract is not entered into by the Company with those elevated to the Board from the management cadre, who already have a prior Service Contract with the Company.

There is therefore 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. The statutory provisions will however apply.

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.

Employee Stock Option Scheme

The Shareholders of the Company at an Extraordinary General Meeting held on 17th January, 2001, approved introduction of an Employee Stock Option Scheme.

The Company has not issued any Stock Options to its employees as on 31st March, 2001.

C. INVESTORS GRIEVANCE COMMITTEE

The Investors Grievance Committee of the Company, under the nomenclature 'Investor Services Committee' formed on 25th October, 2000, oversees redressal of shareholder and investor grievances, and approves sub-division, transmission, issue of duplicate shares etc.

Composition

The Investor Services Committee comprises three Directors with two of them being independent Directors. The Chairman of the Committee is a Non-Executive Independent Director.

The names of the members of the Investor Services Committee, including its Chairman, are provided elsewhere in the Report and Accounts.

Attendance

Details of Investor Services Committee Meetings held during the year

Sl. No.	Date	Committee Strength	No. of Members present
1	23rd November, 2000	3	3
2	11th December, 2000	3	3
3	26th December, 2000	3	2
4	8th January, 2001	3	3
5	17th January, 2001	3	3
6	8th February, 2001	3	3
7	19th February, 2001	3	3
8	26th February, 2001	3	3
9	5th March, 2001	3	3
10	26th March, 2001	3	3

Attendance at Investor Services Committee Meetings

Director	No. of meetings attended
B. Sen	10
P. B. Ramanujam	10
A. Singh	9

D. NOMINATIONS COMMITTEE

The Nominations Committee of the Company is primarily concerned with making recommendations to the Board regarding top level succession and appointments viz. the membership of the Board, the Corporate Management Committee and the seniormost level of executive management one level below the Board.

Composition

The Nominations Committee comprises the Executive Chairman and all Non-Executive Directors of the Company.

The names of the members of the Nominations Committee, including its Chairman, are provided elsewhere in the Report and Accounts.

Attendance

Details of Nominations Committee Meetings held during the year

Sl. No.	Date	Committee Strength	No. of Members present
1	24th May, 2000	10	9
2	28th July, 2000	10	9
3	20th September, 2000	11	8
4	17th January, 2001	11	9

Attendance at Nominations Committee Meetings

Director	No. of meetings attended
Y. C. Deveshwar	4
A. C. Ahuja ¹	NA
B. G. Daga ²	2
C. R. Green	1
Y. P. Gupta ³	1
P. B. Ramanujam	4
A. A. F. Rodrigues	4
B. Sen	3
Ram S. Tarneja	4
R. Vasudevan	4
B. Vijayaraghavan	4
T. Ganguli ⁴	2
K. P. Narasimhan ⁵	2

- 1 - Appointed a Member of the Nominations Committee w.e.f. 17th January, 2001.
 2 - Appointed a Member of the Nominations Committee w.e.f. 29th July, 2000.
 3 - Appointed a Member of the Nominations Committee w.e.f. 25th October, 2000.
 4 - Ceased to be a Member of the Nominations Committee w.e.f. 17th January, 2001.
 5 - Ceased to be a Member of the Nominations Committee w.e.f. 25th October, 2000.

E. LEGAL AND SAFETY AUDIT COMMITTEE

The Legal And Safety Audit Committee of the Company, inter alia, reviews status of compliance with statutory requirements and safety standards.

Composition

The Legal And Safety Audit Committee comprises four Non-Executive Directors with three of them being independent Directors. The Chairman of the Committee is a Non-Executive Independent Director.

The names of the members of the Legal And Safety Audit Committee, including its Chairman, are provided elsewhere in the Report and Accounts.

Attendance

Details of Legal And Safety Audit Committee Meetings held during the year

Sl. No.	Date	Committee Strength	No. of Members present
1	22nd April, 2000	5	2
2	24th May, 2000	5	5
3	23rd June, 2000	5	2
4	19th July, 2000	5	4
5	20th July, 2000	5	4
6	31st July, 2000	5	2
7	16th August, 2000	5	4
8	17th August, 2000	5	5
9	9th September, 2000	5	4
10	9th September, 2000	5	4
11	19th September, 2000	5	3
12	24th October, 2000	5	3
13	24th October, 2000	5	3
14	16th November, 2000	4	3
15	16th January, 2001	4	4
16	16th January, 2001	4	4
17	31st January, 2001	4	2
18	22nd March, 2001	4	3

Attendance at Legal And Safety Audit Committee Meetings

Director	No. of meetings attended
B. Vijayaraghavan	18
A. A. F. Rodrigues	9
Ram S. Tarneja	14
R. Vasudevan	12
K. P. Narasimhan ¹	8

- 1 - Ceased to be a Member of the Legal And Safety Audit Committee w.e.f. 25th October, 2000.

DISCLOSURES

Materially significant related party transactions which may have potential conflict with the interests of the Company at large.

None

Details of non-compliances, penalties, strictures by Stock Exchanges / SEBI / Statutory Authorities on any matter related to capital markets during the last three years.

None

Pecuniary relationships or transactions with the Non-Executive Directors.

None

MEANS OF COMMUNICATION

Timely disclosure of consistent, comparable, relevant and reliable information on corporate financial performance is at the core of good governance. Towards this end the Quarterly results of the Company were announced within a month of the end of each quarter and the Audited Annual results were announced within two months of the end of the financial year; such results were published, inter alia, in 'The Statesman' and 'Sangbad Pratidin' from Kolkata, and on an all India basis in major newspapers. These results can also be accessed on the Company's website, www.itcportal.com. The Company's official news releases are also available on the website. Clarifications as and when provided to institutional investors and analysts, will also be made available on the website, including presentations, if any.

As in the past, the Company will be publishing its quarterly, half-yearly and annual financial results in the newspapers on an all India basis and will also

post the same on the Company's website. The Report of the Directors, forming part of the Report and Accounts, includes all aspects of the Management Discussion and Analysis Report.

GENERAL SHAREHOLDER INFORMATION

Provided in the 'Shareholder Information' section of the Report and Accounts.

COMPLIANCE CERTIFICATE OF THE AUDITORS

The Company has obtained a Certificate from the Statutory Auditors certifying Compliance of Conditions of Corporate Governance as stipulated in Clause 49 of the Listing Agreement with the Stock Exchanges and the same is annexed to the Report of the Directors & Management Discussion and Analysis.

The Certificate will also be sent to the Stock Exchanges alongwith the Annual Return that will be filed by the Company.