

# Report on Corporate Governance

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

ITC Limited has been one of the frontrunners in India to have put in place a formalised system of 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 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, social and environmental 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.

**Trusteeship** recognises that large corporations, which represent a coalition of interests, namely those of the shareholders, other providers of capital, business associates and employees, 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. Inherent in the concept of trusteeship is the responsibility to ensure equity, namely, that the rights of all shareholders, large or small, are protected.

**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. ITC believes transparency enhances accountability.

**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, thereby helping actualise the potential of its employees. Empowerment is an essential concomitant of ITC's first core principle of governance that management must have the freedom to drive the enterprise forward. 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 management of change and ensure effective management of risks. ITC believes that control is a necessary concomitant of its second core principle of governance that the freedom of management should be exercised within a framework of appropriate checks and balances.

**Ethical Corporate Citizenship** means setting exemplary standards of ethical behaviour, both internally within the organisation, as well as in external relationships. ITC believes that unethical behaviour corrupts organisational

The cornerstones of ITC's governance philosophy are trusteeship, transparency, empowerment and accountability, control and ethical corporate citizenship.

culture and undermines stakeholder value. Governance processes in ITC continuously reinforce and help realise the Company's belief in ethical corporate citizenship.

## THE GOVERNANCE STRUCTURE

The practice of Corporate Governance in ITC is 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 Executive assisted by the respective Divisional / SBU Management Committee

The three-tier governance structure ensures that:

- (a) 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;
- (b) Strategic management of the Company, uncluttered by the day-to-day tasks of executive management, remains focused and energised; and
- (c) Executive management of a Division or Business, free from collective strategic responsibilities for ITC as a whole, focuses on enhancing the quality, efficiency and effectiveness of the business.

The core roles of the key entities flow from this 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 structure, processes and practices of governance enable focus on the Corporate purpose while simultaneously facilitating effective management of the wider portfolio of businesses.

The Governance Document that sets out the structure, policies and practices of governance within the organisation is available on the Company's corporate website [www.itcportal.com](http://www.itcportal.com) for general information.

## ROLES OF VARIOUS ENTITIES

**Board of Directors (Board):** The primary role of the 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 stakeholders' aspirations and societal expectations. The Board, as part and parcel of its functioning, also periodically reviews its role.

**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.

**Chairman:** 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. He is responsible, inter alia, for the working of the Board and the CMC, for ensuring that all relevant issues are on the agenda and for ensuring that all Directors and CMC members are enabled and encouraged to play a full part in the activities of the Board and the CMC. He keeps the Board informed on all matters of importance. He is also responsible for the balance of membership of the Board, subject to Board and Shareholder approvals. He presides over General Meetings of Shareholders.

**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 Board approved plan.

**Executive Director:** The Executive Directors, as members of the CMC, contribute to the strategic management of the Company's businesses within Board approved direction / framework. As Directors accountable to the Board for a business / corporate function, they assume overall responsibility for its strategic management, including its governance processes and top management effectiveness. As Directors accountable to the Board for a wholly owned subsidiary or its wholly owned subsidiary, they act as the custodians of ITC's interests and are responsible for their governance in accordance with the charter approved by the Board.

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**Non-Executive Director:** Non-Executive Directors, including Independent Directors, play a critical role in imparting balance to the Board processes by bringing an independent judgement on issues of strategy, performance, resources, standards of Company conduct etc.

**Divisional / SBU CEO:** The Divisional / SBU CEO is the Chief Operating Officer for a business with executive responsibility for its day-to-day operations and provides leadership to the DMC / SBU MC in its task of executive management of the business.

### 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 responsibility of strategic supervision of the Company as trustees of the Shareholders.

#### Composition

The ITC Board is a balanced Board, comprising Executive and Non-Executive Directors. The Non-Executive Directors include independent professionals. Executive Directors, including the Chairman, do not generally exceed one-third of the total strength of the Board.

The Governance Policy requires that the Non-Executive 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. All Directors are liable to retire by rotation unless otherwise approved by the Shareholders. One-third of the Directors who are liable to retire by rotation, retire every year and are eligible for re-election. In terms of the Articles of Association of the Company, the strength of the Board shall not be fewer than five nor more than eighteen. The present strength of the Board is thirteen, of which three are Executive Directors.

The following is the composition of the Board as on 31st March, 2009:

Category	No. of Directors	Percentage to total no. of Directors
Executive Directors	3	23
Non-Executive Independent Directors	8	62
Other Non-Executive Directors	2	15
<b>Total</b>	<b>13</b>	<b>100</b>

Director	Category	No. of other Directorship(s) <sup>1</sup>	No. of Membership(s) [including Chairmanship(s)] of Board Committees of other companies <sup>2</sup>
<b>Executive Directors</b>			
Y. C. Deveshwar	Chairman	2	1
A. Singh		1	Nil
K. Vaidyanath		6	3 [all as Chairman]
<b>Non-Executive Directors</b>			
S. H. Khan	Independent Director	7	9 [including 5 as Chairman]
S. B. Mathur	Independent Director	11	5 [including 2 as Chairman]
P. B. Ramanujam	Independent Director	Nil	Nil
B. Sen	Independent Director	6	4 [including 1 as Chairman]
B. Vijayaraghavan	Independent Director	Nil	Nil
A. Bajjal	Independent Director - Representative of Specified Undertaking of the Unit Trust of India as Investor	5	1
R. K. Kaul	Independent Director - Representative of General Insurers (Public Sector) Association of India as Investor	Nil	Nil
D. K. Mehrotra	Independent Director - Representative of Life Insurance Corporation of India as Investor	5	Nil
H. G. Powell <sup>3</sup>		Nil	Nil
A. Ruys <sup>4</sup>		Nil	Nil

1. Excludes Directorship in Indian Private Limited Companies & Foreign Companies, Membership of Managing Committees of Chambers of Commerce / Professional Bodies and Alternate Directorship.
2. Represents Membership / Chairmanship of Audit Committee and Investors Grievance Committee of Indian Public Limited Companies.
3. Appointed Director w.e.f. 7th May, 2008.
4. Appointed Director w.e.f. 20th January, 2009.

Note: Other Directorships and Committee Memberships of Directors are as on 22nd May, 2009.

## Meetings and Attendance

The Company's Governance Policy requires the Board to meet at least six times in a year. The intervening period between two Board meetings was well within the maximum gap of four months prescribed under Clause 49 of the Listing Agreement. The annual calendar of meetings is broadly determined at the beginning of each year.

### Board Agenda

Meetings are governed by a structured agenda. The Board members, in consultation with the Chairman, may bring up any matter for the consideration of the Board. All major agenda items are backed by comprehensive background information to enable the Board to take informed decisions. Agenda papers are circulated at least seven working days prior to the Board meeting.

### Information placed before the Board

Apart from the items that are required to be placed before the Board for its approval, both under the statutes and the Governance Policy, the following are also tabled for the Board's periodic review / information:

- Quarterly performance against plan, including business-wise financials in respect of revenue, profits, cash flow, balance sheet, investments and capex.
- Half-Yearly summary of all long-term borrowings made, bank guarantees issued and investments made.
- Treasury Policy, both domestic & forex, as and when changes take place.
- Internal Audit findings and External Audit Management Reports (through the Audit Committee).

- Status of safety, security and legal compliance.
- Status of business risk exposures, its management and related action plans.
- Company's management development processes and succession of senior management (through the Nominations Committee).
- Show Cause, demand, prosecution and adjudication notices, if any, from revenue authorities which are considered materially important, including any exposure that exceeds 1% of the Company's net worth, and their outcome.
- Default, if any, in payment of dues to any major creditor.
- Product liability claims of a substantial nature, if any.
- Information on strikes, lockouts, retrenchment, fatal accidents etc., if any.
- Significant court judgement or order passing strictures, if any, on the conduct of the Company or a subsidiary of the Company or any employee, which could negatively impact the Company's image.
- Terms of reference of Board Committees.
- Policy on Shareholder Disclosures.
- Incident of theft / fraud / dishonesty of a significant nature, if any.
- Write-offs / disposals (fixed assets, inventories, receivables, advances etc.) on a half-yearly basis.

### Post-meeting follow-up system

The Governance processes in the Company include an effective post-meeting follow-up, review and reporting process for action taken / pending on decisions of the Board, the Board Committees, the CMC and the Divisional / SBU Management Committees.

**Ethical Corporate Citizenship means setting exemplary standards of ethical behaviour, both internally within the organisation, as well as in external relationships.**

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### Details of Board Meetings during the financial year

During the financial year ended 31st March, 2009, five meetings of the Board were held, as follows:

Sl. No.	Date	Board Strength	No. of Directors present
1	23rd May, 2008	15	15
2	30th July, 2008	15	13
3	24th October, 2008	14	10
4	19th January, 2009	13	12
5	20th March, 2009	14	12

### Attendance at Board Meetings and at Annual General Meeting (AGM) during the financial year

Director	No. of Board meetings attended	Attendance at last AGM
Y. C. Deveshwar	5	Yes
A. Singh	5	Yes
K. Vaidyanath	5	Yes
A. Bajjal	4	No
R. K. Kaul	3	Yes
S. H. Khan	5	Yes
S. B. Mathur	5	Yes
D. K. Mehrotra	3	Yes
H. G. Powell <sup>1</sup>	3	No
P. B. Ramanujam	5	Yes
A. Ruys <sup>2</sup>	1	NA
B. Sen	5	Yes
B. Vijayaraghavan	5	Yes
J. P. Daly <sup>3</sup>	1	No
S. S. H. Rehman <sup>4</sup>	5	Yes
Ram S. Tarneja <sup>5</sup>	2	Yes

1. Appointed Director w.e.f. 7th May, 2008.

2. Appointed Director w.e.f. 20th January, 2009.

3. Ceased to be Director w.e.f. 8th January, 2009.

4. Ceased to be Director w.e.f. 21st March, 2009.

5. Ceased to be Director w.e.f. 27th August, 2008.

### COMMITTEES OF THE BOARD

Currently, there are five Board Committees – the Audit Committee, the Compensation Committee, the Investor Services Committee, the Nominations Committee and the Sustainability Committee. The terms of reference of the Board Committees are determined by the Board from time to time. Meetings of each Board Committee are convened by the respective Committee Chairman. Signed minutes of Board Committee meetings are placed for the information of the Board. Matters requiring the Board's attention / approval are generally placed in the form of notes to the Board from the respective Committee Chairman. The role and composition of these Committees, including the number of meetings held during the financial year and the related attendance, are provided below.

#### I. AUDIT COMMITTEE

The Audit Committee of the Board, 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 Audit Committee is empowered, pursuant to its terms of reference, inter alia, to:

- investigate any activity within its terms of reference and to seek any information it requires from any employee;
- obtain legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise, when considered necessary.

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 statements are correct, sufficient and credible;

- (b) Recommending the appointment and removal of external auditors, fixation of audit fee and approval of payment of fees for any other services rendered by the auditors;
- (c) Reviewing with the management the financial statements before submission to the Board, focusing primarily on:
- Any changes in accounting policies and practices
  - The going concern assumption
  - Major accounting entries based on exercise of judgement by management
  - Significant adjustments arising out of audit
  - Compliance with Accounting Standards
  - Compliance with Stock Exchange and legal requirements concerning financial statements
  - Related party transactions
  - Qualifications in draft audit report
  - Report of the Directors & Management Discussion and Analysis;
- (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, including that of wholly owned subsidiaries, 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 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 shareholders (in case of non-payment of declared dividends) and creditors;
- (k) Considering such other matters as may be required by the Board;
- (l) Reviewing any other areas which may be specified as role of the Audit Committee under the Listing Agreement, Companies Act and other statutes, as amended from time to time.

### Composition

The Audit Committee presently comprises four Non-Executive Directors, all of whom are Independent Directors. The Director responsible for the Finance function, the Head of Internal Audit and the representative of the Statutory Auditors are Invitees to the Audit Committee. The Head of Internal Audit is the Co-ordinator and the Company Secretary is the Secretary to the Committee. The representative of the Cost Auditors is invited to meetings of the Audit Committee whenever matters relating to cost audit are

[ Inherent in the concept of trusteeship is the responsibility to ensure equity, namely, that the rights of all shareholders, large or small, are protected. ]

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considered. All members of the Committee are financially literate; two members, including the Chairman of the Committee, have accounting and financial management expertise.

The names of the members of the Audit Committee, including its Chairman, are provided under the section 'Board of Directors & Committees' in the Report and Accounts.

### Meetings and Attendance

#### Details of Audit Committee Meetings during the financial year

During the financial year ended 31st March, 2009, nine meetings of the Audit Committee were held, as follows:

Sl. No.	Date	Committee Strength	No. of Members present
1	1st April, 2008	3	3
2	16th May, 2008	3	3
3	23rd May, 2008	3	3
4	11th July, 2008	3	2
5	30th July, 2008	3	3
6	12th September, 2008	3	3
7	24th October, 2008	3	3
8	28th November, 2008	3	3
9	19th January, 2009	4	3

#### Attendance at Audit Committee Meetings during the financial year

Director	No. of meetings attended
S. B. Mathur <sup>1</sup>	8
R. K. Kaul <sup>2</sup>	Nil
P. B. Ramanujam	9
B. Vijayaraghavan	9

1. Appointed Chairman of the Committee w.e.f. 19th January, 2009.
2. Appointed Member w.e.f. 19th January, 2009.

## II. REMUNERATION COMMITTEE

The Remuneration Committee of the Board, under the nomenclature 'Compensation Committee', inter alia, recommends to the Board 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.

### Composition

The Compensation Committee presently comprises four Non-Executive Directors, three of whom are 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 under the section 'Board of Directors & Committees' in the Report and Accounts.

### Meetings and Attendance

#### Details of Compensation Committee Meetings during the financial year

During the financial year ended 31st March, 2009, two meetings of the Compensation Committee were held, as follows:

Sl. No.	Date	Committee Strength	No. of Members present
1	22nd May, 2008	4	4
2	30th July, 2008	4	3

#### Attendance at Compensation Committee Meetings during the financial year

Director	No. of meetings attended
S. H. Khan <sup>1</sup>	NA
S. B. Mathur	2
H. G. Powell <sup>2</sup>	NA
B. Sen	2
J. P. Daly <sup>3</sup>	1
Ram S. Tarneja <sup>4</sup>	2

1. Appointed Member and Chairman of the Committee w.e.f. 24th October, 2008.
2. Appointed Member w.e.f. 24th October, 2008.
3. Ceased to be Member w.e.f. 24th October, 2008.
4. Ceased to be Member w.e.f. 27th August, 2008.

## Remuneration Policy

ITC's remuneration strategy aims at attracting and retaining high calibre talent. The remuneration policy, therefore, is market-led and takes into account the competitive circumstance of each business so as to attract and retain quality talent and leverage performance significantly.

## Remuneration of Directors

Remuneration of Executive Directors is determined by the Compensation Committee 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. The Chairman and Executive Directors are entitled to Performance Bonus for each financial year up to a maximum of 200% and 150% of their consolidated salary, respectively, as approved by the Shareholders, and as may be determined by the Board on the recommendation of the Compensation Committee.

Non-Executive Directors are entitled to remuneration by way of commission for each financial year, up to a maximum of Rs. 6,00,000/- individually, as approved by the Shareholders. Non-Executive Directors' commission is determined by the Board 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. The sitting fees, as determined by the Board, are presently Rs. 20,000/- for attending each meeting of the Board, Audit Committee, Compensation Committee, Nominations Committee and Sustainability Committee and Rs. 5,000/- for each meeting of the Investor Services Committee. Non-Executive Directors are also entitled to coverage under Personal Accident Insurance.

## Details of Remuneration paid to the Directors during the financial year ended 31st March, 2009

(Rs. in Lakhs)

Director	Consolidated Salary	Perquisites and other Benefits	Performance Bonus / Commission	Sitting Fees	Total
Y. C. Deveshwar	240.00	38.80	480.00	-	758.80
A. Singh	108.00	22.73	162.00	-	292.73
K. Vaidyanath	93.00	21.10	139.50	-	253.60
A. Baijal	-	-	2.71*	0.80	3.51
R. K. Kaul	-	-	2.60*	1.30*	3.90
S. H. Khan	-	-	4.00	1.00	5.00
S. B. Mathur	-	-	2.42#	3.00	5.42
D. K. Mehrotra	-	-	4.00*	0.60*	4.60
H. G. Powell <sup>1</sup>	-	-	NA	0.60	0.60
P. B. Ramanujam	-	-	4.00#	3.20	7.20
A. Ruys <sup>2</sup>	-	-	NA	0.20	0.20
B. Sen	-	-	4.00	2.60	6.60
B. Vijayaraghavan	-	-	4.00	2.95	6.95
J. P. Daly <sup>3</sup>	-	-	4.00*	- <sup>@</sup>	4.00
C. R. Green <sup>4</sup>	-	-	4.00*	-	4.00
S. S. H. Rehman <sup>5</sup>	104.81	33.66	162.00	-	300.47
Ram S. Tarneja <sup>6</sup>	-	-	4.00	0.80	4.80

@ Waived entitlement to sitting fees.

\* Paid to the Institution / Company the Director represents.

# Includes Rs.1.29 lakhs paid to the Institution the Director represented.

1. Appointed Director w.e.f. 7th May, 2008.

2. Appointed Director w.e.f. 20th January, 2009.

3. Ceased to be Director w.e.f. 8th January, 2009.

4. Ceased to be Director w.e.f. 1st April, 2008.

5. Ceased to be Director w.e.f. 21st March, 2009.

6. Ceased to be Director w.e.f. 27th August, 2008.

Note: Disclosure with respect to Non-Executive Directors - Pecuniary relationship: None.

The Sustainability Committee will guide the Company in integrating its social and environmental objectives with its business strategies, and shape ITC's goals in contributing to climate change mitigation.

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### Employee Stock Option Scheme

The Company granted 59,69,437 Options during the financial year to the eligible employees of the Company and some of its subsidiary companies.

Each Option entitles the holder thereof to apply for and be allotted ten Ordinary Shares of the Company of Re.1/- each upon payment of the exercise price during the exercise period. The exercise period commences from the date of vesting of the Options and expires at the end of five years from the date of such vesting.

Exercise of Options is permitted during the period from the 1st to the 10th day of each month, except from April to August during which period exercise is permitted from 21st June to 10th August.

The vesting period for conversion of Options is as follows:

On completion of 12 months from the date of grant of the Options	: 30% vests
On completion of 24 months from the date of grant of the Options	: 30% vests
On completion of 36 months from the date of grant of the Options	: 40% vests

### Shares and Options of Directors

Director	No. of Ordinary Shares of Re.1/- each held (singly / jointly) as on 31st March, 2009	No. of Options granted during the financial year
Y. C. Deveshwar	9,03,905	1,35,000
A. Singh	2,45,310	67,500
K. Vaidyanath	4,68,250	67,500
A. Bajjal	Nil	Nil
R. K. Kaul	Nil	Nil
S. H. Khan	Nil	10,000
S. B. Mathur	500	10,000
D. K. Mehrotra	Nil	Nil
H. G. Powell	Nil	Nil
P. B. Ramanujam	Nil	10,000
A. Ruys	Nil	Nil
B. Sen	2,95,100	10,000
B. Vijayaraghavan	1,37,850	10,000

Note: The Options were granted at the 'market price' as defined under the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999.

### Service Contracts, Severance Fee and Notice Period

The appointment of the Executive Directors is governed by resolutions passed by the Board and the Shareholders of the Company, which cover 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, since they already have a Service Contract with the Company.

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. 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.

### III. INVESTORS GRIEVANCE COMMITTEE

The Investors Grievance Committee of the Board, under the nomenclature 'Investor Services Committee', oversees redressal of shareholder and investor grievances, and approves sub-division / transmission of shares, issue of duplicate share certificates etc.

#### Composition

The Investor Services Committee presently comprises five Directors, four of whom are 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 under the section 'Board of Directors & Committees' in the Report and Accounts.

#### Meetings and Attendance

##### Details of Investor Services Committee Meetings during the financial year

During the financial year ended 31st March, 2009, twenty-nine meetings of the Investor Services

Committee were held, as follows:

Sl. No.	Date	Committee Strength	No. of Members present
1	1st April, 2008	3	3
2	17th April, 2008	3	2
3	25th April, 2008	3	2
4	12th May, 2008	3	2
5	23rd May, 2008	3	3
6	9th June, 2008	3	2
7	23rd June, 2008	3	2
8	2nd July, 2008	3	2
9	11th July, 2008	3	3
10	21st July, 2008	3	2
11	7th August, 2008	4	2
12	25th August, 2008	4	2
13	8th September, 2008	4	2
14	12th September, 2008	4	3
15	22nd September, 2008	4	2
16	1st October, 2008	4	2
17	23rd October, 2008	4	3
18	3rd November, 2008	5	2
19	18th November, 2008	5	3
20	28th November, 2008	5	3
21	16th December, 2008	5	3
22	30th December, 2008	5	3
23	5th January, 2009	5	2
24	19th January, 2009	5	4
25	30th January, 2009	5	2
26	16th February, 2009	5	2
27	2nd March, 2009	5	3
28	9th March, 2009	5	3
29	19th March, 2009	5	5

#### Attendance at Investor Services Committee Meetings during the financial year

Director	No. of meetings attended
R. K. Kaul <sup>1</sup>	14
P. B. Ramanujam	8
B. Sen	24
A. Singh	25
B. Vijayaraghavan <sup>2</sup>	3

1. Appointed Member and Chairman of the Committee w.e.f. 30th July, 2008 and 24th October, 2008, respectively.
2. Appointed Member w.e.f. 24th October, 2008.

#### IV. NOMINATIONS COMMITTEE

The primary role of the Nominations Committee of the Board is to make recommendations on Executive Directors' appointment to the Board, appointment to the Corporate Management Committee and the seniormost level of executive management below the Executive Directors.

##### Composition

The Nominations Committee presently comprises the Chairman of the Company and six Non-Executive Directors who are Independent Directors. The Chairman of the Company is the Chairman of the Committee.

The names of the members of the Nominations Committee, including its Chairman, are provided under the section 'Board of Directors & Committees' in the Report and Accounts.

##### Meetings and Attendance

There was no occasion for the Nominations Committee to meet during the financial year ended 31st March, 2009.

#### V. SUSTAINABILITY COMMITTEE

The role of the recently formed Sustainability Committee is to review, monitor and provide strategic direction to the Company's sustainability practices towards fulfilling its triple bottom line objectives. The Committee will guide the Company in integrating its social and environmental objectives with its business strategies. The Committee will also assist in shaping the Company's goals in contributing to climate change mitigation.

## Report on Corporate Governance

### Composition

The Sustainability Committee comprises the Chairman of the Company and four Non-Executive Directors, two of whom are Independent Directors. The Chairman of the Company is the Chairman of the Committee.

The names of the members of the Sustainability Committee, including its Chairman, are provided under the section 'Board of Directors & Committees' in the Report and Accounts.

### CORPORATE MANAGEMENT COMMITTEE

The primary role of the Corporate Management Committee is strategic management of the Company's businesses within Board approved direction / framework.

### Composition

The Corporate Management Committee presently comprises all the Executive Directors and six senior members of management. The Chairman of the Company is the Chairman of the Committee. The composition of the Corporate Management Committee is determined by the Board based on the recommendation of the Nominations Committee.

The names of the members of the Corporate Management Committee, including its Chairman, are provided under the section 'Board of Directors & Committees' in the Report and Accounts.

### Meetings and Attendance

The meetings of the Corporate Management Committee are chaired by the Chairman of the Company. Minutes of Corporate Management Committee meetings are placed before the Board for its information. Moreover, matters requiring the Board's attention / approval are placed in the form of notes from the relevant Executive Director / Corporate Management Committee Member / Invitee, backed by comprehensive background information, along with Divisional / SBU Management Committee's recommendation / approval, where applicable. Agenda papers are generally circulated at least three days prior to the meeting.

### Details of Corporate Management Committee Meetings during the financial year

During the financial year ended 31st March, 2009, thirty-six meetings of the Corporate Management

Committee were held, as follows:

Sl. No.	Date	Committee Strength (including Invitees)	No. of Members & Invitees present
1	23rd April, 2008	7	6
2	9th & 10th May, 2008	7	6
3	16th & 17th June, 2008	7	6
4	23rd & 24th July, 2008	7	7
5	21st & 22nd August, 2008	7	7
6	19th & 20th September, 2008	7	6
7	10th & 11th October, 2008	7	6
8	11th & 12th November, 2008	7	6
9	15th & 16th December, 2008	10	8
10	15th & 16th January, 2009	10	8
11	9th February, 2009	10	8
12	11th February, 2009	10	8
13	12th February, 2009	10	10
14	12th February, 2009	10	10
15	12th February, 2009	10	10
16	13th February, 2009	10	9
17	13th February, 2009	10	9
18	13th February, 2009	10	9
19	18th February, 2009	10	10
20	21st February, 2009	10	10
21	25th February, 2009	10	10
22	25th February, 2009	10	10
23	26th February, 2009	10	10
24	26th February, 2009	10	10
25	27th February, 2009	10	10
26	27th February, 2009	10	10
27	27th February, 2009	10	10
28	9th March, 2009	10	10
29	9th March, 2009	10	10
30	10th March, 2009	10	10
31	10th March, 2009	10	9
32	10th March, 2009	10	9
33	16th March, 2009	10	9
34	16th March, 2009	10	9
35	17th March, 2009	10	9
36	17th March, 2009	10	9

**Attendance at Corporate Management Committee Meetings during the financial year**

Member / Invitee	No. of meetings attended
Y. C. Deveshwar	36
A. Singh	36
K. Vaidyanath	36
N. Anand <sup>1</sup>	28
P. Chatterjee <sup>1</sup>	27
K. N. Grant <sup>1</sup>	26
R. G. Jacob	34
A. Nayak	35
R. Srinivasan	29
S. S. H. Rehman <sup>2</sup>	26

1. Inducted as Invitee w.e.f. 13th November, 2008.

2. Ceased to be Member w.e.f. 21st March, 2009.

**DISCLOSURES**

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

**None;** confirmation was placed before the Audit Committee and the Board that all related party transactions during the financial year ended 31st March, 2009 were in the ordinary course of business and on arm's length basis.

- 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**

- Material non-listed subsidiary companies as defined in Clause 49 of the Listing Agreement with Stock Exchanges:

**None**

- Inter-se relationships between Directors of the Company:

**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 completion of the quarter. Audited annual results alongwith the results for the fourth quarter were announced within two months of the end of the financial year; such results were published, inter alia, in 'The Times of India' and 'Aajkal' from Kolkata, and on an all India basis in major newspapers, and also in Luxemburger Wort, Luxembourg. All these results, including the entire Report and Accounts, were posted on the Corporate Filing and Dissemination System (CFDS) website ([www.corpfiling.co.in](http://www.corpfiling.co.in)). As in the past, the Company will publish its quarterly, half-yearly and annual financial results and will also post the same on the CFDS website.
- Information relating to shareholding pattern, compliance with corporate governance norms etc. is also posted on the CFDS website.
- The Company's corporate website [www.itcportal.com](http://www.itcportal.com) provides comprehensive information on ITC's portfolio of businesses, including sustainability initiatives comprising CSR activities and EHS performance. The website has entire sections dedicated to ITC's profile, history and evolution, its core values, corporate governance and leadership. An exclusive section on 'Shareholder Value' serves to inform and service Shareholders, enabling them to access information at their convenience. 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 as a measure of added convenience to investors. The 'Newsroom' section includes all major media releases from the Company and relevant media clippings. Clarifications as and when provided

## Report on Corporate Governance

to institutional investors and analysts, including presentations made to them, are also posted 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.

### ITC CODE OF CONDUCT

The ITC Code of Conduct, as adopted by the Board of Directors, is applicable to Directors, senior management and employees of the Company. The 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. The Code is available on the Company's corporate website.

#### Declaration as required under Clause 49 of the Listing Agreement

All Directors and senior management of the Company have affirmed compliance with The ITC Code of Conduct for the financial year ended 31st March, 2009.

Kolkata, 22nd May, 2009. Y. C. Deveshwar  
Chairman

### ITC CODE OF CONDUCT FOR PREVENTION OF INSIDER TRADING

ITC Code of Conduct for Prevention of Insider Trading ('ITC Code'), as revised by the Board of Directors on 19th January, 2009, inter alia, prohibits purchase / sale of securities of the Company by Directors and 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.

### NON - MANDATORY REQUIREMENTS UNDER CLAUSE 49 OF THE LISTING AGREEMENT

The status of compliance with the non-mandatory requirements of Clause 49 of the Listing Agreement is provided below:

1. **Non-Executive Chairman's Office:** The Chairman of the Company is the Executive Chairman and hence this provision is not applicable.
2. **Tenure of Independent Directors:** In terms of the Governance Policy of the Company, all Directors, including Independent Directors, are appointed / re-appointed 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. No maximum tenure for Independent Directors has been specifically determined by the Board.
3. **Remuneration Committee:** The Company has a Remuneration Committee under the nomenclature 'Compensation Committee', the details of which are provided in this Report under the section 'Committees of the Board - Remuneration Committee'.
4. **Shareholder Rights:** The quarterly, half-yearly and annual financial results of the Company are published in newspapers on an all India basis and are also posted on the Company's corporate website. Significant events are also posted on this website under the 'Newsroom' section. The complete Annual Report is sent to every Shareholder of the Company.
5. **Audit Qualifications:** It is always the Company's endeavour to present unqualified financial statements. There are no audit qualifications in the Company's financial statements for the year ended 31st March, 2009.
6. **Training of Board members:** The Governance Policy casts on the Board of Directors the responsibility of strategic supervision of the Company. Towards this, the Governance Policy, inter alia, requires the Board to undertake periodic review of various matters including business-wise performance and related matters, risk management,

borrowings, internal & external audit findings etc., as detailed in this Report under the section 'Board of Directors'. In order to enable the Non-Executive Directors to fulfil the Governance ordained role, comprehensive presentations are made on the working of the various businesses of the Company. Directors are fully briefed on all business related matters, risk assessment & minimisation procedures, and new initiatives proposed by the Company. Directors are also briefed on changes / developments in the domestic / global corporate and industry scenario including those pertaining to statutes / legislation and economic environment.

7. **Mechanism for evaluation of Non-Executive Directors:** 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 Non-Executive Directors collectively to reinforce the principle of collective responsibility.

8. **Whistle-Blower Policy:** The Company encourages an open door policy where employees have access to the Head of the Business / Function. In terms of The ITC Code of Conduct, any instance of non-adherence to the Code / any other observed unethical behaviour is to be brought to the attention of the immediate reporting authority, who is required to report the same to the Head of Corporate Human Resources.

### GENERAL SHAREHOLDER INFORMATION

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

### COMPLIANCE CERTIFICATE OF THE AUDITORS

The Statutory Auditors' Certificate, as stipulated in Clause 49 of the Listing Agreement with Stock Exchanges, that the Company has complied with the conditions of Corporate Governance is annexed to the Report of the Directors & Management Discussion and Analysis.

This Certificate will be forwarded to the Stock Exchanges alongwith the Annual Report of the Company.

ITC believes that large corporations which employ a vast quantum of societal resources 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, social and environmental capital.