

# Report on Corporate Governance

The Directors present the Company's Report on Corporate Governance pursuant to Clause 49 of the Listing Agreement with Stock Exchanges.

ITC Limited has been one of the frontrunners in India to have put in place a formalised system of Corporate Governance. Its governance framework enjoins the highest standards of ethical and responsible conduct of business to create value for all stakeholders.

## 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 conservation and development 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, ethical corporate citizenship, empowerment, control and accountability. 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.

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

**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

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

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.

## THE GOVERNANCE STRUCTURE

The practice of Corporate Governance in ITC takes place 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:

- 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;
- Strategic management of the Company, uncluttered by the day-to-day tasks of executive management, remains focused and energised; and
- Executive management of a Division or SBU, 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 are designed to support effective management of multiple businesses while retaining focus on each one of them.

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 aligned 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 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, respectively. 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. Executive Directors assume overall responsibility for the strategic management including governance processes and top management effectiveness for businesses / functions reporting to them. In the context of the multi-business character of the Company, an Executive Director is in the nature of a Managing Director for those businesses and functions reporting to him. As an Executive Director accountable to the Board for a wholly owned subsidiary or its wholly owned subsidiary, he acts as the custodian of ITC's interests and is responsible for its 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 Chief Executive Officer (CEO):** The Divisional / SBU CEO for a business has the overall 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 & 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, including Independent Directors, be drawn from amongst eminent professionals with experience in business / finance / law / public administration and 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. The initial appointment of Executive Directors is normally for a period of three years. All Directors are liable to retire by rotation unless otherwise approved by the Shareholders or provided under any statute. 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 fifteen, of which four are Executive Directors.

Composition of the Board as on 31st March, 2014:

Category	No. of Directors	Percentage to total no. of Directors
Executive Directors	4	29
Non-Executive Independent Directors	7	50
Other Non-Executive Directors	3	21
<b>Total</b>	<b>14</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>
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#### Executive Directors

Y. C. Deveshwar	Chairman	1	Nil
N. Anand		8	1
P. V. Dhobale		Nil	Nil
K. N. Grant		2	1

#### Non-Executive Directors

A. Bajjal	Independent Director	3	1 [as Chairman]
S. H. Khan	Independent Director	6	9 [including 4 as Chairman]
S. B. Mathur	Independent Director	12	8 [including 3 as Chairman]
P. B. Ramanujam	Independent Director	Nil	Nil
S. S. H. Rehman	Independent Director	Nil	Nil
M. Shankar	Independent Director	Nil	Nil
A. V. Girija Kumar	Independent Director - Representative of General Insurers' (Public Sector) Association of India as Investor	1	Nil
R. E. Lerwill	Representative of Tobacco Manufacturers (India) Limited, a subsidiary of British American Tobacco p.l.c., the ultimate holding company	Nil	Nil
A. Ruys	Representative of Tobacco Manufacturers (India) Limited, a subsidiary of British American Tobacco p.l.c., the ultimate holding company	Nil	Nil
K. Vaidyanath		Nil	Nil

1. Excludes Directorship in Indian Private Limited Companies & Foreign Companies and Membership of Managing Committees of Chambers of Commerce / Professional Bodies.
2. Denotes Membership / Chairmanship of Audit Committee and / or Investors Grievance Committee of Indian Public Limited Companies.

## 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 with Stock Exchanges. 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 generally circulated at least seven days prior to the Board meeting.

### Information placed before the Board

In addition to matters required to be placed before the Board under the Governance Policy of the Company, the following are also tabled for the Board's periodic review / information / approval:

- Internal Audit findings and External Audit Management Reports (through the Audit Committee).
- Status of safety and legal compliance.
- Risk management processes.
- Succession to senior management (through the Nomination & Compensation 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.
- 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.

- Product liability claims of a substantial nature, if any.
- Default, if any, in payment of dues to any major creditor.
- Write-offs / disposals (fixed assets, inventories, receivables, advances etc.) on a half-yearly basis.
- Half-yearly summary of bank guarantees issued.
- All other matters required to be placed before the Board for its review / information / approval under the statutes, including Clause 49 of the Listing Agreement with Stock Exchanges.

### 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.

### Details of Board Meetings during the financial year

During the financial year ended 31st March, 2014, six meetings of the Board were held, as follows:

Sl. No.	Date	Board Strength	No. of Directors present
1	17th May, 2013	18	15
2	25th July, 2013	18	17
3	26th July, 2013	18	17
4	28th August, 2013	15	13
5	25th October, 2013	15	15
6	17th January, 2014	15	14

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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### 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	6	Yes
N. Anand	6	Yes
P. V. Dhobale	6	Yes
K. N. Grant	6	Yes
A. Baijal	6	Yes
S. Banerjee <sup>1</sup>	5	Yes
A. V. Girija Kumar	6	Yes
S. H. Khan	6	Yes
R. E. Lerwill <sup>2</sup>	Nil	NA
S. B. Mathur	6	Yes
D. K. Mehrotra <sup>3</sup>	2	No
H. G. Powell <sup>4</sup>	3	Yes
P. B. Ramanujam	6	Yes
S. S. H. Rehman	6	Yes
A. Ruys	5	Yes
B. Sen <sup>5</sup>	2	Yes
M. Shankar	6	Yes
K. Vaidyanath	5	Yes
B. Vijayaraghavan <sup>5</sup>	3	Yes

1. Ceased to be Non-Executive Director w.e.f. 26th March, 2014.

2. Appointed Non-Executive Director w.e.f. 18th November, 2013.

3. Ceased to be Non-Executive Director w.e.f. 27th October, 2013.

4. Ceased to be Non-Executive Director w.e.f. 30th July, 2013.

5. Ceased to be Non-Executive Director w.e.f. 27th August, 2013.

### COMMITTEES OF THE BOARD

During the financial year 2013-14, there were 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. Matters requiring the Board's attention / approval, as emanating from the Board Committee meetings, are placed before the Board by 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, if any, arising out of audit
  - Compliance with Accounting Standards
  - Compliance with Stock Exchange and legal requirements concerning financial statements
  - Related party transactions
  - Qualifications, if any, 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, three of whom are Independent Directors. The Chairman of the Committee is an Independent Director. The Executive Director representing the Finance function, the Chief Financial Officer, 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 representatives of the Cost Auditors are invited to meetings of the Audit Committee whenever matters relating to cost audit are considered. All members of the Committee are financially literate; three 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 and 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, 2014, eight meetings of the Audit Committee were held, as follows:

Sl. No.	Date	Committee Strength	No. of Members present
1	6th May, 2013	6	4
2	17th May, 2013	6	5
3	25th July, 2013	6	6
4	28th August, 2013	5	5
5	23rd September, 2013	5	5
6	25th October, 2013	5	5
7	17th January, 2014	5	5
8	31st March, 2014	5	3

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

Director	No. of meetings attended
S. B. Mathur	8
A. Baijal	7
A. V. Girija Kumar	7
P. B. Ramanujam	8
K. Vaidyanath	5
B. Vijayaraghavan <sup>1</sup>	3

1. Ceased to be Member w.e.f. 27th August, 2013.

## 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 Schemes of the Company.

### Composition

The Compensation Committee, as on 31st March, 2014, comprised five Non-Executive Directors, four of whom were Independent Directors. The Chairman of the Committee was an Independent Director.

The names of the members of the Compensation Committee, including its Chairman, are provided hereunder.

## Meetings and Attendance

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

During the financial year ended 31st March, 2014, five meetings of the Compensation Committee were held, as follows:

Sl. No.	Date	Committee Strength	No. of Members present
1	25th July, 2013	6	6
2	26th July, 2013	6	6
3	27th August, 2013	5	4
4	28th August, 2013	5	4
5	25th October, 2013	5	5

### Members of the Compensation Committee and their attendance at Committee Meetings during the financial year

Director	No. of meetings attended
S. H. Khan <sup>1</sup>	5
A. Baijal	5
S. B. Mathur	5
H. G. Powell <sup>2</sup>	2
S. S. H. Rehman	5
A. Ruys <sup>3</sup>	1
B. Sen <sup>4</sup>	2

1. Chairman of the Committee.

2. Ceased to be Member w.e.f. 30th July, 2013.

3. Appointed Member w.e.f. 30th July, 2013.

4. Ceased to be Member w.e.f. 27th August, 2013.

ITC believes that the governance process should ensure that 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 conservation and development of the nation's economic, social and environmental capital.

Effective 1st April, 2014, a 'Nomination & Compensation Committee' (in place of the 'Nominations Committee' and the 'Compensation Committee') was constituted in terms of the provisions of the Companies Act, 2013. The names of the members of the Nomination & Compensation Committee, including its Chairman, are provided under the section 'Board of Directors and Committees' in the Report and Accounts.

### 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 the Chairman and other Executive Directors is determined by the Board, on the recommendation of the Nomination & Compensation Committee; remuneration of the Directors is 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, and as may be determined by the Board on the recommendation of the Nomination & Compensation Committee. Such remuneration is linked to the performance of the Company inasmuch as the performance bonus is based on various qualitative and quantitative performance criteria.

Non-Executive Directors are entitled to remuneration by way of commission for each financial year ranging from ₹ 12,00,000/- to ₹ 20,00,000/- individually, as approved by the Shareholders. Non-Executive Directors' commission is determined by the Board based, inter alia, on Company performance and regulatory provisions and 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 quantum of which is determined by the Board. The sitting fees, as determined by the Board, were ₹ 20,000/- for attending each meeting of the Board, Audit Committee, Compensation Committee, Nominations Committee and Sustainability Committee and ₹ 5,000/- for each meeting of the Investor Services Committee. Effective 25th April, 2014, the sitting fees for Non-Executive Directors have been increased by the Board (within the enhanced limit now permitted under the Companies Act, 2013) to ₹ 1,00,000/- for each meeting of the Board, ₹ 50,000/-

for each meeting of the Audit Committee, Nomination & Compensation Committee, CSR and Sustainability Committee and Independent Directors Committee and ₹ 10,000/- for each meeting of the Stakeholders Relationship 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, 2014

(₹ in Lakhs)

Director	Consolidated Salary	Perquisites and other Benefits	Performance Bonus / Commission	Sitting Fees	Total
Y. C. Deveshwar	432.00 <sup>^</sup>	72.49 <sup>^</sup>	624.00	-	1,128.49
N. Anand	86.40 <sup>^</sup>	57.37 <sup>^</sup>	93.60	-	237.37
P. V. Dhobale	86.40 <sup>^</sup>	24.36 <sup>^</sup>	93.60	-	204.36
K. N. Grant	86.40 <sup>^</sup>	22.50 <sup>^</sup>	93.60	-	202.50
A. Bajjal	-	-	6.00	4.20	10.20
S. Banerjee <sup>1</sup>	-	-	6.00*	1.80	7.80
A. V. Girija Kumar	-	-	6.00*	5.00*	11.00
S. H. Khan	-	-	6.00	2.60	8.60
R. E. Lerwill <sup>2</sup>	-	-	-	-	-
S. B. Mathur	-	-	6.00	4.40	10.40
D. K. Mehrotra <sup>3</sup>	-	-	6.00*	0.60	6.60
H. G. Powell <sup>4</sup>	-	-	6.00	1.20	7.20
P. B. Ramanujam	-	-	6.00	3.65	9.65
S. S. H. Rehman <sup>5</sup>	-	-	4.08	2.80	6.88
A. Ruys	-	-	6.00	1.40	7.40
B. Sen <sup>6</sup>	-	-	6.00	1.50	7.50
M. Shankar <sup>7</sup>	-	-	3.40	2.10	5.50
K. Vaidyanath	-	-	6.00	2.55	8.55
B. Vijayaraghavan <sup>6</sup>	-	-	6.00	1.55	7.55

<sup>^</sup> Subject to the approval of Shareholders

\* Paid to the Institution the Director represents.

1. Ceased to be Non-Executive Director w.e.f. 26th March, 2014.

2. Appointed Non-Executive Director w.e.f. 18th November, 2013.

3. Ceased to be Non-Executive Director w.e.f. 27th October, 2013.

4. Ceased to be Non-Executive Director w.e.f. 30th July, 2013.

5. Appointed Non-Executive Director w.e.f. 27th July, 2012.

6. Ceased to be Non-Executive Director w.e.f. 27th August, 2013.

7. Appointed Non-Executive Director w.e.f. 6th September, 2012.

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

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### Employee Stock Option Schemes

The Company granted 67,90,925 Options during the financial year to the eligible employees (including Directors) 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 ₹ 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.

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 ₹ 1/- each held (singly / jointly) as on 31st March, 2014	No. of Options granted during the financial year
Y. C. Deveshwar	16,20,000	2,70,000
N. Anand	30,000	1,35,000
P. V. Dhobale	1,15,430	1,35,000
K. N. Grant	7,13,230	1,35,000
A. Baijal	1,50,000	10,000
A. V. Girija Kumar	Nil	Nil
S. H. Khan	4,24,000	10,000
R. E. Lerwill	Nil	NA
S. B. Mathur	3,11,000	10,000
P. B. Ramanujam	3,06,356	10,000
S. S. H. Rehman	3,27,751	10,000
A. Ruys	Nil	10,000
M. Shankar	Nil	10,000
K. Vaidyanath	21,52,633	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, subject to statutory provisions in this regard.

### III. STAKEHOLDERS RELATIONSHIP COMMITTEE

The Stakeholders Relationship Committee of the Board (earlier known as 'Investor Services Committee') oversees redressal of shareholder and investor grievances, and, inter alia, approves sub-division / consolidation / issue of duplicate share certificates, transmission of shares and issue & allotment of shares upon exercise of Options under the Company's Employee Stock Option Schemes.

#### Composition

The Stakeholders Relationship Committee presently comprises three Directors. The Chairman of the Committee is an Independent Director.

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

#### Meetings and Attendance

##### Details of Stakeholders Relationship Committee Meetings during the financial year

During the financial year ended 31st March, 2014, thirty seven meetings of the Stakeholders Relationship

Committee were held, as follows:

Sl. No.	Date	Committee Strength	No. of Members present
1	8th April, 2013	5	2
2	19th April, 2013	5	2
3	2nd May, 2013	5	3
4	6th May, 2013	5	5
5	16th May, 2013	5	4
6	30th May, 2013	5	3
7	10th June, 2013	5	3
8	14th June, 2013	5	3
9	25th June, 2013	5	3
10	1st July, 2013	5	3
11	8th July, 2013	5	3
12	18th July, 2013	5	3
13	25th July, 2013	5	5
14	8th August, 2013	5	3
15	20th August, 2013	5	3
16	28th August, 2013	5	5
17	3rd September, 2013	5	2
18	18th September, 2013	5	2
19	4th October, 2013	5	2
20	10th October, 2013	5	2
21	17th October, 2013	5	2
22	21st October, 2013	5	2
23	25th October, 2013	5	5
24	4th November, 2013	5	2
25	14th November, 2013	5	2
26	25th November, 2013	5	2
27	3rd December, 2013	5	2
28	18th December, 2013	5	2
29	26th December, 2013	5	2
30	6th January, 2014	5	2
31	16th January, 2014	5	3
32	5th February, 2014	5	2
33	12th February, 2014	5	2
34	24th February, 2014	5	2
35	4th March, 2014	5	2
36	20th March, 2014	5	2
37	31st March, 2014	5	2

#### Attendance at Stakeholders Relationship Committee Meetings during the financial year

Director	No. of meetings attended
A. V. Girija Kumar	36
K. N. Grant	36
P. B. Ramanujam	5
B. Sen <sup>1</sup>	14
M. Shankar <sup>2</sup>	2
K. Vaidyanath <sup>2</sup>	3
B. Vijayaraghavan <sup>1</sup>	3

1. Ceased to be Member w.e.f. 27th August, 2013.

2. Appointed Member w.e.f. 27th August, 2013.

#### IV. NOMINATIONS COMMITTEE

The primary role of the Nominations Committee of the Board, inter alia, 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, as on 31st March, 2014, comprised the Chairman of the Company and eight Non-Executive Directors, seven of whom were Independent Directors. The Chairman of the Company was the Chairman of the Committee.

The names of the members of the Nominations Committee, including its Chairman, are provided hereunder.

#### Meetings and Attendance

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

During the financial year ended 31st March, 2014, three meetings of the Nominations Committee were held, as follows:

Sl. No.	Date	Committee Strength	No. of Members present
1	16th May, 2013	11	8
2	25th July, 2013	11	10
3	25th October, 2013	11	11

**Members of the Nominations Committee and their attendance at Committee Meetings during the financial year**

Director	No. of meetings attended
Y. C. Deveshwar	3
A. Baijal	3
S. Banerjee <sup>1</sup>	3
A. V. Girija Kumar	3
S. H. Khan	2
S. B. Mathur	3
D. K. Mehrotra <sup>2</sup>	1
P. B. Ramanujam	3
S. S. H. Rehman	3
M. Shankar	3
K. Vaidyanath	2

1. Ceased to be Member w.e.f. 26th March, 2014.  
 2. Ceased to be Member w.e.f. 27th October, 2013.

Effective 1st April, 2014, a 'Nomination & Compensation Committee' (in place of the 'Nominations Committee' and the 'Compensation Committee') was constituted in terms of the provisions of the Companies Act, 2013. The names of the members of the Nomination & Compensation Committee, including its Chairman, are provided under the section 'Board of Directors and Committees' in the Report and Accounts.

**V. CSR AND SUSTAINABILITY COMMITTEE**

The role of the CSR and Sustainability Committee (earlier known as 'Sustainability Committee') is, inter alia, to review, monitor and provide strategic direction to the Company's CSR and sustainability practices towards fulfilling its triple bottom line objectives. The Committee seeks to guide the Company in integrating its social and environmental objectives with its business strategies and assists in crafting unique models to support creation of sustainable livelihoods. The Committee formulates, reviews & monitors the CSR Policy and recommends to the Board the annual CSR Plan of the Company in terms of the Companies Act, 2013. The Committee also reviews the Business Responsibility Report of the Company.

**Composition**

The CSR and Sustainability Committee presently comprises the Chairman of the Company and five Non-Executive Directors, three of whom are Independent Directors. The Chairman of the Company is the Chairman of the Committee.

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

**Meetings and Attendance**

During the financial year ended 31st March, 2014, one meeting of the CSR and Sustainability Committee was held, as follows:

Sl. No.	Date	Committee Strength	No. of Members present
1	16th May, 2013	7	6

**Attendance at CSR and Sustainability Committee Meetings during the financial year**

Director	No. of meetings attended
Y. C. Deveshwar	1
S. Banerjee <sup>1</sup>	1
D. K. Mehrotra <sup>2</sup>	NA
H. G. Powell <sup>3</sup>	1
S. S. H. Rehman <sup>4</sup>	NA
A. Ruys	1
B. Sen <sup>5</sup>	Nil
M. Shankar	1
B. Vijayaraghavan <sup>5</sup>	1

1. Ceased to be Member w.e.f. 26th March, 2014.  
 2. Appointed Member w.e.f. 27th August, 2013 and ceased to be Member w.e.f. 27th October, 2013.  
 3. Ceased to be Member w.e.f. 30th July, 2013.  
 4. Appointed Member w.e.f. 27th August, 2013.  
 5. Ceased to be Member w.e.f. 27th August, 2013.

**CORPORATE MANAGEMENT COMMITTEE**

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

The CSR and Sustainability Committee provides strategic direction to the Company towards fulfilling its triple bottom line objectives.

## 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 Nomination & Compensation Committee.

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

## Meetings and Attendance

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

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

During the financial year ended 31st March, 2014, fifteen meetings of the Corporate Management Committee were held, as follows:

Sl. No.	Date	Committee Strength	No. of Members present
1	22nd April, 2013	10	7
2	9th May, 2013	10	10
3	17th & 18th June, 2013	10	9
4	8th & 9th July, 2013	10	9
5	13th & 14th August, 2013	10	10
6	29th August, 2013	10	10
7	19th & 20th September, 2013	10	10
8	17th October, 2013	10	10
9	18th & 19th November, 2013	10	9
10	5th December, 2013	10	10
11	18th & 19th December, 2013	10	10
12	6th January, 2014	10	9
13	14th February, 2014	10	9
14	4th March, 2014	10	9
15	20th March, 2014	10	9

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

Member	No. of meetings attended
Y. C. Deveshwar	12
N. Anand	15
P. V. Dhobale	15
K. N. Grant	13
B. B. Chatterjee	14
A. Nayak	14
T. V. Ramaswamy	13
S. Sivakumar	15
K. S. Suresh	14
R. Tandon	15

## 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**

- 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**

- Material financial and commercial transactions of senior management, where they may have had personal interest, and which had potential conflict with the interests of the Company at large:

**None**

- The Independent Directors have confirmed that they meet the criteria of 'Independence' as stipulated under Clause 49 of the Listing Agreement with Stock Exchanges.

## 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. These results were published, inter alia, in 'The Times of India' and 'Bartaman' / 'Aajkaal' from Kolkata, and on an all India basis in major newspapers, and also in 'Luxemburger Wort', Luxembourg. As in the past, the Company will publish its quarterly, half-yearly and annual financial results.
- The Company's corporate website [www.itcportal.com](http://www.itcportal.com) provides comprehensive information on ITC's portfolio of businesses, CSR and sustainability initiatives, EHS performance, shareholding pattern, information on compliance with corporate governance norms and contact details of Company's employees responsible for assisting & handling investor grievances. 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, half-yearly and annual 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 'Media Centre' section includes all major media releases from the Company and relevant media reports. Clarifications as and when provided 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 in relation to the Company's business and reputation. The Code covers ITC's commitment to CSR and 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, 2014.

New Delhi, 25th April, 2014. Y. C. Deveshwar  
Chairman

## ITC CODE OF CONDUCT FOR PREVENTION OF INSIDER TRADING

ITC Code of Conduct for Prevention of Insider Trading, as approved by the Board of Directors, inter alia, prohibits purchase or sale of securities of the Company by Directors and employees while in possession of unpublished price sensitive information in relation to the Company. The said Code is available on the Company's corporate website.

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

The status of compliance with the non-mandatory recommendations of Clause 49 of the Listing Agreement with Stock Exchanges 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, subject to statutory provisions in this regard.

3. **Remuneration Committee:** The Company had 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'. Effective 1st April, 2014, a 'Nomination & Compensation Committee' (in place of the 'Nominations Committee' and the 'Compensation Committee') was constituted in terms of the provisions of the Companies Act, 2013.
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 'Media Centre' section. The complete Annual Report is sent to every Shareholder of the Company.
5. **Audit Qualifications:** It has always been 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, 2014.
6. **Training of Board members:** The Board is equipped to perform its role of business assessment through inputs from time to time. Directors are fully briefed on all business related matters, risk assessment & minimisation procedures, and new initiatives proposed by the Company. Directors are also updated 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 overall supervision 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. **Whistleblower Policy:** The Whistleblower Policy encourages Directors and employees to bring to the Company's attention, instances of unethical behaviour, actual or suspected incidents of fraud or violation of the ITC Code of Conduct, that could adversely impact the Company's operations, business performance and / or reputation. The Company investigates such incidents, when reported, in an impartial manner and takes appropriate action to ensure that the requisite standards of professional and ethical conduct are always upheld. It is the Company's Policy to ensure that no employee is victimised or harassed for bringing such incidents to the attention of the Company. The practice of the Whistleblower Policy is overseen by the Audit Committee of the Board.

#### GENERAL SHAREHOLDER INFORMATION

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

#### COMPLIANCE CERTIFICATE OF THE AUDITORS

In terms of Clause 49 of the Listing Agreement with Stock Exchanges, the Statutory Auditors' Certificate 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.

The structure, processes and practices of governance are designed to support effective management of multiple businesses while retaining focus on each one of them.