

# 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

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

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.

## 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

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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.

**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 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.

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 sixteen, of which four are Executive Directors.

Composition of the Board as on 31st March, 2015:

Category	No. of Directors	Percentage to total no. of Directors
Executive Directors	4	25
Non-Executive Independent Directors	8	50
Other Non-Executive Directors	4	25
<b>Total</b>	<b>16</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	Nil
P. V. Dhobale		Nil	Nil
K. N. Grant		2	Nil

#### Non-Executive Directors

A. Bajjal	Independent Director	5	2 [as Chairman]
S. Banerjee	Independent Director	Nil	Nil
A. Duggal	Independent Director	5	3 [including 1 as Chairman]
S. H. Khan	Independent Director	7	9 [including 4 as Chairman]
S. B. Mathur	Independent Director	12	5
P. B. Ramanujam	Independent Director	Nil	Nil
S. S. H. Rehman	Independent Director	Nil	Nil
M. Shankar	Independent Director	1	Nil
A. V. Girija Kumar	Representative of General Insurers' (Public Sector) Association of India as Investor	Nil	Nil
R. E. Lervill	Representative of Tobacco Manufacturers (India) Limited, a subsidiary of British American Tobacco p.l.c., the ultimate holding company	Nil	Nil
S. B. Mainak	Representative of Life Insurance Corporation of India as Investor	6	Nil
K. Vaidyanath		Nil	Nil

1. Excludes Directorship in Foreign Companies and Membership of Managing Committees of Chambers of Commerce / Professional Bodies.
2. Denotes Membership / Chairmanship of Audit Committee and / or Stakeholders Relationship 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 120 days 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, 2015, seven meetings of the Board were held, as follows:

Sl. No.	Date	Board Strength	No. of Directors present
1	25th April, 2014	14	11
2	23rd May, 2014	15	14
3	29th July, 2014	15	15
4	30th July, 2014	15	14
5	31st October, 2014	16	14
6	21st January, 2015	16	16
7	27th March, 2015	16	15

[ 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	7	Yes
N. Anand	7	Yes
P. V. Dhobale	7	Yes
K. N. Grant	7	Yes
A. Bajjal	6	Yes
S. Banerjee <sup>1</sup>	5	Yes
A. Duggal <sup>2</sup>	3	NA
A. V. Girija Kumar	5	Yes
S. H. Khan	5	Yes
R. E. Lerwill	7	Yes
S. B. Mainak <sup>3</sup>	5	Yes
S. B. Mathur	6	Yes
P. B. Ramanujam	7	Yes
S. S. H. Rehman	7	Yes
A. Ruys <sup>4</sup>	1	NA
M. Shankar	7	Yes
K. Vaidyanath	7	Yes

1. Appointed Non-Executive Director w.e.f. 24th July, 2014.

2. Appointed Non-Executive Director w.e.f. 15th September, 2014.

3. Appointed Non-Executive Director w.e.f. 25th April, 2014.

4. Ceased to be Non-Executive Director w.e.f. 24th July, 2014.

### COMMITTEES OF THE BOARD

Currently, there are five Board Committees – the Audit Committee, the Nomination & Compensation Committee, the Securityholders Relationship Committee, the CSR and Sustainability Committee and the Independent Directors Committee. The terms of reference of the Board Committees are determined by the Board from time to time. The terms of reference of the Independent Directors Committee have been adopted as provided in

the statute. 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 provides reassurance to the Board on the existence of an effective internal control environment that ensures:

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

The role of the Committee includes the following:

- (a) To oversee 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) To recommend the appointment, remuneration, terms of appointment and removal of Statutory Auditors, and to review the manner of rotation of Statutory Auditors;
- (c) To recommend the appointment, remuneration and removal of Cost Auditors, where necessary;
- (d) To approve transactions of the Company with related parties, including modifications thereto;
- (e) To review and monitor the Statutory Auditor's independence and performance, and effectiveness of the audit process;
- (f) To evaluate the Company's internal financial controls and risk management systems;
- (g) To review with the management the following:
  1. Annual financial statements and Auditor's Report thereon before submission to the Board for approval;
  2. Quarterly financial statements before submission to the Board for approval;

(h) To review the following:

1. Management discussion and analysis of financial condition and results of operations;
2. Adequacy of internal control systems and the Company's statement on the same prior to endorsement by the Board, such review to be done in consultation with the management, Statutory and Internal Auditors;
3. Reports of Internal Audit and discussion with Internal Auditors on any significant findings and follow-up thereon;
4. System / manner of maintenance, storage, retrieval, display, print out and security of books of account of the Company maintained in the electronic form;
5. Functioning of Whistle Blower mechanism in the Company.

### Composition

The Audit Committee presently comprises five Non-Executive Directors, four 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 meetings of the Audit Committee. The Head of Internal Audit, who reports to the Audit Committee, is the Coordinator, 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; four 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, 2015, eight

meetings of the Audit Committee were held, as follows:

Sl. No.	Date	Committee Strength	No. of Members present
1	9th May, 2014	4	3
2	23rd May, 2014	4	4
3	29th July, 2014	4	4
4	11th September, 2014	4	4
5	31st October, 2014	4	3
6	1st December, 2014	5	4
7	21st January, 2015	5	5
8	27th March, 2015	5	5

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

Director	No. of meetings attended
S. B. Mathur	8
A. Baijal	6
A. Duggal <sup>1</sup>	3
P. B. Ramanujam	7
K. Vaidyanath	8

1. Appointed Member w.e.f. 31st October, 2014.

## II. NOMINATION & COMPENSATION COMMITTEE

The Nomination and Remuneration Committee of the Board, under the nomenclature 'Nomination & Compensation Committee', inter alia, identifies persons qualified to become Directors and formulates criteria for evaluation of performance of the Independent Directors & the Board. The Committee's role also includes recommending to the Board the appointment, remuneration and removal of Directors & Corporate Management Committee Members. This Committee also has the responsibility for administering the Employee Stock Option Schemes of the Company.

### Composition

The Nomination & Compensation Committee presently comprises the Chairman of the Company and five Non-Executive Directors, four of whom are Independent Directors. The Chairman of the Committee is an Independent Director.

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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.

### Meetings and Attendance

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

During the financial year ended 31st March, 2015, seven meetings of the Nomination & Compensation Committee were held, as follows:

Sl. No.	Date	Committee Strength	No. of Members present
1	25th April, 2014	5	4
2	23rd May, 2014	5	5
3	29th July, 2014	5	5
4	30th July, 2014	5	5
5	31st October, 2014	6	6
6	21st January, 2015	6	6
7	27th March, 2015	6	5

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

Director	No. of meetings attended
S. H. Khan	5
S. Banerjee <sup>1</sup>	3
Y. C. Deveshwar	7
S. S. H. Rehman	7
M. Shankar	7
K. Vaidyanath	7

1. Appointed Member w.e.f. 30th July, 2014.

### Remuneration Policy

ITC's remuneration policy 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.

The Policy on remuneration of Directors, Key Managerial Personnel and other employees of the Company is provided in the Annexure forming part of this Report.

### 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 Executive 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 payable to Non-Executive Directors, as determined by the Board with effect from 25th April, 2014, are ₹ 1,00,000/- for each meeting of the Board, ₹ 50,000/- for each meeting of the Audit Committee, Nomination & Compensation

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

Committee, CSR and Sustainability Committee and Independent Directors Committee and ₹ 10,000/- for each meeting of the Securityholders 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, 2015

(₹ in Lakhs)

Director	Consolidated Salary	Perquisites and other Benefits	Performance Bonus / Commission	Sitting Fees	Total
Y. C. Deveshwar	432.00	89.21	864.00	-	1,385.21
N. Anand	86.40	61.30	129.60	-	277.30
P. V. Dhobale	86.40	22.14	129.60	-	238.14
K. N. Grant	86.40	22.49	129.60	-	238.49
A. Bajjal	-	-	15.00	9.50	24.50
S. Banerjee <sup>1</sup>	-	-	14.75*	7.00	21.75
A. Duggal <sup>2</sup>	-	-	-	5.00	5.00
A. V. Girija Kumar	-	-	15.00*	9.05*	24.05
S. H. Khan	-	-	15.00	7.50	22.50
R. E. Lerwill <sup>3</sup>	-	-	5.51	9.50	15.01
S. B. Mainak <sup>4</sup>	-	-	-	6.50*	6.50
S. B. Mathur	-	-	15.00	10.50	25.50
D. K. Mehrotra <sup>5</sup>	-	-	8.59*	-	8.59
H. G. Powell <sup>6</sup>	-	-	4.93	-	4.93
P. B. Ramanujam	-	-	15.00	11.00	26.00
S. S. H. Rehman	-	-	15.00	11.00	26.00
A. Ruys <sup>7</sup>	-	-	15.00	1.50	16.50
B. Sen <sup>8</sup>	-	-	6.08	-	6.08
M. Shankar	-	-	15.00	13.50	28.50
K. Vaidyanath	-	-	15.00	15.20	30.20
B. Vijayaraghavan <sup>8</sup>	-	-	6.08	-	6.08

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

1. Appointed Non-Executive Director w.e.f. 24th July, 2014.

2. Appointed Non-Executive Director w.e.f. 15th September, 2014.

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

4. Appointed Non-Executive Director w.e.f. 25th April, 2014.

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

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

7. Ceased to be Non-Executive Director w.e.f. 24th July, 2014.

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

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

### Employee Stock Option Schemes

The Company granted 68,26,355 Options during the financial year to the eligible employees and Directors of the Company, other than Independent Directors, and eligible employees of 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, 2015	No. of Options granted during the financial year
Y. C. Deveshwar	1,72,500	2,70,000
N. Anand	2,28,000	1,35,000
P. V. Dhobale	1,10,630	1,35,000
K. N. Grant	1,81,730	1,35,000
A. Bajjal	1,20,000	Nil
S. Banerjee	Nil	Nil
A. Duggal	Nil	Nil
A. V. Girija Kumar	Nil	Nil
S. H. Khan	4,87,000	Nil
R. E. Lerwill	Nil	10,000
S. B. Mainak	Nil	Nil
S. B. Mathur	3,11,000	Nil
P. B. Ramanujam	3,41,356	Nil
S. S. H. Rehman	1,03,488	Nil
M. Shankar	Nil	Nil
K. Vaidyanath	26,32,633	10,000

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



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### 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. Letters of appointment have been issued by the Company to the Independent Directors, as required under Clause 49 of the Listing Agreement, incorporating their roles, duties, responsibilities etc., which have been accepted by them.

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. With respect to notice period of Directors, the statutory provisions will also apply.

### III. SECURITYHOLDERS RELATIONSHIP COMMITTEE

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

#### Composition

The Securityholders Relationship Committee presently comprises four Directors. The Chairman of the Committee is a Non-Executive Director.

The names of the members of the Securityholders 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 Securityholders Relationship Committee Meetings during the financial year

During the financial year ended 31st March, 2015, twenty eight meetings of the Securityholders Relationship

Committee were held, as follows:

Sl. No.	Date	Committee Strength	No. of Members present
1	23rd April, 2014	3	2
2	30th April, 2014	3	2
3	13th May, 2014	3	2
4	23rd May, 2014	3	2
5	29th May, 2014	3	2
6	9th June, 2014	3	2
7	27th June, 2014	3	2
8	7th July, 2014	3	2
9	21st July, 2014	3	2
10	30th July, 2014	3	3
11	12th August, 2014	3	2
12	29th August, 2014	3	2
13	11th September, 2014	3	2
14	16th September, 2014	3	2
15	25th September, 2014	3	2
16	10th October, 2014	3	2
17	17th October, 2014	3	2
18	31st October, 2014	3	3
19	17th November, 2014	4	3
20	1st December, 2014	4	2
21	18th December, 2014	4	2
22	5th January, 2015	4	3
23	20th January, 2015	4	4
24	13th February, 2015	4	2
25	24th February, 2015	4	3
26	10th March, 2015	4	2
27	17th March, 2015	4	2
28	27th March, 2015	4	4

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

Director	No. of meetings attended
A. V. Girija Kumar	21
P. V. Dhobale <sup>1</sup>	10
K. N. Grant	27
K. Vaidyanath	7

1. Appointed Member w.e.f. 31st October, 2014.

#### IV. CSR AND SUSTAINABILITY COMMITTEE

The role of the CSR and 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 & monitors the CSR Policy and recommends to the Board the annual CSR Plan of the Company in terms of the Companies Act, 2013.

##### Composition

The CSR and Sustainability Committee presently comprises the Chairman of the Company and four Non-Executive Directors, one of whom is an Independent Director. 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

###### Details of CSR and Sustainability Committee Meetings during the financial year

During the financial year ended 31st March, 2015, five meetings of the CSR and Sustainability Committee were held, as follows:

Sl. No.	Date	Committee Strength	No. of Members present
1	25th April, 2014	5	4
2	23rd May, 2014	6	5
3	31st October, 2014	5	4
4	21st January, 2015	5	5
5	27th March, 2015	5	5

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

Director	No. of meetings attended
Y. C. Deveshwar	5
A. V. Girija Kumar	4
R. E. Lerwill	5
S. B. Mainak <sup>1</sup>	3
A. Ruys <sup>2</sup>	1
M. Shankar	5

1. Appointed Member w.e.f. 25th April, 2014.

2. Ceased to be Member w.e.f. 24th July, 2014.

#### V. INDEPENDENT DIRECTORS COMMITTEE

The statutory role of the Independent Directors Committee of the Board is to review the performance of non-Independent Directors, the Board and the Chairman of the Company and also to assess the quality, quantity and timeliness of flow of information between the Company management and the Board.

##### Composition

The Independent Directors Committee comprises all the Independent Directors of the Company.

The names of the Independent Directors and the Committee Chairman are provided under the section 'Board of Directors and Committees' in the Report and Accounts.

##### Meetings and Attendance

###### Details of Independent Directors Committee Meetings during the financial year

During the financial year ended 31st March, 2015, one meeting of the Independent Directors Committee was held, as follows:

Sl. No.	Date	Committee Strength	No. of Members present
1	27th March, 2015	8	7

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

## Report on Corporate Governance

### Attendance at Independent Directors Committee Meetings during the financial year

Director	No. of meetings attended
A. Bajjal	1
S. Banerjee	1
A. Duggal	1
S. H. Khan	-
S. B. Mathur	1
P. B. Ramanujam	1
S. S. H. Rehman	1
M. Shankar	1

### 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 seven 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, 2015, forty two meetings of the Corporate Management

Committee were held, as follows:

Sl. No.	Date	Committee Strength	No. of Members present
1	2nd April, 2014	10	9
2	2nd April, 2014	10	9
3	16th April, 2014	10	10
4	16th May, 2014	10	10
5	13th June, 2014	10	8
6	9th & 10th July, 2014	10	10
7	24th July, 2014	10	10
8	13th & 14th August, 2014	10	9
9	1st September, 2014	10	9
10	30th September, 2014	10	8
11	21st October, 2014	10	10
12	24th November, 2014	11	9
13	17th December, 2014	11	11
14	14th January, 2015	11	11
15	4th February, 2015	11	11
16	4th February, 2015	11	11
17	5th February, 2015	11	11
18	10th February, 2015	11	11
19	11th February, 2015	11	10
20	11th February, 2015	11	10
21	12th February, 2015	11	11
22	13th February, 2015	11	11
23	17th February, 2015	11	11
24	18th February, 2015	11	10
25	18th February, 2015	11	10
26	20th February, 2015	11	10
27	20th February, 2015	11	10
28	23rd February, 2015	11	11
29	23rd February, 2015	11	11
30	25th February, 2015	11	11
31	25th February, 2015	11	11
32	25th February, 2015	11	11
33	26th & 27th February, 2015	11	11
34	26th & 27th February, 2015	11	11
35	4th March, 2015	11	10
36	4th March, 2015	11	10
37	10th March, 2015	11	11
38	10th March, 2015	11	11
39	11th March, 2015	11	11
40	11th March, 2015	11	11
41	20th March, 2015	11	11
42	20th March, 2015	11	11

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

Member	No. of meetings attended
Y. C. Deveshwar	42
N. Anand	37
P. V. Dhobale	41
K. N. Grant	41
B. B. Chatterjee	41
A. Nayak	42
S. Puri <sup>1</sup>	27
T. V. Ramaswamy	41
S. Sivakumar	41
K. S. Suresh	41
R. Tandon	39

1. Appointed Member w.e.f. 1st November, 2014.

### FAMILIARISATION PROGRAMME FOR DIRECTORS

ITC believes that a Board, which is well informed / familiarised with the Company, can contribute significantly to effectively discharge its role of trusteeship in a manner that fulfils stakeholders' aspirations and societal expectations. In pursuit of this, the Directors are updated on a continuing basis on changes / developments in the domestic / global corporate and industry scenario including those pertaining to statutes / legislations and economic environment, to enable them to take well informed and timely decisions.

The details of the familiarisation programme may be accessed on the Company's corporate website at <http://www.itcportal.com/about-itc/leadership/board-of-directors.aspx>.

### DISCLOSURES

- 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**

- Inter-se relationships between Directors of the Company:

**None**

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

**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**

### 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 sixty days 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 and also post such results on the Company's corporate website **www.itcportal.com**. The Company's presentations on the results, quarterly results updates alongwith FAQs are made available on the Company's corporate website.
- The Company's corporate website provides comprehensive information on ITC's portfolio of businesses, CSR and Sustainability initiatives, EHS performance, shareholding pattern and contact details of Company's employees responsible for assisting investors & 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

## Report on Corporate Governance

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.

- The Report of the Board of Directors, forming part of the Report and Accounts, includes all aspects of Management Discussion and Analysis as required under Clause 49 of the Listing Agreement.

### 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, 2015.

Kolkata, 22nd May, 2015. Y. C. Deveshwar  
Chairman

### WHISTLEBLOWER POLICY

Synopsis of the Whistleblower Policy of the Company is provided in the 'Report of the Board of Directors & Management Discussion and Analysis' in the Report and Accounts. The Whistleblower Policy is also available on the Company's corporate website.

### ITC CODE OF CONDUCT FOR PREVENTION OF INSIDER TRADING - 2015

ITC Code of Conduct for Prevention of Insider Trading - 2015, 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.

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

The status of compliance with the non-mandatory recommendations under Clause 49 of the Listing Agreement with Stock Exchanges is provided below:

- 1. Chairman's Office:** The Chairman of the Company is the Executive Chairman.

The Company has a diversified business portfolio, which demands that the senior leadership has an in-depth knowledge and understanding of the functioning of the Company, so as to enhance the value-generating capacity of the organisation and contribute significantly to stakeholders' aspirations and societal expectations. The Chief Executive Officer of the Company is therefore generally chosen from amongst the executive management of the Company. The current Chief Executive Officer of the Company is also the Chairman of the Board.

- 2. 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.
- 3. Audit Qualifications:** It has always been the Company's endeavour to present unqualified financial statements. There are no audit qualifications on the Company's financial statements for the year ended 31st March, 2015.

### 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 Board of Directors & Management Discussion and Analysis.

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

## ANNEXURE TO THE REPORT ON CORPORATE GOVERNANCE

### Remuneration Policy

ITC's Remuneration Strategy is designed to attract and retain high quality talent, that gives each of its businesses a unique competitive advantage and enables the Company achieve its objectives.

ITC's Remuneration Strategy is a key and integral component of the broader Human Resource Strategy of the Company and, whilst focusing on remuneration and related aspects of performance management, is aligned with and reinforces the employee value proposition of a superior quality of work life, that includes an enabling work environment, an empowering and engaging work culture and opportunities to learn and grow.

The Compensation approach endeavours to align each employee with the Company's Superordinate goal and enables a congruence between individual aspirations and the Company's mission and vision.

#### Policy

It is ITC's policy:

1. To ensure that its Remuneration practices support and encourage meritocracy.
2. To ensure that Remuneration is market-led and takes into account the competitive context of each business.
3. To leverage Remuneration as an effective instrument to enhance performance and therefore, to link a significant component of remuneration to both individual and collective performance outcomes.
4. To adopt a comprehensive approach to Remuneration in order to support a superior quality of personal and work life, combining both cash and non-cash components / benefits, in a manner so as to judiciously balance short term with long term priorities.
5. To design Remuneration practices such that they reinforce ITC's values and culture and to implement them in a manner that complies with all relevant regulatory requirements.

#### Remuneration of Executive Directors, Key Managerial Personnel and Senior Management

1. Remuneration of Executive Directors, Key Managerial Personnel and Senior Management is determined and recommended by the Board Nomination & Compensation Committee and approved by the Board. Remuneration of Executive Directors is also subject to the approval of the shareholders.
2. Remuneration is reviewed and revised periodically, when such a revision is warranted by the market. Since the market for Board-level and senior leadership talent is global, remuneration of top management of global corporations as well as Indian corporations of comparable size is considered. The review also cognises for the Company's diverse multi-business portfolio and its unique strategy of organisation.
3. Apart from fixed elements of remuneration and benefits / perquisites, Executive Directors, Key Managerial Personnel and Senior Management are also eligible for Performance Bonus and Employee Stock Options that are linked to their individual performance and the overall performance of the Company. These elements of

compensation design, facilitate alignment of the priorities of Executive Directors, Key Managerial Personnel and Senior Management with the long-term interests of stakeholders.

#### Remuneration of Non-Executive Directors

Remuneration of Non-Executive Directors is in the form of annual commission, which is determined by the Board within the limit stipulated under the Companies Act, 2013 and approved by the shareholders. Commission is based, inter alia, on Company performance and is generally payable on a uniform basis to reinforce the principle of collective responsibility. Individual performance may be taken into account in exceptional circumstances. 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. Non-Executive Directors, who are not Independent Directors, are also eligible for Stock Options as approved by the shareholders.

#### Remuneration of Management Staff

1. Remuneration of Management Staff is business-specific and approved by the Corporate Management Committee on the recommendation of the Business and Corporate Human Resources.
2. Remuneration is reviewed and revised periodically, when such a revision is warranted by the market. The quantum of revision is linked to market trends, the competitive context of the business, as well as the track record of the individual manager.
3. Variable Pay in the form of Annual Performance Bonus cognises for the performance rating of the individual manager, the performance of the Business and the overall performance of the Company.
4. The Nomination & Compensation Committee may grant Stock Options under the Company's Employee Stock Option Schemes to managers at middle and senior levels, linked to their performance and potential, with benefits vesting in phases over a period of time.

#### Remuneration of Non Management Employees

1. Remuneration of non-management employees is market-led, business specific, leverages performance and is approved by the Management Committee of the Business.
2. Remuneration of non-management unionised employees is determined through a process of negotiations with the recognised union/s or employee representatives, through a long-term agreement.
3. The collective bargaining process is anchored in mutuality of interests, characterised by industrial democracy and partnership with enlightened trade unions, aimed at enhancing the competitiveness of the unit and business, and thereby improving the quality of life of the workforce through fair and equitable compensation.
4. Remuneration, comprising fixed and variable components, is arrived at based on benchmarking with region-cum-industry practices and cognizing for market dynamics, competitiveness of the unit / plant, overall performance of the business, availability of skills, inflation / cost of living and the impact of cost escalation and productivity gains on present and future competitiveness.

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