



Enduring Value

ITC

EMPLOYEE

STOCK

OPTION

SCHEME - 2006



## **ITC EMPLOYEE STOCK OPTION SCHEME - 2006**

This Employee Stock Option Scheme has been formulated by the Board Compensation Committee, in accordance with the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, and approved by the Board of Directors of the Company at its meeting held on 25th May, 2007, pursuant to the authority vested in it by the Members of the Company on 22nd January, 2007, by means of Postal Ballot.

### **1. SHORT TITLE, EXTENT AND COMMENCEMENT**

- a) This Scheme shall be called the "ITC Employee Stock Option Scheme - 2006" (Scheme).
- b) It shall come into effect on 25th May, 2007 and continue to be in force until (i) the date on which the Options available for issuance under the Scheme have been issued and exercised / lapsed or (ii) its termination by the Board.

### **2. OBJECT**

This Scheme has been formulated to align the interests of employees with those of the shareholders by creating a common sense of purpose towards enhancing shareholder value and also to attract and retain talent.

### 3. DEFINITIONS

In this Scheme, unless the context otherwise requires,

- a) "Board" means the Board of Directors of the Company.
- b) "Company" means ITC Limited.
- c) "Compensation Committee" means the Compensation Committee of the Board.
- d) "Director" means a member of the Board.
- e) "Eligible Employee" means
  - (i) such present and future permanent employee of the Company, including a Director, both Wholetime and Non-Executive, and
  - (ii) such present and future permanent employee of such of the Company's subsidiary companies (now or hereinafter existing), including Managing / Wholetime Director of a subsidiary, as may be decided by the Compensation Committee / Board.
- f) "Exercise" means the submission of the Exercise Application, alongwith the payment of the relevant Exercise Price, by the Optionee to purchase / subscribe to the Shares underlying the Vested Options.
- g) "Exercise Application" means the written application in the prescribed form for exercise of Options.

- h) "Exercise Period" means the period during which the Optionee can exercise his Options.
- i) "Exercise Price" means the price payable by an Optionee to purchase / subscribe to the Shares underlying the Options.
- j) "Grant" means the offer of Options under and subject to the terms and conditions of the Scheme.
- k) "Guidelines" means the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, as amended from time to time.
- l) "Nominee" means the person(s), being the spouse, children, grandchildren, parent(s), or, in the absence of any of the aforesaid living, the sibling(s) of the Optionee, nominated by the Optionee for the purpose of this Scheme. Nomination made in favour of any person other than the Optionee's spouse, children, grandchildren, parent(s), or, in the absence of any of the aforesaid living, the sibling(s), shall be invalid.
- m) "Option" means the right, but not an obligation, to purchase / subscribe to the Shares under a Grant accepted by an Eligible

Employee. Each Option represents the right to purchase / subscribe to ten Shares of the Company.

- n) "Optionee" means the holder of an outstanding Option granted under the Scheme.
- o) "Permanent Disability", with respect to a person, means a physical or mental impairment of sufficient severity that, in the opinion of the Compensation Committee / Board, as the case may be, has rendered the person unable to continue performing the duties that the person performed before such impairment.
- p) "Scheme" means the ITC Employee Stock Option Scheme-2006.
- q) "Share" means an Ordinary Share of the Company of the face value of ₹ 1/-.
- r) "Subsidiary" means a subsidiary of the Company whether now or hereinafter existing, within the meaning of Section 4 of the Companies Act, 1956.
- s) "Vesting" means accruing of the right to the Optionee to exercise an Option.
- t) "Vesting Period" means the period between the date of Grant (including the said day) and the date of Vesting (excluding the said day).

- u) "Vested Option" means an Option in respect of which Vesting has occurred.
- v) "Unvested Option" means an Option in respect of which Vesting has not occurred.

Words denoting the singular include the plural and vice versa. Words denoting a gender include all genders.

All other expressions not defined herein shall have the same meaning as have been assigned to them under the Guidelines or the Securities and Exchange Board of India Act, 1992 or the Securities Contracts (Regulation) Act, 1956 or the Companies Act, 1956 or SEBI (Disclosure and Investor Protection) Guidelines, 2000 or any statutory modification or re-enactment thereof, as the case may be.

#### **4. SCOPE AND ELIGIBILITY**

The Scheme shall be applicable to Eligible Employees. However, the Compensation Committee / Board, as the case may be, may exclude any Eligible Employee(s) from any Grant based on the recommendation of the Corporate Management Committee of the Company for Grades up to B+ and on the recommendation of the Chairman of the Company for Grades A and above.

#### **5. ADMINISTRATION OF THE SCHEME**

- a) The number of Shares which shall be granted under the Scheme shall not exceed 5% of the issued and subscribed Share Capital of the Company as on 31st March, 2006 i.e. up to 18,77,58,943<sup>1</sup> Ordinary

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<sup>1</sup> Effective 6th August, 2010 stands at '36,22,61,893' consequent upon issue of Bonus Shares in the ratio of 1 : 1. Effective 7th July, 2016 stands at '37,89,18,533' consequent upon issue of Bonus Shares in the ratio of 1 : 2.

Shares of the Company of ₹ 1/- each, with consequential adjustments for any bonus, consolidation or other re-organisation of the capital structure of the Company from time to time.

Options lapsed for any reason whatsoever shall become available for subsequent Grant(s) under the Scheme.

- b) The Compensation Committee shall administer the Scheme for which purpose the Committee may, inter alia, determine / decide:
- the time when the Options are to be granted
  - the criteria for determining the number of Options to be granted to Eligible Employees, except Non-Executive Directors
  - the number of Options to be granted to various grades of Eligible Employees and to each Eligible Employee, except Non-Executive Directors
  - the tranches in which Options are to be granted and the number of Options to be granted in each tranche
  - the Exercise Price from time to time
  - the Vesting Period of the Options granted
  - the Exercise Period

- the treatment of Options in case of misconduct (in terms of the Company's policies) on the part of an Optionee
- the treatment of Options upon termination of employment
- adjustments to be made to Grant size and Exercise Price of Options in the event of corporate actions such as bonus issue, rights issue, merger and consolidation of Shares.
- suitable policies and systems such that there is no violation of the ITC Code of Conduct for Prevention of Insider Trading, Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992, and the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003
- procedures for Granting, Vesting and Exercise of Options
- treatment of Options in instances not specifically provided for in the Scheme

The decisions of the Compensation Committee with respect to administration of the Scheme shall be final and binding on all Eligible Employees.



## **6. OPTIONS**

### **6.1 Grant of Options:**

Grant of Options to the Eligible Employees shall normally be made annually, for the previous financial year. The number of Options under the Grant to be made to the Eligible Employees will be decided by the Compensation Committee except Options to Non-Executive Directors, which will be determined by the Board. Every Grant shall specify the number of Options offered and the Exercise Price thereof.

The Exercise Price would be determined by the Compensation Committee and shall not be lower than the closing price of the Company's Share on the National Stock Exchange of India Limited (the 'NSE') on the date of grant, or the average price of the Company's Share in the six months preceding the date of grant based on the daily closing price on the NSE, or the 'Market Price' as defined from time to time under the Guidelines.

### **6.2 Limits for Grant of Options:**

- (a) No single employee shall be granted in any financial year Options exceeding 0.1% of the issued and subscribed Share Capital of the Company as on 31st March, 2006 i.e. not exceeding 37,55,178<sup>2</sup> Ordinary Shares of ₹ 1/- each, with consequential adjustment for any bonus, consolidation or other re-organisation of the capital structure of the Company from time to time.

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<sup>2</sup> Effective 6th August, 2010 stands at '36,22,61,893' consequent upon issue of Bonus Shares in the ratio of 1 : 1. Effective 7th July, 2016 stands at '37,89,18,533' consequent upon issue of Bonus Shares in the ratio of 1 : 2.

- (b) The overall limits for Grant to and exercise of Options by Non-Executive Directors, as approved by the Members at the Annual General Meeting held on 29th July, 2005, will continue to apply with respect to their Options.

### **6.3 Acceptance of Options:**

A Grant shall be deemed to have been accepted by an Optionee upon such Optionee submitting to the Company, within the stipulated period, the acceptance letter alongwith payment of ₹ 100/- (Rupees one hundred only) for each Grant.

### **6.4 Vesting Schedule:**

Options under a Grant shall begin to vest as per the following Vesting Schedule:

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

### **6.5 Exercise of Options:**

- a) Options can be exercised (i) only by the Optionee (except in the case of death of the Optionee), (ii) only upon their Vesting, and (iii) only during the Exercise Period (except in case of resignation etc. as covered in sub-clauses (c) and (i) hereunder). Any Option

that is not exercised during the Exercise Period shall lapse.

The "Exercise Period" for Options shall commence from the date(s) of Vesting of such Options and end with the expiry of five years from the respective date(s) of Vesting of Options. Optionees, other than those falling under sub-clauses (c) and (i) below, can exercise Vested Options each year during:

- (i) April to August - from 21st June to 10th August,
- (ii) September to January - from 1st to 10th day of each month,
- (iii) February to March - from 1st February to 10th March, and
- (iv) Such other period as may be decided by the Compensation Committee.

- b) **Manner of Exercise:** An Optionee exercising his Options shall apply therefor by filing an Exercise Application with the Company. Such application shall be for a minimum of 100 Options per Grant, provided however that where the Vested Options remaining to be exercised for a particular Grant are less than 100, the application must be for the entire remaining number of Options.
- c) **Resignation / Termination:** In the event of an Optionee ceasing to be an employee of the Company or its subsidiary by reason of the Optionee's resignation or termination of his employment by the

Company or its subsidiary, other than for misconduct -

- All Unvested Options of such Optionee shall lapse forthwith, and
- The unexercised Vested Options can be exercised by such Optionee within 30 days\* from the date of separation, failing which such Options will lapse.

*\* 7 days in respect of Options granted on or after 26th August, 2011.*

d) **Death:** (i) In the event of death of an Optionee while in employment, all Options held by such Optionee shall vest immediately in the Nominee(s) / legal heir(s), subject to production of documentary evidence to the satisfaction of the Company with respect to such nomination / legal heirship and upon compliance by them with such other formalities / conditions as may be required by the Company. Such Options can be exercised thereafter by the Nominee(s) / legal heir(s) within the relevant Exercise Period.

(ii) In the event of death of an Optionee after retirement from the services of the Company or its subsidiary, all Options held by such Optionee shall vest in the Nominee(s) / legal heir(s), subject to production of documentary evidence to the

satisfaction of the Company with respect to such nomination / legal heirship and upon compliance by them with such other formalities / conditions as may be required by the Company. Unvested Options shall however vest after a period of one year from the date of respective Grant(s). Vested Options can be exercised thereafter by the Nominee(s) / legal heir(s) within the relevant Exercise Period.

- e) **Permanent Disability:** In the event of permanent disability of an Optionee, while in employment of the Company or its subsidiary, all Options held by such Optionee shall vest forthwith and can be exercised within the relevant Exercise Period.
- f) **Amalgamation / Reconstitution etc.:** The Compensation Committee shall determine the treatment of Options granted to an Optionee in the event of separation arising out of amalgamation / reconstitution etc. of the Company or its subsidiary.
- g) **Transfer:** In the event of an Optionee being transferred to a subsidiary company / associate company at the instance of or with consent of the Company, such Optionee can exercise the Vested Options within the relevant Exercise Period. The Unvested Options shall however vest as per the vesting schedule and can be exercised thereafter within the relevant Exercise Period.

h) **Retirement etc.:** In the event of (i) retirement of an Optionee from the Company or its subsidiary, or (ii) separation of an Optionee with the consent of the Company, or (iii) separation of an Optionee, who is on extension of employment, post becoming eligible for retirement at his option under the Rules of the Company, such Optionee can Exercise the Vested Options within the relevant Exercise Period. The Unvested Options shall vest as per the vesting schedule and can be exercised thereafter within the relevant Exercise Period.

i) Subject to the provisions of Clause 6.2(b) of the Scheme –

(I) In the event a Non-Executive Director ceases to hold office and such cessation is with the consent of the Board, such Non-Executive Director can exercise the Vested Options within the relevant Exercise Period. The Unvested Options shall however vest as per the vesting schedule and can be exercised thereafter within the relevant Exercise Period.

In the event of death of a Non-Executive Director, Clause 6.5(d) of the Scheme shall apply with respect to the Options held.

(II) In the event of cessation of office by a Non-Executive Director, other than as stipulated under (I) above and such cessation is prior to completion of his term -

- All Unvested Options of such Non-Executive Director shall lapse forthwith, and
  - The unexercised Vested Options can be exercised by such Non-Executive Director within 30 days from the date of cessation of office, failing which such Options will lapse.
- (j) **Study Leave:** In the event of an Optionee being granted Study Leave by the Company or its subsidiary at the request of the Optionee, such Optionee can Exercise the Vested Options (within the relevant Exercise Period) only after the Optionee resumes duty with the Company or its subsidiary immediately after the Study Leave and works for at least one year. The Unvested Options shall vest as per the vesting schedule. This provision will be applicable in respect of Options granted on or after 26th August, 2011.

#### **6.6 Allotment of Shares:**

Shares in respect of which the Exercise Application has been received shall be allotted by the Company to the Optionee, inter alia, upon credit of the Exercise Price in the Company's designated bank account and upon payment by the Optionee of such amount of Fringe Benefit Tax as may be determined by the Compensation Committee in terms of Clause 10 of the Scheme.

### **6.7 Bonus Issue:**

In the event of issue of Shares by the Company by way of Bonus Shares, an Optionee would be entitled to be allocated Bonus Options in relation to the outstanding Options, whether Vested or Unvested, held by him, in the same ratio in which the Bonus Shares are allotted. Such Bonus Options will be exercisable on the same terms as the outstanding Options except as to Exercise Price, which will be adjusted by dividing the Exercise Price per Option by the factor of the bonus ratio (bonus factor). For example, if the Exercise Price of the outstanding Options is ₹ 200 per Option and the bonus is in the ratio of 1 Bonus Share for every 2 Shares, the bonus factor would be  $3/2$  i.e. 1.5. Therefore the adjusted Exercise Price of the outstanding Options aggregated with the Bonus Options would be :  $200 / 1.5 = ₹ 133.34$  per Option.

The treatment of fractional Bonus Options, if arising on account of the bonus factor, shall be determined by the Compensation Committee.

### **6.8 Rights Issue:**

In the event of a rights issue of Shares by the Company, fair and reasonable adjustment with regard to outstanding Options, Exercise Price and number of Options of the Optionee would be decided by the Compensation Committee.



#### **6.9 Merger / Amalgamation:**

In the event of a merger / amalgamation of the Company with another company, fair and reasonable adjustment with regard to outstanding Options, Exercise Price, number of Options and Vesting Period will be decided by the Compensation Committee.

#### **6.10 Transfer of Options:**

Options held by the Optionee are not transferable and cannot be pledged / hypothecated / charged / mortgaged/ assigned or in any other manner alienated or disposed of.

### **7. SHARES**

Nothing contained in the Scheme is intended to or shall give an Optionee any rights of a shareholder of the Company in respect of the Shares underlying the Options. However, an Optionee shall acquire the rights of a shareholder upon exercise of Options and allotment of Shares therefor.

#### **7.1. Issue of Shares:**

Upon exercise of Options and allotment of Shares therefor, such Shares shall be subject to the terms and conditions mentioned below:

(i) **Ranking of Shares:**

The Shares arising on exercise of Options shall rank pari passu with the then existing Shares of the Company, including entitlement to dividend.

(ii) **Listing of Shares:**

The Shares issued on exercise of Options shall be listed on all the stock exchanges where the Company's Shares are then listed and will be subject to the terms and conditions of the listing agreements with the stock exchanges.

(iii) **Restriction on Sale of Shares:**

Shares allotted upon exercise of Options under the Scheme shall be subject to restrictions provided in the ITC Code of Conduct for Prevention of Insider Trading read with the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992.

**8. LEGAL COMPLIANCES**

This Scheme shall be subject to applicable laws, rules and regulations and such regulatory approvals as may be required. Grant of Options and subsequent allotment of Shares under the Scheme entitles the Company to require Optionees to comply with such regulatory requirements as may be necessary.

## **9. GENERAL RISKS**

Participation in this Scheme should not be construed as any assurance of return on the investment made by Optionees in Shares consequent to exercise of Options. Any loss due to fluctuation in the market price of the Company's Share and the risks associated with such investment(s) will be that of the Optionee alone or that of the Nominee(s) / legal heir(s) of the Optionee, as the case may be.

## **10. TAX LIABILITY**

Any tax liability arising to or levied on the Optionee or Company and / or its subsidiary on account of Grant / Exercise of Options or Allotment of Shares under the Scheme or sale thereof shall be that of the Optionee or his Nominee(s) or legal heir(s), as the case may be.

The Company and / or its subsidiary reserves the right to recover from the Optionee or his Nominee(s) or legal heir(s), as the case may be (by way of deduction from salary and / or in any other manner) any costs borne or charges incurred by the Company and / or its subsidiary arising out of Grant / Exercise of Options or Allotment of Shares under the Scheme.

The Company shall have no obligation to deliver Shares or credit Shares to the beneficiary account of the Optionee / Nominee(s) / legal heir(s) until all dues in respect of the Options have been discharged by the Optionee / Nominee(s) / legal heir(s).

## **11. CHANGES IN THE SCHEME, SUSPENSION AND TERMINATION THEREOF**

This Scheme is purely at the discretion of the Company.

The Board may at any time at its absolute discretion alter, amend, modify, suspend, withdraw or terminate the Scheme for any reason whatsoever, within the Guidelines.

## **12. CONFIDENTIALITY**

- a) Optionees holding Options / Shares under the Scheme shall not divulge the details of the Scheme or their holding to any person except with prior permission of the Company obtained in writing.
- b) Optionees shall enter into such agreement(s) as the Company may require from time to time to more fully and effectively implement this Scheme.

## **13. CONTRACT OF EMPLOYMENT**

- a) This Scheme shall not form part of any contract of employment between the Company and the Optionee. The rights and obligations of any Eligible Employee under the terms of employment shall not be affected by such Eligible Employee's participation in the Scheme.
- b) Participation in this Scheme shall not afford an Optionee any rights to compensation or damages in consequence of loss or termination of employment for any reason whatsoever.

- c) No claim shall lie against the Company for any compensation or damages for any loss or potential loss which an Optionee may suffer by reason of being unable to exercise Options, in whole or in part.

#### **14. INTERPRETATION**

Any dispute, discrepancy or disagreement arising under, or as a result of, or pursuant to, or in connection with this Scheme shall be referred to the Compensation Committee / Board, as the case may be, whose decision shall be final and binding.

#### **15. JURISDICTION**

In relation to any dispute or difference arising out of or in connection with this Scheme, the same shall be submitted to the exclusive jurisdiction of the Court of competent jurisdiction at Kolkata.