



Enduring Value

ITC

EMPLOYEE

STOCK

OPTION

SCHEME - 2010



## **ITC EMPLOYEE STOCK OPTION SCHEME - 2010**

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 26th August, 2011, pursuant to the authority vested in it by the Members at the Annual General Meeting of the Company held on July 23, 2010.

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

- a) This Scheme shall be called the “ITC Employee Stock Option Scheme – 2010” (Scheme-2010).
- b) It shall come into effect on 26th August, 2011 and continue to be in force until (i) the date on which the Options available for issuance under the Scheme-2010 have been issued and exercised / lapsed or (ii) its earlier 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 Board Compensation Committee.
- 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 Wholtime 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 / Wholtime Director of a subsidiary, as may be decided by the Compensation Committee / Board.
- f) "Exercise" means the submission of the Exercise Application alongwith payment of the relevant Exercise Price, by the Optionee to purchase / subscribe to the Shares underlying the 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 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-2010.
- 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) who has been nominated for the purpose of the Company's Employee Stock Option Schemes. Nomination can be made only in favour of the spouse, children, grandchildren, parent(s), or, in the absence of any of the aforesaid living, the sibling(s) of the Optionee. Nomination made in favour of any other person shall be invalid.
- m) "Option" means the right, but not an obligation, to purchase / subscribe to Shares under Grant(s) accepted by an Eligible Employee. Each Option represents the right to purchase / subscribe to ten Shares.
- n) "Optionee" means the holder of an Option granted under the Scheme-2010.

- 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-2010" means the ITC Employee Stock Option Scheme - 2010.
- 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 the Companies Act, 1956, or any amendment thereto or re-enactment thereof.
- s) "Vesting" means the 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 referring to 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 the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009 or any amendment thereto or re-enactment thereof, as the case may be.

#### 4. SCOPE AND ELIGIBILITY

The Scheme-2010 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. LIMITS FOR GRANT OF OPTIONS

- a) The number of Options which may be granted under the Scheme-2010 shall not result in issue of Shares exceeding 5% of the issued and subscribed Share Capital of the Company, as enhanced consequent upon issue of Bonus Shares on 6th August, 2010, i.e. 38,26,70,153<sup>1</sup> Shares of the Company of ₹ 1/- each (to be appropriately adjusted for any subsequent bonus, consolidation or other re-organisation of the capital structure of the Company).

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<sup>1</sup>Effective 7th July, 2016 stands at '55,60,50,103' consequent upon issue of Bonus Shares in the ratio of 1 : 2.

- b) No single employee shall be granted in any financial year Options which will result in issue of Shares exceeding 0.1% of the issued and subscribed Share Capital of the Company, as enhanced consequent upon issue of Bonus Shares on 6th August, 2010, i.e. 76,53,403 Shares of the Company of ₹ 1/- each (to be appropriately adjusted for any subsequent bonus, consolidation or other reorganisation of the capital structure of the Company).
- c) 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.
- d) Options lapsing for any reason whatsoever shall become available for subsequent Grant(s) under the Scheme-2010.

#### 6. ADMINISTRATION OF THE SCHEME-2010

The Compensation Committee shall administer the Scheme-2010 for which purpose the Committee may, inter alia, determine / decide:

- (i) the time when the Options are to be granted
- (ii) the criteria for determining grant of Options to Eligible Employees, except Non-Executive Directors

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<sup>1</sup> Effective 7th July, 2016 stands at '55,60,50,103' consequent upon issue of Bonus Shares in the ratio of 1 : 2.

- (iii) the number of Options to be granted to various grades of Eligible Employees and to each Eligible Employee, except Non-Executive Directors
- (iv) the tranches in which Options are to be granted and the number of Options to be granted in each tranche
- (v) the Exercise Price of the Options granted
- (vi) the treatment of Options in instances of cessation of employment for reasons of misconduct (in terms of the Company's policies) on the part of an Optionee
- (vii) 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
- (viii) 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
- (ix) procedures for Granting, Vesting and Exercise of Options
- (x) treatment of Options in instances not specifically provided for in the Scheme-2010



The decision of the Compensation Committee with respect to administration of the Scheme-2010 shall be final and binding on all Eligible Employees.

## **7. OPTIONS**

### **7.1 Grant of Options:**

Grant of Options to the Eligible Employees shall normally be made annually, for the previous financial year. The number of Options to be granted for each year to the Eligible Employees will be decided by the Compensation Committee except the Options to be granted to the Non-Executive Directors, which will be decided by the Board.

The Exercise Price will be determined by the Compensation Committee and shall not be lower than the closing price of the Share on the National Stock Exchange of India Limited (the 'NSE') on the date of Grant, or the average price of the 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.

### **7.2 Acceptance of Options:**

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

### **7.3 Vesting Schedule:**

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

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

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

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

### **7.4 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 Vesting, and (iii) only during the Exercise Period (except in case of resignation etc. as covered in sub-clauses (c) and (d) below). Options shall lapse if not exercised within the Exercise Period.

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 (d) 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 shall apply for Exercise of Options by submitting 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 under a particular Grant are less than 100, the application must be for the entire remaining number of Options.
- c) **Resignation:** In the event of cessation of employment of an Optionee arising out of resignation from the Company or its subsidiary -
- All Unvested Options of such Optionee shall lapse on the date of separation from the Company or its subsidiary, and
  - The Vested Options can be exercised by such Optionee within 7 days from the date of separation from the Company or its subsidiary, failing which such Options shall lapse.
- d) **Termination:** In the event of cessation of employment of an Optionee arising out of termination of employment by the Company or its subsidiary, other than for misconduct -

- All Unvested Options of such Optionee shall lapse on the date of separation from the Company or its subsidiary, and
  - The Vested Options can be exercised by such Optionee within 7 days from the date of separation from the Company or its subsidiary, failing which such Options shall lapse.
- e) **Death:** In the event of death of an Optionee while in employment, all Options held by such Optionee shall vest forthwith in the Nominee(s), and in the absence of any nomination, in the legal heir(s).

Provided that in the event of death of an Optionee after retirement from the services of the Company or its subsidiary, all Unvested Options held by such Optionee shall vest after a period of one year from the date of respective Grant(s).

Vested Options can be exercised by the Nominee(s) or legal heir(s) (within the relevant Exercise Period) in the same manner as the Optionee could have exercised had he been alive, subject to production of documentary evidence to the satisfaction of the Company with respect to identity of Nominee(s) or legal heir(s) and upon compliance with such other formalities as may be required by the Company.

- f) **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.

- 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 or its subsidiary, 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.
- h) **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.
- i) **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.

- j) Subject to the provisions of Clause 5(c) of the Scheme-2010, in the event a Non-Executive Director ceases to hold office, such Non-Executive Director 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.

In the event of death of a Non-Executive Director, Clause 7.4(e) of the Scheme-2010 shall apply with respect to the Options held.

- k) **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.

#### **7.5 Bonus Issue:**

In the event of issue of Shares by the Company by way of Bonus Shares, an Optionee will 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 in relation to a Grant is ₹ 200 per Option and the bonus is in the ratio of 1 Bonus Share for every 2 Shares, the bonus factor will be 3/2 i.e. 1.5. Therefore the adjusted Exercise Price of the outstanding Options of that Grant including the Bonus Options thereon will 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.

#### **7.6 Rights Issue:**

In the event of a Rights issue of Shares by the Company, the Compensation Committee will decide on a fair and reasonable adjustment of the Exercise Price and the number of Options in relation to the outstanding Options.

#### **8. RESTRICTIONS ON OPTIONS GRANTED**

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

#### **9. SHARES**

Nothing contained in the Scheme-2010 is intended to or shall give an Optionee any rights of a shareholder of the Company in respect of the Shares underlying the Options. An Optionee shall acquire the rights of a shareholder only upon allotment of Shares in respect of Options exercised.

**9.1 Allotment of Shares:**

Allotment of Shares pursuant to exercise of Options shall be made by the Company only upon (i) the procedure prescribed for this purpose being followed by the Optionee, (ii) realisation of the Exercise Price and (iii) realisation of the amount payable towards applicable tax as may be determined by the Company.

**9.2 Ranking of Shares:**

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

**9.3 Restriction on Sale of Shares:**

Shares allotted upon exercise of Options under the Scheme-2010 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.

**9.4 Listing of Shares:**

The Shares allotted on Exercise of Options shall be listed on all the stock exchanges where the Shares are then listed and will be subject to the terms and conditions of the listing agreements with the stock exchanges.

**10. LEGAL COMPLIANCES**

This Scheme shall be subject to laws, rules and regulations and such regulatory approvals as may be



applicable. The Optionee is required to comply with all laws, rules and regulations in respect of Grant of Options, Exercise of Options and subsequent Allotment of Shares under the Scheme-2010 as may be applicable. Grant of Options, Exercise of Options and subsequent Allotment of Shares under the Scheme-2010 entitles the Company to require Optionees to comply with such regulatory requirements as may be necessary.

#### **11. 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) or legal heir(s) of the Optionee, as the case may be.

#### **12. TAX LIABILITY & OTHER COSTS OR CHARGES**

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-2010 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-2010.

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).

### **13. CHANGES IN THE SCHEME-2010, 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-2010 for any reason whatsoever, within the Guidelines.

### **14. CONFIDENTIALITY**

- a) Optionees shall not divulge the details of the Scheme-2010 or their holding to any person except with the permission of the Company.
- 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.

### **15. 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-2010.

- b) Participation in this Scheme shall not afford an Optionee any right 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.

#### **16. INTERPRETATION**

The Compensation Committee / Board, as the case may be, shall alone have the power to consider and decide on any dispute, discrepancy or disagreement arising under, or as a result of, or pursuant to, or in connection with this Scheme and whose decision shall be final and binding.

#### **17. 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.