

**AUROBINDO PHARMA LIMITED**

**EMPLOYEES STOCK OPTION PLAN 2006**

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## **1. Name of the Plan**

This Plan shall be termed the Employees Stock Option Plan 2006 (the “Plan”). The Plan of Aurobindo Pharma Ltd (the “Company”) has been approved by the special resolution passed by the shareholders on 18<sup>th</sup> September 2006 in the 19<sup>th</sup> Annual General Meeting of the Company. The Plan will be effective from the date of implementation of the scheme by the Compensation Committee.

## **2. Purpose of the Plan**

“The Company” being a company limited by shares, incorporated and registered under the Companies Act, 1956 and having its registered office at-Plot # 2, Maitri Vihar, Ameerpet, Hyderabad – 500 038, Andhra Pradesh, India, has structured this plan for its Employees.

The purpose of the Plan is to attract, reward, motivate and retain its Employees, who have shown high levels of individual performance and for the unusual efforts put in by them to improve the financial performance of the Company, which ultimately contributes to the success of the Company. The Plan is meant to provide an incentive to the Employees to remain with the Company and to reward them with the opportunity to have a share in the success of the Company. The Plan is also meant to attract qualified and skilled persons to join and pursue a career with the Company as Employees. This purpose is sought to be achieved through the grant of Options to the Employees to subscribe for Shares of the Company.

## **3. Definitions**

Except where the context otherwise requires, the following expressions or terms shall have the meanings indicated there against. Further, unless the context otherwise requires, words denoting the masculine gender shall include the feminine gender and words denoting the singular shall include the plural and vice versa. Words and expressions not defined shall have the meaning as per SEBI Guidelines as applicable from time to time.

3.1. “Applicable Laws” shall mean laws of India to the extent applicable and as amended and modified from time to time. Accordingly, any actions taken hereunder shall be governed by, and construed in accordance with, the laws of India, without regard to the application of the conflicts of laws provisions thereof.

3.2. “Acceptance Form” shall mean the form, which the Grantee has to submit indicating his acceptance of the offer made to him to participate in the Plan.

3.3. “Beneficiary” means the person, persons, trust or trusts designated/nominated by a Participant, or in the absence of any designation/nomination by the Participant, a person or persons who is/ are entitled by the will of the Participant to receive the benefits specified in the Plan, the legal heirs of the Participant, if the Participant dies intestate and includes the Participant's executors or administrator, if no other beneficiary is designated and able to act under the circumstances and such other persons as may be added from time to time to the class of beneficiaries by notice in writing and by nomination form in the exercise of any powers conferred under the Plan or any other agreements forming part thereof.

3.4. “Board” means the Board of Directors of the Company.

- 3.5. "CG Guidelines" means Employee Stock Option Plan or Scheme Guidelines issued by the Central Government vide notification no. S.O. 1021(E) dated 11 October 2001 under the Income-tax Act, 1961 and shall include any alterations, amendments, additions, deletions, modifications, or variations thereof from time to time.
- 3.6. "Committee" means the Compensation Committee of the Board consisting of majority of Independent Directors that has been constituted by the Board for administration and superintendence of this Plan pursuant to Clause 4.1 below.
- 3.7. "Company" shall have the meaning ascribed to such term in Clause 1 hereinabove.
- 3.8. "Closing Date" means the last date on which the offer of Options by the Company to a Participant can be accepted. In case the last date is a non-working day, then it shall be the next working day.
- 3.9. "Corporate Action" shall have the meaning ascribed to such term in Clause 5 (n) hereunder.
- 3.10. "Eligible Employee" have the meaning ascribed to such term in Clause 4.1 here in below.
- 3.11. "Employee" means a permanent employee who is on the payroll of the Company or the Subsidiaries, whether located in or outside-India. It also includes directors located in or outside India, whether whole time or not, including the director (s) and permanent employees of the Subsidiaries.
- 3.12. "ESOP" means the Shares proposed to be allotted pursuant to the Scheme subject to the provisions herein contained.
- 3.13. "Exercise" means making of an application by the Participant to the Company, for issue of Shares against the Vested Options with the Participant in pursuance to this Plan, on payment of the Exercise Price.
- 3.14. "Exercise Period" means a period of six years from the Grant Date within which the Vested Options can be Exercised.
- 3.15. "Exercise Price" means the purchase price of each Share payable by the Participant for exercising the Option granted to him in pursuance of the Plan, in accordance with Clause 10 below and shall be communicated in the Grant Letter.
- 3.16. "FEMA Regulation" means Foreign Exchange Management (Transfer or issue of Securities by a person resident outside India) Regulations, 2000 issued by Reserve Bank of India vide notification no FEMA 20/ 2000- RB dated May 3, 2000 as may be applicable and amended from time to time.
- 3.17. "General Meeting" means a general meeting of the Shareholders of the Company held in accordance with the Articles of Association of the Company and the Applicable Laws.
- 3.18. "Grant" means the process by which a Grantee is given an Option.
- 3.19. "Grant Date" means the date on which the Options are granted to a Grantee by the Company under the Plan.

- 3.20. "Grant Letter" means the letter by which grant of an Option is communicated to the Grantee.
- 3.21. "Grantee" shall mean an Employee at the time of grant of the Option and who in the opinion of the Committee is declared to be eligible to participate under the Plan and shall also includes Directors, whether full time or not.
- 3.22. "Group" means the Company and the Subsidiaries.
- 3.23. "Independent Director" means a director of the Company, not being a whole time director and who is neither a Promoter nor belongs to the Promoter Group.
- 3.24. "Option" means a right, but not an obligation to acquire and be allotted a Share of the Company at the Exercise Price determined in accordance with Clause 10 below.
- 3.25. "Participant" means a Grantee who accepts an offer from the Company to participate in the Plan pursuant to Clause 8 below.
- 3.26. "Plan" shall have the meaning ascribed to such term in Clause 1 hereinabove and shall include any alterations, amendments, additions, deletions, modifications or variations thereof from time to time.
- 3.27. "Promoter" means:
- a) The person or persons who are in overall control of the Company; or
  - b) The person or persons who are instrumental in the formation of the Company or programme pursuant to which the Shares were offered to the public; or
  - c) The person or persons named in the offer document pertaining to the issue of Shares to the public by the Company as promoter(s).
- Provided that the director or officer of the Company if he is acting as such only in his professional capacity will not be deemed to be a Promoter.
- 3.28. "Promoter Group" means:
- a) An immediate Relative of the Promoter (i.e., spouse of that person or any parent, brother, sister or child of the person or of the spouse); or
  - b) Persons whose shareholding is aggregated for the purpose of disclosing in the offer document pertaining to the issue of Shares to the public by the Company under the head "Shareholding of the Promoter Group".
- 3.29. "Relative" means an immediate relative namely spouse, parent, brother, sister or child of the person or the spouse.
- 3.30. "SEBI Guidelines" means the Securities Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 issued by the Securities Exchange Board of India under the Securities Exchange Board of India Act, 1992 and shall include any alterations, amendments, additions, deletions, modifications or variations thereof from time to time.
- 3.31. "Share" means equity shares of the company.
- 3.32. "Shareholder" means the registered holder of any Share in the share capital of the Company.

- 3.33. "Subsidiary Company" Means a company as defined under section 4 of the Companies Act, 1956.
- 3.34. "Termination Date" means the date of termination of employment of the Participant with the Company or Group.
- 3.35. "Unvested Option" means an Option, which is not a Vested Option.
- 3.36. "Vesting" means the process by which the Participant is given the right to apply for Share of the Company against the Option granted to him in pursuance of the Plan.
- 3.37. "Vesting Period" means the period during which the vesting of the Option granted to the Participant in pursuance of the Plan takes place.
- 3.38. "Vested Option" means an Option, which has vested with the Participant and has thereby, become exercisable.
- 3.39. Construction
- a) The headings/ subheadings/ titles/ subtitles are only for the sake of convenience and shall not be interpreted to restrict or otherwise affect the meaning or import of the Clauses herein contained, which shall be interpreted solely in light of the contents thereof.
  - b) Where a word or phrase is defined, other parts of speech and grammatical forms of that word or phrase shall have the corresponding meanings.
  - c) Any reference to 'writing' includes printing, typing, lithography and other means of reproducing words in visible form.
  - d) The term 'including' shall mean 'including without limitation', unless otherwise specified.

#### **4. Eligibility**

- 4.1. Subject to clause 4.2 below, the Employees, who are identified by the committee, shall be entitled to participate in the Plan and shall also includes directors (whether full time or not) (the "Eligible Employees"). The Committee will decide which Eligible Employees should be granted Options under the Plan and accordingly, the Company would offer the Options to these identified Eligible Employees.
- 4.2. An Employee who is a Promoter or belongs to the Promoter Group or a director, who either by himself or through his Relative or through any body corporate, directly or indirectly, holds more than 10 percent of the outstanding equity shares of the Company, shall not be eligible to participate in the Plan.

#### **5. Administration of the Plan**

The Plan shall be administered by the Committee, which may delegate its duties and powers in whole or in part as it determines. The Committee is, subject to compliance with the SEBI Guidelines, authorised to interpret the Plan, to establish, amend and rescind any rules and regulations relating to the Plan and to make any other determinations that it deems necessary or desirable for the administration and implementation of the Plan. The Committee, in consultation with the Company, may rectify any defect, omission or reconcile any inconsistency in the Plan in the manner and to the extent the Committee deems necessary or desirable. Any decision of the Committee in the interpretation and administration of the Plan, as described herein, shall lie

within its sole and absolute discretion and shall be final, conclusive and binding on all parties concerned (including, but not limited to, Grantee and/or Participants and their beneficiaries or successors). The Committee, inter alia, shall do the following:

- a) Adopt rules and regulations for implementing the Plan from time to time.
- b) Identify the Employees eligible to participate under the Plan.
- c) Grant Options to the identified Eligible Employees and determine the date of Grant.
- d) Determine the number of Options to be granted to each Grantee.
- e) Determine the number of Shares of the Company to be covered by each Option granted under the Plan.
- f) Determine the method for exercising the Vested Options.
- g) Determine the Exercise Price of the Options granted.
- h) Determine the terms and conditions, not inconsistent with the terms of the Plan, of any Option granted hereunder.
- i) Approve forms or agreements for use under the Plan.
- j) Decide all other matters that must be determined in connection with an Option under the Plan.
- k) Construe and interpret the terms of the Plan and the Options granted pursuant to the Plan.
- l) Do all that may be necessary to ensure compliance of the Plan and administration thereof with the SEBI Guidelines.
- m) Frame suitable policy, procedure and system to comply with the Securities and Exchange Board of India (Insider Trading) Regulations, 1992 and Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities market) Regulations, 1995 to be followed by the Participants.
- n) The procedure for making a fair and reasonable adjustment to the number of Options and to the Exercise Price in case of corporate actions including rights issues, bonus issues, consolidation, sub-division of shares, merger, sale of division and others related actions ("Corporate Action"). In this regard following shall be taken into consideration by the Committee:
  - I. The number and the price of ESOS shall be adjusted in a manner such that total value of the ESOS remains the same after the Corporate Action.
  - II. For this purpose global best practices in this area including the procedures followed by the derivative markets in India and abroad shall be considered
  - III. The Vesting Period and the life of the Options shall be left unaltered as far as possible to protect the rights of the Option-holders.

All decisions made by the Committee in the matter referred to above shall be conclusive and binding on all parties concerned (including, but not limited to, Grantee and/ or Participants and their beneficiaries or successors). Neither the Company nor Committee shall be liable for any action or determination made in good faith with respect to the Plan or any Option granted there under.

## **6. Shares Pool**

The maximum number of Shares that may be issued pursuant to Exercise of Options granted to the Participants under this Plan shall not exceed 3,995,250 equity shares of Re.1/- each (7,99,050 equity shares i.e 1.5% of the issued capital as on 31<sup>st</sup> March 2006 i.e., 53,270,000 Equity Shares of the Face Value of Rs.5/- each of in the share capital of the Company). The number of shares under the pool is however subject to Corporate Action. The Company reserves the right to increase or reduce such number of Shares as it deems fit.

## **7. Grant of Options**

- 7.1. The Committee may offer the Options to a Grantee in accordance with the terms and conditions of the Plan for the time being in force. Letters of grant will be accompanied by a Disclosure Statement containing interalia, statement of risks, information about the Company and salient features of the Scheme.
- 7.2. Each Option will entitle the Participant to one Share of the Company.
- 7.3. The maximum number of the shares that may be issued pursuant to the grant of the Options to each Participant under this Plan shall be determined by the Compensation Committee. Further, the face value of the shares to be allotted to the non- resident Employees/Director should not exceed the limit provided in FEMA Regulations. The maximum number of options to be granted per employee/director during any one year and in aggregate shall not exceed 1% of the issued and outstanding equity share capital of the company as on 31<sup>st</sup> March 2006. However, this again subject to corporate action that may require adjustments as decided by Compensation Committee.
- 7.4. The Grant of the Options by the Committee to the Grantee shall be made in writing and communicated to the Grantee. Such a Grant shall state the number of Options offered the Exercise Price and the Closing Date of accepting the offer.
- 7.5. The Closing date shall not be more than 60 days from the Grant Date.
- 7.6. An offer made under clause 7.1 above is personal to the Grantee and cannot be transferred, pledged, hypothecated, mortgaged or otherwise alienated in any manner whatsoever.

## **8. Method of acceptance**

- 8.1. Any Grantee who wishes to accept an offer made pursuant to Clause 8 above must deliver an Acceptance Form, prescribed by the Committee from time to time, duly completed as required therein, to the Committee on or before the Closing date stated in the Grant Letter.
- 8.2. Any Grantee who fails to return the Acceptance Form on or before the Closing date shall, unless the Committee determines otherwise, be deemed to have rejected the offer and any acceptance received after the Closing Date shall not be valid.
- 8.3. Upon receipt of a duly completed Acceptance Form from the Grantee in respect of the Grant, the Grantee will become the Participant. The Committee may then issue to the Participant, a statement, in such form, as it deems appropriate, showing the number of Options to which the Participant is entitled pursuant to the acceptance of such offer and the number of Shares for which the Participant will be entitled to subscribe pursuant to such Options.

## **9. Vesting of Options**

- 9.1. Subject to the terms contained herein, the acceptance in accordance with Clause 8 above, of a Grant made to a Grantee, shall conclude a contract between the Grantee and the Company, pursuant to which each Option shall, on such acceptance, be an Unvested Option.
- 9.2. Subject to Participant's continued employment with the Company or Group and clause 12, the Unvested Options under this Plan shall vest after the completion of 1<sup>st</sup> year from the date of grant and extends up to 5 years from the date of first vesting and the same shall vest with the Participant automatically in accordance with the following schedule:
  - a) On completion of the first year from the Grant Date, 10% of the total Options granted shall vest and become Vested Options;
  - b) On completion of the second year from the Grant Date, another 15% of the total Options granted shall vest and become Vested Options;
  - c) On completion of the third year from the Grant Date, another 25% of the total Options granted shall vest and become Vested Options;
  - d) On completion of the fourth year from the Grant Date, the balance 50% of the total Options granted shall vest and become Vested Options



## **10. Exercise Price**

The Exercise Price of the Option shall be the market value of the shares as on the Grant Date as understood under the SEBI Guidelines, subject to the adjustments that may be required on account of corporate action. The Exercise Price shall be paid to the Company in cash upon Exercise of the Options.

## **11. Exercise of Options**

- 11.1. The Vested Options shall be exercisable according to the terms and conditions as determined and set forth under the Plan.
- 11.2. Subject to clause 12.1, the Participant alone can Exercise the Vested Option.
- 11.3. Subject to Clause 9 above and clause 12 below, the participant can Exercise the Vested Options within the Exercise Period. Such Exercise may be of all Vested Options or part of the Vested Options, subject to clause 11.4 below.
- 11.4. No fraction of the Vested Option shall be exercisable in its fractional form.
- 11.5. Exercise of the Options shall take place at the time and place designated by the Committee or Company and by executing such documents as may be required under Applicable Laws to pass a valid title to the relevant Shares to the Participant, free and clear of any liens, encumbrances and transfer restrictions save for those set out therein.
- 11.6. An Option shall be deemed to be Exercised only when the Committee receives a written notice of Exercise and the Exercise Price (in accordance with the Plan) from the person entitled to Exercise the Option.
- 11.7. On Exercise, the Participant can subscribe to the Shares on the full payment of the Exercise Price and taxes, if any required to be deducted by the Company in respect of Exercise of the Options, and the Company shall allot the Shares to the Participants, or, if requested in writing by the Participant, to the Participant jointly with another person.
- 11.8. Notwithstanding anything else contained in this Plan, if the Participant does not Exercise his Vested Options within the time specified in clause 11.3 above and clause 12 below, the Options shall lapse.
- 11.9. There shall be no cashless Exercise of the Options.

## **12. Termination of Employment**

### **12.1. On death of a Participant**

In the event of death of a Participant while in employment, all the Options granted to him till such date shall vest in the Beneficiary of the deceased Participant. All the Vested Options shall be permitted to be exercised within 2 (two) years from the date of death. However, under no circumstances, Options can be exercised by the Beneficiary beyond the Exercise Period.

### **12.2. On Disability of Participant**

In the event of the termination of a Participant's employment with the Company or Group as a result of total or permanent incapacity (i.e. incapacity to engage in work as a result of sickness, mental disability or otherwise or by reason of accident), all the Options granted to him as on the date of permanent incapacitation, shall vest in him on that day. All the vested Options shall be permitted to be exercised within 2 (two) years from the Termination Date. However, under no circumstances can an Option can be exercised beyond the Exercise Period.

### 12.3. On Attainment of Superannuation age

In case the service of the Participant with the Company or Group is terminated due to retirement on superannuation, all the Unvested Options shall continue to vest as per schedule given in clause 9.2 above. All the Vested Options shall be permitted to be Exercised within 2 (two) years from the Termination Date on retirement or 90 (Ninety) days from the date of Vesting, whichever is later. However, under no circumstances the Vested Options can be exercised beyond the Exercise Period.

### 12.4. Termination with Cause

In case the termination of employment of a Participant with the Company or Group is with cause (i.e. negligence, fraud, professional misconduct, moral turpitude etc), his Options shall lapse on the Termination Date and the contract referred to in clause 9.1 above shall stand automatically terminated.

### 12.5. Other Termination

In case the service of the Participant with the Group is terminated due to resignation of the Participant from the Company or Group, all the Vested Options as on that date shall be permitted to be Exercised within 90 (Ninety) days from the Termination Date or before the expiry of the Exercise Period, whichever is earlier. All Unvested Options on the Termination Date shall lapse.

### 12.6. Long Leave

Long leave of the Participant shall not have any effect on the Plan as applicable to the Participant.

## 13. Notices and correspondence

- 13.1. Any notice required to be given by a Participant to the Company or the Committee or any correspondence to be made between a Participant and the Company or the Committee may be given or made to the Company at the registered office of the Company as may be notified by the Committee in writing.
- 13.2. Any notice, required to be given by the Company or the Committee to a Participant or any correspondence to be made between the Company or the Committee and a Participant shall be given or made by the Company or the Committee on behalf of the Company at the address provided by the Participant in his Acceptance Form.

## 14. Beneficiary Designation

Each Participant under the Plan may nominate, from time to time, any Beneficiary or Beneficiaries to whom any benefit under the Plan is to be delivered in case of his death before he receives all of such benefit. Each such nomination revoking all prior nominations by the same Participant, shall be in a form prescribed by the Company and will be effective only when filed by the Participant in writing with the Company during the Participant's lifetime.

## 15. Non-transferability of Options

Save as provided in Clause 12.1 above, the Options granted herein, are personal to the Participant. The Options cannot be assigned, alienated, pledged, attached, hypothecated, sold, or otherwise transferred or encumbered by the Participant otherwise than by will or by the laws of

descent, to the extent permitted under the Applicable Laws and any purported assignment, alienation, pledge, attachment, sale, transfer, or encumbrance not permitted herein shall be void and unenforceable against the Company.

## **16. Corporate Action**

In the event of a Corporate Action, the Committee in consultation with the Company, subject to the provisions of the Plan and the SEBI Guidelines, shall determine the number of Shares which can be acquired on Exercise of an Option (vested as well as unvested) or the Exercise Price in respect of such Shares, or both the number and the Exercise Price, subject to the applicable rules and regulations. Such number and/or Exercise Price would be determined by the Committee as is appropriate in accordance with the SEBI Guidelines

## **17. Withholding Tax**

All Options granted under the Plan shall be subject to all applicable withholding tax requirements, if any, and the Company or Committee may withhold such taxes accordingly.

Notwithstanding anything else contained in this Plan, no Shares/sale proceeds there from, as the case may be, shall be disbursed to the Participant or his Beneficiary, on Exercise of the Options under this Plan unless appropriate taxes as required under the applicable tax laws, are discharged.

## **18. Arbitration**

In the event of a dispute arising out of or in relation to the contract concluded under Clause 9.1 above (including a dispute relating to the construction or performance thereof), the Parties shall attempt in the first instance to resolve such dispute through an amicable settlement. If the Parties fail to resolve the dispute by reaching a mutual understanding, then either Party may refer the dispute to a single arbitrator acceptable to both and failing agreement, to three arbitrators, one to be appointed by either Party and the third arbitrator to be jointly appointed by the two arbitrators appointed by the Parties. The arbitration proceedings shall be held in Hyderabad, India under and in accordance with the Arbitration and Conciliation Act, 1996 or any statutory modification or re-enactment thereof for the time being in force.

## **19. Governing Law**

- 19.1. This Plan and all agreements there under shall be governed by and construed in accordance with the laws of India.
- 19.2. This Plan and all agreements there under shall be subject to the jurisdiction of the courts at Hyderabad, Andhra Pradesh, India.
- 19.3. The Participant agrees and acknowledges that the Participant has received and read a copy of the Plan. The Options are subject to the Plan. Any term of the Plan that is contrary to the requirement of the CG Guidelines or SEBI Guidelines or any other Applicable Laws or other Indian regulations shall not apply to the extent it is contrary.

## **20. Regulatory approvals**

The implementation of the Plan, the granting of any Option under the Plan and the issuance of any Shares under this Plan shall be subject to the procurement by the Company and the Participants of all approvals and permits required by any regulatory authorities having jurisdiction over the Plan, the Options and the Shares issued pursuant thereto. The Participants under this Plan will, if requested by the Committee, provide such assurances and representations to the Company, as the Committee may deem necessary or desirable to ensure compliance with all applicable legal and accounting requirements.

## **21. Modification of Plan**

The Committee may pursuant to a special resolution passed at a General Meeting at any time and from time to time:

- 21.1 Revoke, add to, alter, amend or vary all or any of the terms and conditions of the Plan or all or any of the rights and obligations of the Participants;
- 21.2 Formulate various sets of special terms and conditions in addition to those set out herein, to apply to the Participants. Each of such sets of special terms and conditions shall be restricted in its application to those Participants;
- 21.3 Formulate separate sets of special terms and conditions in addition to those set out herein, to apply to each class or category of Participants separately and each of such sets of special terms and conditions shall be restricted in its applications to such Participants; and
- 21.4 Alter the Exercise Price, if the Option becomes unattractive due to fall in market price of the share.  
Provided that no variation, alteration, addition or amendment to the Plan can be made if it is detrimental to the interest of the Participant/ Grantee.

## **22. Miscellaneous provisions**

### **22.1. No rights of a Shareholder**

The Participant shall have no rights as a Shareholder until the name of the Participant has been entered in the register of members of the Company as the holder of the Shares provided hereunder to such Participant.

### **22.2. Set-off**

The Company's obligation to convey to the Participant the Shares shall be subject to set-off or counterclaim of amounts owed by the Participant to the Company or Group, to the extent permitted under Applicable Laws.

## **23. Term of the Plan**

- 23.1. The Plan shall continue in effect unless terminated by the Company.
- 23.2. Any such termination of the Plan shall not affect Options already granted and such Options shall remain in full force and effect as if the Plan had not been terminated unless mutually agreed otherwise between the Participants and the Committee/the Company.

## **24. Confidentiality**

The participant shall not divulge the details of the Plan and/or his holdings to any person except with the prior written permission of the committee unless so required to do under any statutes or regulations applicable to such participant.