

MAHINDRA & MAHINDRA FINANCIAL SERVICES LIMITED

EMPLOYEES STOCK OPTION SCHEME – 2010

The Mahindra & Mahindra Financial Services Limited Employees' Stock Option Scheme – 2010 (ESOS-2010) has been formulated by the Remuneration/ Compensation Committee of Directors of Mahindra & Mahindra Financial Services Limited and approved by it in its meeting held on October 22, 2010 pursuant to the authority vested in it by the Shareholders of the Company by means of Postal Ballot on 18th September, 2010 and in accordance with the Securities and Exchange Board of India (Employees Stock Option Scheme and Employees Stock Purchase Scheme) Guidelines, 1999.

1. Purpose

The Company already has a remuneration policy, which is linked to performance of the employee, the seniority of the employee, the commitment in executing his/her duty, etc. The objective of the ESOS-2010 is not merely to have another kind of remuneration. The objective is also to use the scheme as a business strategy to enhance the Company's profitability by providing equity linked incentive to employees, so that the employees keep exploring possibilities of increasing the revenue, saving costs and enhancing the profits of the Company. With this objective in mind the ESOS-2010 will provide the employees with an additional incentive in the form of Options to receive the equity shares of the Company at a future date and motivate them to remain with the Company.

The Company proposes to issue and allot the shares in respect of the ESOS-2010 to an employee benefit trust (the “Trust”) that will hold these shares for the benefit of the employees. Further, in accordance with the directions and the recommendations of the Remuneration/ Compensation Committee of the Company, the Trust shall grant Options to the employees in respect of the equity shares allotted to it. On the exercise of the Options by the employees, the Trust shall distribute to the employees the equity shares in the Company as described below.

2. Definitions

The following terms as used herein shall have the meaning specified:

- (a) **Company** means Mahindra & Mahindra Financial Services Limited, a Company incorporated under the provisions of the

Companies Act, 1956 and having its registered office at Gateway Building, Apollo Bunder, Mumbai 400 001.

- (b) **Employee(s)** means:
- (i) all present and future permanent employees of the Company or of its holding company or its subsidiary companies;
 - (ii) all present and future directors of the Company, or of its holding company or its subsidiary companies, unless they are prohibited from participating in the ESOS-2010 under any law or regulations for the time being in force.
- (c) **Eligible Employee(s) or Beneficiary(ies)** means all Employees to whom an Option is Granted under the ESOS-2010, or those Employees who satisfy the eligibility criteria for Grant of Options.
- (d) **Equity Share** means an equity share of the face value of Rs.10 (Rupees Ten only) each in the Company or where the equity share of the Company has been split up into a par value of less than Rs. 10 (Rupees Ten only), then the equivalent number of equity shares for the revised par value per equity share.
- (e) **Exercise** means the act whereby the Eligible Employee actually applies to the Trust to purchase the Equity Shares underlying the Option vested in him/her under the ESOS-2010, in accordance with the procedure laid down by the Company.
- (f) **Exercise Date** means the date on which a Beneficiary exercises his/her Option to acquire the Equity Shares of the Company.
- (g) **Exercise Price** means the price at which the Eligible Employee is entitled to acquire the Equity Shares pursuant to the Options granted and vested in him/her under the ESOS-2010. The Exercise Price per Equity Share shall be decided by the Trust in accordance with the recommendations of the Remuneration/ Compensation Committee at the time of Grant of Options, provided that Exercise Price shall be equal to or not less than the face value of the shares. In determining the Exercise Price as aforesaid, the Remuneration/ Compensation

Committee shall take into consideration relevant factors prevalent at the time of grant which, among other things, would include the trend in the market price of the Company's shares quoted on the Stock Exchange, the concerned Employee's performance, the future potential contribution of the Employee, the regulations and guidelines prescribed by the Securities and Exchange Board of India or any other regulatory authority from time to time.

- (h) **Exercise Period** means the period specified by the Remuneration/ Compensation Committee while recommending grant of options, not being later than five (5) years from the date of vesting, within which an Eligible Employee is entitled to exercise the Option vested in him/her to acquire the Equity Shares of the Company in accordance with the terms of this ESOS-2010.
- (i) **Exercise Application** means the application form as may be prescribed, in which the Eligible Employee has to apply to the Trust for exercising the Options granted and vested to/in him/her.
- (j) **Grant** means the process whereby the Remuneration/ Compensation Committee determines the entitlement of the specified Eligible Employees to a specific number of Options in accordance with this ESOS-2010, approves the same and makes a recommendation to the Trust to issue Eligible Employees a Letter of Grant.
- (k) **Letter of Grant** means the letter issued by the Trust intimating the Eligible Employee of the Options granted to him/her for acquiring a specified number of Equity Shares from the Trust at the Exercise Price.
- (l) **Market Price** means the latest available closing price, prior to the date of the meeting of the Remuneration/ Compensation Committee in which grant of options are considered/shares are issued, on the stock exchange on which the shares of the Company are listed. If the shares are listed on more than one stock exchange, then the stock exchange where there is highest trading volume on the said date shall be considered.
- (m) **Option(s)** means a right but not an obligation granted under this ESOS-2010 to the Eligible Employees to purchase from the Trust a specified number of Equity Shares of the

Company, underlying the option(s), at a future date at the Exercise Price.

- (n) **Remuneration/Compensation Committee** means the Committee of Directors as constituted by the Board of Directors of the Company and entrusted with the authority to formulate and implement the ESOS-2010.
- (o) **Trust** means Mahindra & Mahindra Financial Services Limited Employees' Stock Option Trust.
- (p) **Trustees** means trustees appointed in accordance with the Deed of Trust executed by the Company for the purpose of establishing the Trust.
- (q) **Vesting** means the process by which the employee is given the right to apply for shares of the company against the option granted to him in pursuance of ESOS-2010.

3. Constitution of the Trust and the Remuneration/ Compensation Committee

- (1) The Company has set up a Trust which shall administer the ESOS-2010 in accordance with the terms of a Deed of Trust executed by the Company and the directions given by the Remuneration/ Compensation Committee from time to time under the ESOS-2010. The Trustees shall Grant Options based on the recommendations of the Remuneration/ Compensation Committee. On the exercise of the Options by the Eligible Employees, the Trust shall distribute the Equity Shares in respect of such Options to the Eligible Employees. The Trustees shall be advised by the Remuneration/ Compensation Committee in relation to the operation of the ESOS-2010, which advice shall be binding upon the Trust. No member of the Remuneration/ Compensation Committee or the Trust shall be liable for any action or determination made by him/her in good faith. No Trustee shall participate and / or vote with respect to any Option granted or to be granted to such Trustee under the ESOS-2010.
- (2) Subject to the terms of the resolution passed by the shareholders of the Company by means of Postal Ballot on 18th September, 2010, approving the issue of shares to the Employees under an Employees Stock Option Scheme and the regulations prescribed by the Securities and Exchange Board of India, the Remuneration/ Compensation Committee in its absolute discretion has been authorised to determine all the terms governing the ESOS-2010 including but not limited to:

- determining the Eligible Employees to whom the Options are to be granted;
- the time when the Options are to be granted;
- the number of tranches in which the Options are to be granted and the number of Options to be granted in each such tranche;
- the quantum of Options to be granted at various points in time;
- the criteria for determining the number of Options to be granted to the Eligible Employees;
- the number of Options to be granted to each Eligible Employee;
- the terms and conditions subject to which the Options granted would vest in the Eligible Employee;
- the date of vesting of the Options granted;
- the terms and conditions subject to which the Options vested would be exercisable by the Eligible Employee;
- the date by which the Options have to be exercised by the Eligible Employee;
- the number of Options to be apportioned/allocated for various grades of Eligible Employees;
- assignment of weightage to length of service, grade and performance rating; and
- the number of Options reserved, if any, for granting to new employees who would join the services of the Company.

The terms prescribed by the Remuneration/ Compensation Committee shall be final and binding on all the Employees and the Trust.

The Remuneration/ Compensation Committee shall also frame suitable policies and systems to ensure that there is no violation of:

- a) Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992; and

b) Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 2003

by any Employee.

With respect to any matters that are not specifically provided for, the Remuneration/ Compensation Committee shall have absolute discretion to decide such matters in the manner deemed fit by it and any such decision of the Remuneration/ Compensation Committee shall be binding on all Eligible Employees and the Trust.

4. Total number of Equity Shares in respect of which Options could be granted.

The issued and paid-up capital of the Company consists of 969,00,525 Equity shares of Rs.10 each as on June 30, 2010. Under ESOS-2010, 9,69,005 Options convertible into 9,69,005 Equity Shares of face value Rs.10 each are available for being granted to various Eligible Employees. 9,69,005 Equity Shares to be issued to the Trust for the purposes of the ESOS-2010 constitute 1% of the total issued and paid-up share capital of the Company as on June 30, 2010.

As on 30th June, 2010, 8,55,397 Equity Shares of Rs.10 each were held by the Trust under the Mahindra & Mahindra Financial Services Limited Employees' Stock Option Scheme formulated in October, 2005 ('2005 Scheme'). As on the same date, 8,04,281 options were in force which could be exercisable into 8,04,281 Equity Shares of Rs.10 each. Accordingly, the balance available with the Trust under the 2005 Scheme was only 51,116 Equity Shares of Rs.10 each which amounts to 0.05% of the equity share capital of the Company. These balance shares available with the Trust under the 2005 Scheme as on June 30, 2010 together with any other shares represented by options that may lapse for any reason thereafter, will also be available to the Trust for issuing/granting Options to the Employees under the ESOS-2010.

The Company reserves the right to issue further Equity Shares to the Trust at its discretion, for the purposes of the ESOS-2010 or any further scheme/plan as may be determined by the Company, subject to compliance with the applicable laws. The Trust shall hold the said Equity Shares upon trust for the benefit of the Eligible Employees. The Trust shall in turn issue Options to the Eligible Employees in accordance with the terms and conditions specified herein.

The Trust shall, on the basis of the recommendations of the Remuneration/ Compensation Committee, grant from time to time the Options to the Eligible Employees; provided that the maximum number of options to be granted to any Employee under ESOS-2010 shall not in the aggregate exceed 1,00,000 equity shares of Rs.10 each.

The Remuneration/Compensation Committee is authorised to determine in its absolute discretion the number of tranches in which the Options may be granted by the Trust.

The Trust shall not acquire or deal in securities of the Company through the secondary market.

5. Options allocated for various grades/groups of grades of Eligible Employees and for individual allotment based on length of service and/or grade and/or performance rating.

The Remuneration/ Compensation Committee shall have the authority to allocate a certain percentage out of the total available Options for being granted by the Trust to various grades/group of grades of Eligible Employees. The Remuneration/ Compensation Committee shall also have in its absolute discretion the authority to further allocate a certain percentage out of the aforesaid, for grant of the Options by the Trust to individual Eligible Employees based on criteria such as the grade of the Employee, length of service, performance record, merit of the Employee, future potential contribution by the Employee, etc. The Trust shall Grant Options to the Eligible Employees based on the recommendations of the Remuneration/ Compensation Committee.

6. Basis of determining the number of Options to be Granted

The criteria for eligibility of the Eligible Employees for the Grant of Options will be decided by the Remuneration/ Compensation Committee based on criteria such as the grade of the Employee, length of service, performance record, merit of the Employee, future potential contribution by the Employee, etc. The Remuneration/ Compensation Committee may review and revise the criteria for eligibility as aforesaid in keeping with the needs of the business and remuneration policies.

The actual number of Options to be granted to each Employee would be in accordance with the criteria determined by the

Remuneration/ Compensation Committee in its absolute discretion, and communicated to the Trust.

The Remuneration/ Compensation Committee may not recommend the Grant of any Options or may not recommend the vesting of Options already granted in the event the Eligible Employee has not performed up to the expectations or has not attended the office for a substantial period of the financial year of the Company or in case of misconduct of the Employee or in such other circumstances as it may deem fit in its absolute discretion.

The date of the meeting of the Remuneration/ Compensation Committee for considering the grant of the Options would be the relevant date for determining the criteria for considering the Grant of Options.

7. Vesting of the Options Granted

The Options granted would vest within such time from the date of grant and in such number of instalments and subject to such terms as the Remuneration/ Compensation Committee may determine, in its absolute discretion and recommend to the Trust, at the time of grant of the Options, subject to a minimum vesting period of one year.

The maximum vesting period may extend up to five years from the date of grant of Options, unless otherwise determined by the Remuneration / Compensation Committee.

8. Procedure of Granting and exercising

A. Grant

The Trust shall upon the recommendation of the Remuneration/ Compensation Committee Grant such number of Options to all such Eligible Employees who have been recommended by the Remuneration/ Compensation Committee. The Trust shall issue Letters of Grant within such time from the date of Grant as it may deem fit, containing such terms and conditions relating to the vesting and exercise of the Options as may be stipulated by the Remuneration/ Compensation Committee and in particular the following:

- a. Employment Agreement: The Trustees may, in their discretion, include in the terms of any Option granted under the ESOS-2010, a condition, that the Eligible Employee shall agree to remain in

the employment of, and to render services to, the Company, or, as the case may be, a holding or a subsidiary company, for a period of time, specified in the Agreement, from the date of Grant. The grant of an Option shall, however, not impose upon the Company any obligation to employ the Eligible Employee for any period of time.

- b. Number of Equity Shares: Each Letter of Grant shall state the total number of Equity Shares underlying the number of Options granted.
- c. Vesting of Options: The Options granted pursuant to this ESOS-2010 shall vest in such number of tranches as determined by the Remuneration/ Compensation Committee, subject to a minimum vesting period of one year. The Eligible Employee shall be entitled to exercise the Options only to the extent that the Options have vested in accordance with the Letter of Grant.
- d. No rights of Shareholders: An Eligible Employee shall not have any of the rights of a shareholder of the Company until the Equity Shares are transferred to him, and, no adjustments may be made for dividends or other rights for which the record date is prior to the date such Equity Shares are transferred to the Eligible Employee.

B. Exercise

- a. An Eligible Employee wishing to exercise the Options vested in him shall submit an application in the specified format to the Trust along with a cheque/demand draft for the Exercise Price being the number of Options exercised multiplied by the Exercise Price per Equity Share as indicated in the Letter of Grant. Such cheque/demand draft should be drawn on any bank payable at Mumbai and shall be drawn in favour of “Mahindra & Mahindra Financial Services Limited Employees’ Stock Option Trust”.
- b. Save as provided in Clause 10, the Options vested in the Eligible Employee shall be exercised by him/her within such period as may be determined by the Remuneration/ Compensation Committee while recommending the grant of options; provided that such period shall not exceed five (5) years from the date of vesting of options.
- c. The Remuneration/ Compensation Committee may also determine the number of tranches in which the options granted may be

exercised as also the minimum number of options that may be exercised in each tranche.

- d. The Options remaining unexercised at the end of the Exercise Period or such extended period as may be determined by the Remuneration/ Compensation Committee shall lapse.
- e. The Eligible Employees who wish to exercise the Options will have the right to include the names of their spouse, children and/or their parent(s) as the second and third holders of the shares to be transferred consequent to the exercise of the Options.

9. Event of death/incapacitation of any Employee who has been Granted Options / Long leave

Notwithstanding anything contained herein, in case of death or permanent disability of any Eligible Employee whilst in the service of the Company, the Options granted but not vested in that Eligible Employee shall vest in the person(s) nominated by such Eligible Employee in case of death and in the Eligible Employee himself/herself in case of permanent disability. These Options shall vest in, and shall be exercised by, the nominee(s)/ Eligible Employee as the case may be within such period as may have been determined by the Remuneration/ Compensation Committee while recommending the grant of options; provided that such period shall not exceed five (5) years from the date of vesting of options. The nomination shall be made in the form prescribed by the Trust for this purpose.

In case of the death of any Eligible Employee who has, not nominated any person(s), the Option will vest in and shall be exercised by the successor(s) of such Employee within such time as is stipulated in the Letter of Grant, provided however that the successor(s) shall be required to produce to the Company all such documents as may be required by the Company to prove the succession to the assets of the deceased Eligible Employee. In case the proof of the succession is not produced to the Company within one year from the date of death of the Eligible Employee or such further time as the Remuneration/ Compensation Committee or the Trust may permit in its absolute discretion, the Options shall lapse.

Where an Eligible Employee has been granted a long leave, then the Employee shall be entitled to retain all the Options vested in him at the time of going on long leave and exercise the Options in accordance with this ESOS 2010. Vesting of all options granted to

such employee which are not vested at the time of commencement of long leave shall remain suspended during such long leave period and vesting of such options would recommence subject to the following -

- (1) Eligible Employee rejoining and resuming the contract of employment; and
- (2) Eligible Employee fulfilling terms and conditions, in respect of Long Leave, prescribed by the Company.

(Long leave means authorised leave in excess of 6 months as per the rules and practices of the Company.)

10. Event of termination of service of the Employee who has been Granted Options

a. Due to resignation of the Employee

In case of termination of the services of the Eligible Employee due to resignation, the Options granted but not vested shall automatically lapse forthwith on submission of the resignation by the Eligible Employee.

However, the Options vested in an Eligible Employee who has resigned from the services of the Company, or, as the case may be, a holding/ subsidiary /associate/ affiliate /group company, but not exercised by him could be exercised by such Eligible Employee, in accordance with the Exercise Period specified in the Letter of Grant, PROVIDED such Eligible Employee does not engage in any capacity with any company or entity which is in similar business as that of the Company or its holding/ subsidiary / associate/ affiliate /group company that such Employee has worked with or has been associated with, without the prior written approval of the Company.

For the purposes of this clause, ***resignation*** means voluntary cessation of employment otherwise than on retirement or early retirement as defined/referred to in sub clause (d) below.

b. Due to dismissal or discharge for misconduct of the Eligible Employee

In case of termination of the services of the Eligible Employee due to dismissal for misconduct of the Eligible Employee, the Trust shall have the right (on recommendation

to that effect by the Remuneration/ Compensation Committee) to cancel the Options granted but not vested and/or Options vested but not exercised by such Eligible Employee.

c. Due to discharge for reasons other than misconduct of the Eligible Employee

In case of termination of the services of the Eligible Employee due to discharge for any reason other than misconduct of the Employee or resignation by the Employee or Early Retirement or normal retirement, the terms relating to vesting and exercise shall be determined by the Trust on the recommendation of the Remuneration/ Compensation Committee.

d. Due to retirement of the Eligible Employee

In case the Eligible Employee retires from the Company or its holding/ subsidiary / associate/ affiliate /group company(ies) pursuant to reaching the age of retirement as prescribed by the Company or its holding/ subsidiary / associate/ affiliate/ group company(ies) as the case may be, the Options not vested in the Eligible Employee on the date of retirement shall notwithstanding such retirement vest in and be exercisable by such Eligible Employee in accordance with the vesting schedule and the Exercise Period specified in the Letter of Grant, PROVIDED such Eligible Employee does not engage in any capacity with any company or entity which is in similar business as that of the Company or its holding/ subsidiary / associate/ affiliate /group company that such Employee has worked with or has been associated with, without the prior written approval of the Company.

However, the Options vested in the Eligible Employee who has retired from the services of the Company or its holding/ subsidiary / associate/ affiliate /group company(ies) but not exercised by him could be exercised by such Eligible Employee, in accordance with the Exercise Period specified in the Letter of Grant, PROVIDED such Eligible Employee does not engage in any capacity with any company or entity which is in similar business as that of the Company or its holding/ subsidiary / associate/ affiliate /group company that such Employee has worked with or has been associated with, without the prior written approval of the Company.

In case an Eligible Employee who has been granted Options, opts for Early Retirement otherwise than under a Scheme of Voluntary Retirement, all Options that are not vested in the Eligible Employee on the date on which the Eligible Employee so retires shall lapse. However, the Options vested but not Exercised by an Eligible Employee who has opted for Early Retirement otherwise than under a Scheme of Voluntary Retirement shall be exercised by such Eligible Employee, in accordance with the Exercise Period specified in the Letter of Grant, PROVIDED such Eligible Employee does not engage in any capacity with any company or entity which is in similar business as that of the Company or its holding/ subsidiary / associate/ affiliate /group company that such Employee has worked with or has been associated with, without the prior written approval of the Company.

e. *Employees who are transferred to holding/ subsidiary / associate/ affiliate /group company(ies)*

In case of services of an Eligible Employee to whom Options have been granted, are transferred by the Company to one of its holding/ subsidiary / associate/ affiliate /group company(ies) prior to the date of vesting of all Options granted, such Unvested Options shall vest in accordance with the vesting schedule specified in the Letter of Grant, provided the Eligible Employee continues to be in the employment of the respective holding/ subsidiary / associate/ affiliate /group company(ies) on the date(s) of vesting of the Options.

- f.** Notwithstanding the above, the Trust, based on the recommendation of the Remuneration/ Compensation Committee, in its absolute discretion shall have the authority to waive the aforesaid restriction relating to the subsequent vestings.
- g.** In case of termination of the services of the Eligible Employee due to his/her retirement pursuant to a scheme of voluntary retirement as formulated by the Company, the terms relating to vesting and exercise shall be framed by the Remuneration/ Compensation Committee.

Explanation :-

For the purposes of clauses (a), (d) and (e) above,

- (i) the decision of the Remuneration/ Compensation Committee in ascertaining as to whether the company or entity with which the concerned Employee is / has been associated is in similar business as that of the Company, its holding/ subsidiary or associate/ affiliate/ group company(ies) shall be final and binding on all concerned; and
- (ii) in case of any doubt the Remuneration/ Compensation Committee shall have the authority to determine whether a company is an associate or an affiliate or a group company of the Company and such decision of the Remuneration/ Compensation Committee shall be final and binding on all concerned.

11. Suspended Employees and Employees under enquiry

In case an Eligible Employee has been suspended or in case of an Eligible Employee against whom an enquiry is being conducted for any reason,

- (i) all Options which have not vested in such employees on the date of suspension or commencement of enquiry shall stand suspended and shall not vest; and
- (ii) all Options which have vested but not exercised shall not be exercisable

until the enquiry is completed.

At the conclusion of such an Enquiry –

- (a) If the Eligible Employee is found guilty of misconduct under any such enquiry, the provisions of clause 10(b) above shall apply;
- (b) If the Eligible Employee is acquitted of the charges framed against him, all options which were due for vesting / exercise and have not been vested or exercised in view of the suspension of such Eligible Employee or pendency of an enquiry shall vest in him and be exercisable subject to the other provisions of ESOS 2010 within such period as the Remuneration/ Compensation Committee may determine.

12. Lapsed/cancelled Options

When an Option lapses and/or is cancelled under any of the circumstances mentioned above, then the Eligible Employee shall have no right, title or interest in respect thereof or any claim or

demand of any nature whatsoever against the Trust or the Company. In the event of the lapse/cancellation of any Options, the Trustees shall be entitled, on the recommendation of the Remuneration/ Compensation Committee, to issue fresh Options in lieu of the lapsed/cancelled Options, and grant such Options to such Eligible Employees as recommended by the Remuneration/ Compensation Committee.

13. Other conditions

- (a) The Eligible Employee shall not, directly or indirectly, sell, pledge, assign or otherwise transfer or dispose of (hereinafter collectively referred to as 'alienation') all or any unexercised portion of the Options or the rights and benefits attached thereto.
- (b) If any bonus and/or rights Equity Shares are issued by the Company or the Equity Shares of the Company are split up reducing the face value per Equity Share, then the Trust shall, on the recommendations of the Remuneration/ Compensation Committee, make a fair and reasonable adjustment to the number of outstanding Options and/or to the Exercise Price.

Similarly, if the Company takes any action which in the opinion of the Remuneration/ Compensation Committee requires any adjustment to the number of outstanding Options and/or the Exercise Price, then the Trust shall, on the recommendations of the Remuneration/ Compensation Committee, make a fair and reasonable adjustment to the number of outstanding Options and/or to the Exercise Price.

- (c) The Options granted herewith shall not be affected by any takeover by/of, merger with, or amalgamation of any other entity with the Company or in the event of restructuring of the capital of the Company. In such an event, the Trust on the recommendation of the Remuneration/ Compensation Committee shall have the authority to alter all or any of the terms relating to the Grant and would also have the authority to do all such acts and deeds as it may deem fit in its absolute discretion and as permitted under law, so as to ensure that the benefits under the Grant are passed on to the Eligible Employees.
- (d) The Trust shall have the discretion, but shall not be obliged to distribute the dividends received from the Company to

such Eligible Employees to whom the Options have been granted but have not exercised their Options.

- (e) The date of exercise of Options shall be the date on which the Eligible Employee submits the Exercise Application (complete in all respects) for exercising the Options granted to him, to the Trust.
- (f) Grant, vesting and exercise of Options will be liable to tax, if any, in the hands of the Eligible Employee in accordance with the provisions of the Income-tax Act, 1961 and the Rules framed there under from time to time. The Company or the Trust will deduct tax at source, wherever necessary, from any payments to the Employee concerned in respect of his entitlements under the ESOS-2010. Further, the Company shall notwithstanding anything contained in this Scheme or any other agreement or scheme for granting of Options to the Employee concerned, have the right to recover from such Employee (including former Employee) an amount equivalent to any tax, cess, levy, or assessment, by whatever name called including, without limitation, Fringe Benefit Tax, levied upon or payable whether by the Company or by the employer of such Eligible Employee as the case may be, in respect of or in relation to such Options. If necessary, the Trust may also sell or otherwise dispose of part of the Equity Shares to be transferred to the Eligible Employees who have received their Options, and to retain the proceeds thereof towards deduction of tax or otherwise required to meet any tax obligation of the Eligible Employee or the Company or the employer of such Eligible Employee, as the case may be.

The decision of the Trust on the recommendation of the Remuneration/ Compensation Committee on any of the above matters including the date of exercise of Options will be final and binding on the Eligible Employees.

14. Reservation of Equity Shares

The Company, during the term of this ESOS-2010, shall issue and transfer, and will seek or obtain, from any regulatory authority having jurisdiction, any approval or consent necessary to issue the Equity Shares to the Trust. The Trustees during the term of this ESOS-2010, will at all times reserve and keep available and will seek or obtain from any regulatory body having jurisdiction, any approval or consent, necessary to transfer the Equity Shares to satisfy the requirements of this ESOS-2010. The inability of the

Company and/or the Trust to obtain from any regulatory authority the requisite approval or consent for the lawful issuance and transfer of the Equity Shares hereunder shall relieve the Company and/or the Trustees of any liability in respect of the failure to issue or transfer the Equity Shares.

15. Right of First Refusal

If, at any time after the transfer of the Equity Shares to the Eligible Employee by the Trust consequent to the Exercise of the Options, the Eligible Employee desires to sell or dispose of such Equity Shares, he/she shall first offer such Equity Shares to the Trust by way of a written notice to the Trust. The Trust shall, if it wishes to accept the offer, within a period of 30 (thirty) days from the receipt of such notice, communicate to such Employee its acceptance of the offer and purchase the Equity Shares at the Market Price of the Equity Shares on the date when the Trust communicates to the employee its acceptance. Upon such acceptance, the transfer of shares from the Eligible Employee to the Trust shall be completed on a spot delivery basis. The Employee shall be entitled to sell or otherwise dispose of the Equity Shares only upon either:

- (i) the expiry of the thirty (30) day period specified above, or
- (ii) the receipt of written refusal of the offer from the Trust within the said 30 (thirty) day period.

16. Effective Date of the ESOS-2010

The ESOS-2010 shall be effective from the date that the ESOS-2010 is approved by the Remuneration/ Compensation Committee and shall continue in effect till its termination by the Remuneration/ Compensation Committee.

17. Compliance

The provisions of the ESOS-2010 comply with the Securities and Exchange Board of India (Employees Stock Option Scheme and Employees Stock Purchase Scheme) Guidelines, 1999 and are always intended to be in line with these Guidelines. In the event any of the provision of the ESOS-2010 conflict with the Guidelines, the provisions contained in the Guidelines will prevail.

**EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT,
1956 (EXTRACT OF THE POSTAL BALLOT NOTICE DATED 16TH AUGUST 2010)**

Item Nos. 1 and 2

Stock Options represent a reward system based on performance. They help companies attract, retain and motivate the best available talent. Stock Options also provide a company with an opportunity to optimise its personnel costs. This also provides an opportunity to employees to participate in the growth of the company, besides creating long term wealth in their hands. In line with this, the Company had formulated an employee stock option scheme called Mahindra & Mahindra Financial Services Limited Employees' Stock Option Scheme in October, 2005 ("the 2005 Scheme").

As the global business environment is becoming increasingly competitive, it is important to attract and retain qualified, talented and competent personnel in the Company. In view of this, it is necessary to formulate a Scheme which is more attractive than the 2005 Scheme by authorising the Board or the Committee to grant equity shares of the Company to the Employees on exercise of Options at a price equal to or not less than the face value of the equity shares of the Company.

Keeping in line with the above, a new "Mahindra & Mahindra Financial Services Limited Employees' Stock Option Scheme - 2010" ("the Scheme") has been formulated in accordance with the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 ('SEBI ESOP Guidelines') issued by SEBI and other applicable laws. The Scheme has been approved by the Remuneration/Compensation Committee and by the Board of Directors at their Meetings held on 23rd July, 2010. The Scheme will also cover any issuance of ADRs/GDRs/other Securities by the Company, as may be permitted from time to time.

The Scheme will be operated and administered under the superintendence of the Company's Remuneration/Compensation Committee, which is a Committee of the Board of Directors, the majority of whose Members are Independent Directors. The Remuneration/ Compensation Committee will formulate the detailed terms and conditions of the Scheme including:

- Number of options to be granted to any Employee, and in the aggregate;
- Terms on which the options will vest;
- The conditions under which options vested in Employees may lapse in case of termination of Employees for misconduct;
- The exercise period within which an Employee should exercise the options, and lapsing of options on failure to exercise the options within the exercise period;

- The specified time period within which the Employee shall exercise the vested options in the event of termination or resignation of the Employee;
- The right of an Employee to exercise all the options vested in him at one time or at various points of time within the exercise period;
- The procedure for making a fair and reasonable adjustment to the number of options and to the exercise price in case of rights issues, bonus issues and other corporate actions;
- The grant, vesting and exercise of options in case of Employees who are on long leave; and
- Any other related or incidental matters.

The salient features of the Scheme are as under:

(a) The total number of options to be granted

The total number of options that may, in the aggregate, be issued would be such number of options which shall entitle the option holders to acquire in one or more tranches upto 9,69,005 equity shares of Rs.10 each which represent 1% of the issued equity share capital of the Company as on 30th June, 2010 (or such other adjusted figure for any bonus, stock splits or consolidations or other re-organisation of the capital structure of the Company as may be applicable from time to time).

(b) Identification of classes of employees entitled to participate in the Scheme

Persons who are employees including Directors (whether Whole-time Directors or not), as defined in the SEBI ESOP Guidelines for the time being in force and as may be decided by the Remuneration/Compensation Committee from time to time.

The class of Employees eligible for participating in the Scheme shall be determined on the basis of the grade, number of years' service, performance, and such other parameters as may be decided by the Remuneration/Compensation Committee in its sole discretion from time to time.

The options granted to an Employee will not be transferable to any person and shall not be pledged, hypothecated, mortgaged or otherwise alienated in any other manner.

(c) Requirements of vesting and period of vesting

Vesting of options may commence after a period of not less than one year from the date of grant. The vesting may occur in one or more tranches, subject to the terms and conditions of vesting, as may be stipulated by the Remuneration/Compensation Committee in its sole discretion.

(d) Maximum period within which the options shall be vested

The maximum vesting period may extend up to five years from the date of grant of options, unless otherwise decided by the Remuneration/ Compensation Committee.

(e) Exercise price or pricing formula

Exercise Price means the price at which the Employee is entitled to acquire the equity shares pursuant to the options granted and vested in him/her under the Scheme.

The Exercise Price per equity share shall be equal to or not less than the face value of the shares in accordance with the recommendations of the Remuneration/Compensation Committee at the time of grant of options.

(f) Exercise period and process of exercise

The exercise period may commence from the date of vesting and will expire not later than 5 years from the date of vesting, or such other period as may be decided by the Remuneration/Compensation Committee, from time to time.

The options will be exercisable by the Employees by a written application to the Company / Mahindra & Mahindra Financial Services Limited Employees' Stock Option Trust ("the Trust") or any other entity which may be set up for this purpose to exercise the options, in such manner, and on execution of such documents, as may be prescribed by the Remuneration/Compensation Committee from time to time.

The options will lapse if not exercised within the specified exercise period. The options may also lapse under certain circumstances even before the expiry of the specified exercise period.

(g) Appraisal Process for determining the eligibility of Employees to the Scheme

The appraisal process for determining the eligibility of the Employee will be specified by the Remuneration/Compensation Committee and will be based on criteria such as the grade of Employee, length of service, performance record, merit of the Employee, future potential contribution by the Employee and/or by any such criteria that may be determined by the Remuneration/Compensation Committee in its sole discretion.

(h) Maximum number of options to be issued per Employee and in the aggregate

The maximum number of options to be granted per Employee will not exceed 1,00,000 equity shares of Rs.10 each.

The maximum number of Options to be granted under the Scheme to Non-Executive Directors including the Independent Directors shall collectively not exceed 50,000 equity shares of Rs.10 each of the Company in any financial year and the total number of options to such Directors shall not exceed 1,00,000 equity shares of Rs.10 each of the Company in the aggregate.

The aggregate of all such grants shall not exceed 1% of the issued and outstanding equity shares of the Company as on 30th June, 2010.

(i) Disclosure and accounting policies

The Company shall conform to the accounting policies specified by Securities and Exchange Board of India as per the SEBI ESOP Guidelines, amended from time to time.

(j) Method of Valuation

The Company follows the intrinsic value method for computing the compensation cost, if any, for the options granted. The difference between the employee compensation cost so calculated and employee compensation cost that would have been recognised if the Company had used fair value method and its impact on the profits and earnings per share would be disclosed in the Directors' Report. The fair value would be determined using the Black – Scholes model.

(k) Other terms

The Board or Remuneration/Compensation Committee shall have the absolute authority to vary, modify or alter the terms of the Scheme in accordance with the Regulations and Guidelines as prescribed by the Securities and Exchange Board of India or Regulations that may be issued by any appropriate authority, from time to time, unless such variation, modification or alteration is detrimental to the interest of the Employees.

The Securities may be allotted directly to the Employees or in accordance with the Scheme through any appropriate mechanism including the Trust or other entity which may be set up for that purpose and such Scheme may also contain provisions for providing financial assistance to the Employees/Trust/entity to enable the Employees/Trust/entity to acquire, purchase or subscribe to the Securities.

As on 30th June, 2010, 8,55,397 Equity Shares of Rs.10 each were held by the Trust. As on the same date, 8,04,281 options were in force which could be exercisable into 8,04,281 Equity Shares of Rs.10 each. Accordingly, the balance available with the Trust is only 51,116 Equity Shares of Rs.10 each which amounts to 0.05% of the equity share capital of the Company. It is proposed that these balance shares available with the Trust together with any other shares represented by options that may lapse for any reason, will also be available to the Trust for issuing/granting Options to the Employees under the Scheme.

As the Scheme would entail further shares to be offered to persons other than existing Members of the Company, consent of the Members is sought pursuant to the provisions of section 81 and all other applicable provisions, if any, of the Companies Act, 1956 and as per the requirement of Clause 6 of the SEBI ESOP Guidelines.

As per the SEBI ESOP Guidelines, a separate Resolution is required to be passed if the benefits of the Scheme are to be extended to Employees of the holding company and the subsidiary companies. The Resolution under Item No.2 is being proposed accordingly to cover the Employees and Directors, whether Whole-time Directors or not, of the holding company and the subsidiary company(ies).

The Directors who would be eligible or would qualify to join the Scheme may be deemed to be concerned or interested in this item of business to the extent of the options that may be offered to them under the Scheme.

The Board recommends the passing of the Resolutions set out in Item Nos.1 and 2 appended to this Notice as Special Resolutions.

Your approval is sought by voting through Postal Ballot pursuant to the provisions of section 192A of the Act read together with the provisions of the Companies (Passing of the Resolution by Postal Ballot) Rules, 2001 for passing the Special Resolutions as set out in this Notice.