

REMUNERATION POLICY

PHILOSOPHY:

The Company strongly believes that the system of Corporate Governance protects the interest of all the stakeholders by inculcating transparent business operations and accountability from management towards fulfilling the consistently high standard of Corporate Governance in all facets of the Company's operations.

The Company is committed to provide employment to all eligible applicants on the principles of equality without any discrimination.

The employees have to strictly follow the code of ethics and the management practices zero tolerance for the same.

OBJECTIVE:

- Transparent process of determining remuneration at Board and Senior Management level of the Company would strengthen confidence of stakeholders in the Company and its management and help in creation of long term value for them.
- Appropriate balance between the elements comprising the remuneration so as to attract potential high performing candidates for critical position in the Company for attaining continual growth in business.

COVERAGE:

Guidelines of determining remuneration of:

- i. Executive Directors
- ii. Non Executive Directors
- iii. Key Managerial Personnel
- iv. Senior Management Personnel

I. DIRECTORS

i. Executive Directors:

The Board of Directors of the Company shall decide the remuneration of Executive Directors on the basis of recommendation from Nomination and Remuneration Committee (N&RC) subject to the overall limits provided under the Companies Act, 2013 and rules made thereunder, including any amendments, modifications and re-enactments thereto ('the Act') and compliance of related provisions provided therein.

The remuneration shall be approved by the shareholders of the Company as and when required.

The Company shall enter into a contract with every executive director, which will set out the terms and conditions of appointment. The contract shall be recommended by the N&RC and approved by the Board. The contract shall be for such tenure as may be decided by the Board but which in any case shall not exceed the tenure as is provided in the Act and subject to such approvals as may be required.

Board may vary any terms and conditions of the contract from time to time during the tenure subject to such approvals, as may be required under the Act.

Every notice sent to the shareholder for seeking their approval for appointment / re-appointment / remuneration of the executive director shall contain the gist of terms and conditions of the contract.

The remuneration components shall include *inter alia*:

a. Fixed salary:

Each Executive Director shall be paid fixed salary consisting of basic salary and such allowances and perquisites as may be recommended by N&RC and decided by Board based on recommendations of N&RC and performance evaluation of each executive director from time to time, subject to overall limits as prescribed under Act.

The salary shall remain fixed for the tenure of the executive director.

b. Commission:

The Board may approve payment of commission subject to the limits provided in the Act. The eligibility and the amount of commission to be paid to each director shall be recommended by the N&RC on the basis of the performance evaluation of the executive director undertaken by the N&RC and Board.

c. Non monetary benefits:

Executive directors may be entitled to club membership, company vehicle with driver, reimbursement of fuel expenses, vehicle maintenance, telephone, fax, internet at residence, reimbursement of mobile phone bill, fully furnished accommodation (in case of use of own residential property for accommodation, house rent allowance shall be paid), furnishings, reimbursement of house maintenance expenditure,

reimbursement of gas, electricity bill, water & other utilities and repairs at residence, reimbursement of medical expenditure for self and family and leave travel assistance. The Executive Directors shall not be entitled for sitting fees for attending the Board and any Committee meetings.

Executive Director may also be entitled to personal accident insurance, group accident insurance coverage, medical insurance coverage, term insurance etc. as per the Company's policy.

d. Stock options:

Executive directors may be granted stock options as may be approved by the N&RC, if they are eligible as per existing or any scheme of stock options by the Company.

e. Compensation for loss of office may be paid as may be approved by the Board subject to the provisions of Section 202 of the Act.

f. Separation / Retirement benefits:

Executive Director shall be eligible to the following perquisites which shall be included in the computation of the ceiling on remuneration provided in the Act except in case of loss or inadequacy of profits of the Company:

- (a) Contribution to provident fund, superannuation fund or annuity fund to the extent these either singly or put together are not taxable under the Income tax Act, 1961 or any amendment thereof
- (b) Gratuity payable at a rate not exceeding half a month's salary for each completed year of service and
- (c) Encashment of leave at the end of the tenure.

g. Performance Evaluation:

Performance evaluation of each executive director will be based on the key parameters for short and long term performance objectives appropriate to the working of the Company and its goals.

ii. Non Executive Directors:

The Company shall issue a letter of engagement or appointment to every non- executive - Independent director. The components of payment of remuneration to Non executive directors shall be as follows:

a. Sitting fees :

Sitting fees shall be paid for Board Meetings and any Committee Meetings attended by the Director. The fees shall be same for attending the Board or Committee meetings or Board may determine the amount of sitting fees that may be paid for different types of meetings within limits as prescribed under the Act.

Committee shall include Audit Committee, Nomination & Remuneration Committee, Shareholders' / Investors' Grievance and Stakeholders' Relationship Committee, Corporate Social Responsibility Committee or such Committees as may be constituted by the Board.

b. Commission

The Board may approve payment of commission subject to the limits provided in the Act. The eligibility and the amount of commission to be paid to each director shall be recommended by the N&RC on the basis of annual performance evaluation of the director based on directors' attendance in board meeting, membership / chairmanship of the committees of the Board, time devoted for the Company, contribution in the Board process and such other criteria like duties delegated to the director etc. and which requires payment of higher commission to the director.

c. Stock Options:

Independent Directors and Promoter Directors shall not be entitled for stock options of the Company.

N&RC may recommend and grant issue of stock options to other directors subject to the compliance of the provisions of relevant laws.

d. Professional fees:

Non executive directors may be paid fees for services of professional nature, if in the opinion of N&RC, the director possesses the requisite qualification for practicing the profession. N&RC may decide the qualifications which shall be deemed to be requisite qualification possessed by the Director(s) for providing services of the professional nature and the N&RC is not required to give its opinion to the company

in that capacity. Such professional fees shall not be considered as remuneration for the purpose of Act.

EXCESS REMUNERATION:

The Board of Directors may decide to remunerate the Director/s beyond the overall limits provided under the Companies Act, 2013 subject to compliance of provisions in this regard including obtaining approval of shareholders / Central Government, if required, owing to loss incurred by the Company or inadequacy of profits and situation entails providing such remuneration.

WAIVING OF EXCESS REMUNERATION:

Any remuneration or sitting fees paid, whether directly or indirectly, to any director beyond the limits prescribed under the Act and for which approval of the shareholders or Central Government is not obtained, if required to be obtained, the same shall be refunded to the Company and until such sum is refunded, hold it in trust for the Company.

The Company shall not, in any case, waive the recovery of any such sum unless specific permission is obtained from Central Government for waiving such excess payment.

II. KEY MANAGERIAL PERSONNEL & SENIOR MANAGEMENT

i. Key Managerial Personnel:

For the purpose of this Policy, Key Managerial Personnel (KMP) includes Chief Executive Officer, Manager, Chief Financial Officer and Company Secretary and such other officers as may be prescribed under Act from time to time, but shall not include members of the Board of Directors.

The Company shall issue an appointment letter to every KMP to be signed by Managing / Executive director. The letter shall detail the job profile, duties, remuneration, other benefits and other terms and conditions.

The remuneration components may include:

a. Fixed salary:

Each KMP shall be paid fixed salary consisting of basic salary and such allowances and perquisites as per service rules of the Company. The band of the salary shall be determined according to the industry standards, market conditions, scale of the Company's business relating to the position, educational qualification parameters and personal experience in the industry as detailed in the service rules of the Company and such other factors as may be prescribed therein.

The same shall be reviewed annually based on the Company's annual appraisal policy.

b. Variable pay:

Variable pay to every KMP shall be as per the Performance Linked Pay Scheme of the Company, which is designed to bring about increase in overall organizational effectiveness through alignment in the objectives of the Company and the Individual.

The variable pay shall be payable at the end of every financial year based on absolute & relative performance of the Company and Business Units. The performance will be measured on the basis of contribution made by the respective Business Unit to the Company. The weightage of the same will be decided by the N&RC in each case before the beginning of the each financial year.

The performance parameters & its evaluation:

- i. Company Level parameters:
Company level targets shall be in line with their approved Annual Operating Plan to be approved by the Executive Directors
- ii. Business Unit level parameters:
Business Unit level targets shall be in line with their approved Annual Operating Plan to be approved by the Executive Directors.
- iii. Corporate Functional & Sectors parameters & its evaluation
The overall Company level performance shall be applicable for all the corporate functions & sectors.

- iv. Individual level performance parameters & its evaluation
Key Result Areas (KRA) which will be set in the beginning of the year for every quarter in consultation with the executive director and individual level performance for achievement of KRAs.

The entitlement as per the Performance Linked Variable Pay Scheme shall be disclosed in the appointment letter. Variable Pay is assessed on annual basis and the same is paid in the salary of June month of every Financial Year. The particulars of the payment shall be communicated to the concerned in his / her salary slip relevant for the month in which the variable pay is paid.

- c. Perquisites / Other Benefits:

Perquisites / Other Benefits to KMP may include a Company provided car, petrol reimbursement, vehicle maintenance, telephone, reimbursement of mobile phone bill and reimbursement of medical expenditure for self and family as per Company Policy.

KMP may be entitled to personal accident insurance, group accident insurance coverage, medical insurance coverage, term insurance etc. as per Company policy.

- d. Annual Pay Revision / Promotion

There are Key Result Areas which will be set in the beginning of the year for every quarter in consultation with the executive director and the performance appraisal shall be done in the format provided by the HR department. Based on this annual pay revision and/or promotion will be decided.

- e. Stock options:

To motivate executives to pursue long term growth and objectives of the Company, the executive directors may nominate KMP for receiving stock options on the basis of the eligibility criterion of any scheme of stock options, if any, declared in the future by the Company.

- f. Compensation for loss of office may be paid as may be set out in the appointment letter.

g. Separation / Retirement benefits:

Separation / retirement benefits as per Company policy which shall include contribution to provident fund, superannuation, gratuity and leave encashment.

ii. **Senior Management:**

The Company shall issue an appointment letter to every senior management personnel to be signed by the reporting Managing / executive director and KMP. The letter shall provide details of the job profile, duties, remuneration package and other terms and conditions.

Senior management personnel means personnel of the Company who are members of its core management team excluding Board of Directors comprising of all members of management one level below the executive directors, including the functional heads i.e. all sector/divisional heads.

The remuneration components shall be:

a. Fixed salary:

Each senior management personnel shall be paid fixed salary consisting of basic salary and such allowances and perquisites as per service rules of the Company. The band of the salary shall be determined according to the industry standards, market conditions, scale of Company's business relating to the position, educational qualification parameters and personal experience in the industry as detailed in the service rules of the Company and such other factors as may be prescribed therein.

The same shall be reviewed annually based on the Company's annual appraisal policy.

b. Variable pay:

Variable pay to every Senior Management Personnel shall be as per the Performance Linked Pay Scheme of the Company, which is designed to bring about increase in overall organizational effectiveness through alignment of Company, Unit and Individual objectives.

The variable pay shall be payable at the end of every financial year based on absolute & relative performance of the Company and Corporate Function / Sectors. The

performance will be measured on the basis of contribution made by the respective function / sector to the Sales of the Company and Contribution earned by the respective function / sector while arriving at bottom line of Company. The weightage of the same will be decided by the N&RC in each case before the beginning of the each financial year.

The performance parameters & its evaluation:

- i. Company Level parameters:
Company level targets shall be in line with their approved Annual Operating Plan to be approved by the Executive Directors
- ii. Business Unit level parameters:
Business Unit level targets shall be in line with their approved Annual Operating Plan to be approved by the Executive Directors.
- iii. Corporate Functional & Sector parameters & its evaluation
The overall Company level performance shall be applicable for all the corporate functions & sector.
- iv. Individual level performance parameters & its evaluation
Key Result Areas (KRA) which will be set in the beginning of the year for every quarter in consultation with the executive director and individual level performance for achievement of KRAs.

The entitlement as per the Performance Linked Variable Pay Scheme shall be disclosed in the appointment letter. Variable Pay is assessed on annual basis and the same is paid in the salary of a June month of every Financial Year. The particulars of the payment shall be communicated to the concerned in his / her salary slip relevant for the month in which the variable pay is paid.

c. Perquisites / Other Benefits:

Perquisites / Other Benefits to Senior Management Personnel may include petrol reimbursement, vehicle maintenance, telephone, reimbursement of mobile phone bill and reimbursement of medical expenditure for self and family as per Company Policy.

Senior Management Personnel may be entitled to personal accident insurance, group accident insurance coverage, medical insurance coverage, term insurance etc. as per Company policy.

d. Annual Pay Revision / Promotion

There are Key Result Areas which will be set in the beginning of the year for every quarter in consultation with the executive director and the performance appraisal shall be done in the format provided by the HR department. Based on this annual pay revision and/or promotion will be decided.

e. Stock options:

To motivate executives to pursue long term growth and objectives of the Company, the executive directors may nominate Senior Management Personnel for receiving stock options on the basis of the eligibility criterion of any scheme of stock options, if any, declared in the future by the Company.

f. Compensation for loss of office may be paid as may be set out in the appointment letter.

g. Retention Bonus

Senior Management Personnel may be entitled to retention bonus based on the industry standards, market conditions, and scale of Company's business relating to the position, educational qualification parameters and personal experience in the industry.

h. Separation / Retirement benefits:

Separation / retirement benefits as per Company policy which shall include contribution to provident fund, superannuation, gratuity and leave encashment.

DIRECTORS' & OFFICERS' LIABILITY INSURANCE:

The Company may take Directors & Officers liability insurance or such insurance of like nature for indemnifying any of the Directors or its KMP against any liability in respect of any negligence, default, misfeasance, breach of duty or trust for which they may be guilty in relation to the Company, the premium paid on such insurance shall not be treated as

part of remuneration payable to such personnel. Provided that if such person is proved to be guilty, the premium paid shall be treated as part of remuneration.

CONSULTANTS & ADVISORS:

The N&RC may take services of such consultants & advisors as may be required to assist in determination of optimum remuneration structure and evaluation of the same for the Company's Directors, KMPs and senior management and shall have the authority to approve the fees payable to such consultants & advisors.

The N&RC shall have access to data of the Company relating to annual operating plan, management & leadership programs, employee survey, initiatives, operational reviews for purpose of undertaking their terms of reference and providing such recommendations as are required under the policy and take such assistance from the Head of the Human Resource Department as may be required for assessing the effectiveness and performance of any employee covered under the policy.

For **Kirloskar Brothers Limited**

Sanjay C. Kirloskar
Chairman & Managing Director

Pune: September 25, 2014