

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 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 code of ethics and the management practices a zero tolerance for the same.

OBJECTIVE:

- To strike the right balance in the composition of the Board of Directors by ensuring experts from different spectrum of the existing and/or future business environment are co-opted on the Board to help the Company achieve its objectives, aspirations and growth potential.
- To implement a transparent process of determining remuneration at Board and Senior Management level of the Company that would strengthen confidence of stakeholders in the Company and its management and help in creation of long - term value for them.
- To strike appropriate balance between the elements comprising the remuneration so as to attract and retain potential high performing candidates for critical position in the Company for attaining continual growth in business.
- To ensure a direct relationship with the Key Result Areas and individual achievements considering short as well as long term performance objectives appropriate to the working of the Company and its goals.

COVERAGE:

A. Guidelines for Appointment:

The Board of Directors shall comprise of persons who have expertise in the areas of business that the Company operates in and of such persons having expertise to help the Company to diversify its business at the appropriate times.

The Nomination and Remuneration Committee of the Board shall identify and ascertain the integrity, qualification, expertise and experience of the person for appointment as Director, KMP or Senior Management level and recommend to the Board his / her appointment.

A person to be appointed as Director, KMP or Senior Management level should

possess adequate qualification, expertise and experience for the position he / she is considered for appointment. The Committee has discretion to decide whether qualification, expertise and experience possessed by a person is sufficient / satisfactory for the concerned position.

B. Guidelines of determining remuneration of:

- I. Directors
- II. Key Managerial Personnel (excluding Directors) and 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 & 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 the performance of the role and the key indicators and criteria for assessing their performance. The contract shall be recommended by the N&RC and approved by the Board. The contract shall be maximum for such tenure as may be provided in the Act subject to such approvals as may be required.

Board may vary any terms and conditions of the contract 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 director shall contain the gist of terms and conditions of the contract.

The remuneration components shall include:

a. Fixed salary:

Each Executive Director shall be paid fixed salary consisting of basic salary and such allowances and perquisites as may be decided by Board.

OPTION 1: The revision in the salary may be annually done and shall be determined by the Board as per the appraisal of the performance of

each Executive Director by the Board, subject to overall limit approved by the shareholders.

OPTION 2: The salary shall remain fixed for the term of the Executive Director.

b. Commission:

The Board may approve payment of commission subject to the provisions of the Act. The amount of commission to be paid to Executive Director(s) shall be recommended by the N&RC on the basis of the performance evaluation carried out in respect of such Executive Director(s).

c. Perquisites / Other Benefits:

The Executive Director(s) may be entitled to club membership, company vehicle with driver, petrol reimbursement, 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.

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

d. Stock options:

Executive Director(s) except promoter directors may be granted stock options as may be approved by the Board, if they are eligible as per any scheme of stock options declared by the Company in the future.

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(s) shall be eligible to the retirement benefits like Contribution to provident fund as per Company Rules, Superannuation Fund as per Company Policy and Gratuity one month each completed year of service and encashment of leave at the end of tenure.

Executive Director(s) shall be eligible to the following perquisites which shall not be included in the computation of the ceiling on remuneration provided in the Act in the event of inadequacy of profits in terms of Section IV of Part II of Schedule V of the Act:

- (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.

ii. Non-Executive Directors:

The Company shall issue a letter of engagement or appointment to every Non-Executive 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/or any Committee Meetings attended by the Director. Different amount of sitting fees may be paid for different types of meetings.

Sitting fees shall be over and above the limits prescribed in the Act for payment of remuneration but shall not exceed the amount as may be prescribed in the Rules for payment of sitting fees.

The disclosure of the total payment of sitting fees for all types of meetings shall be made in the Annual Report of the Company.

Committee shall include Audit Committee, Nomination & Remuneration Committee, Stakeholders' Relationship Committee, Corporate Social Responsibility Committee or such Committees as may be constituted by the Board from time to time.

b. Commission :

The Board may approve payment of commission subject to the provisions of the Act. The amount of commission to be paid to Non-Executive Director(s) shall be recommended by the N&RC on the basis of annual performance evaluation carried out in respect of such Non-Executive Director(s).

c. Stock Options:

Independent Directors & Promoter Directors shall not be entitled

for stock options of the Company.

d. Professional fees:

Non independent directors may be paid fees for services of professional nature, if in the opinion of N&RC, the director possesses the requisite qualification for the practice of the profession. The professionals shall be deemed to be possessing requisite qualification and the N&RC is not required to give its opinion, if the director is any of the professional and renders his services 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, subject to compliance of provisions in this regard including obtaining approval of Central Government, if required, owing to loss incurred by the Company or inadequacy of profits and / or situation entails providing such remuneration.

WAIVING OF EXCESS REMUNERATION:

Any remuneration or sitting fees paid, whether directly or indirectly, to any director whether executive or not 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 (EXCLUDING DIRECTORS) & SENIOR MANAGEMENT

For the purpose of this Policy, Key Managerial Personnel includes Chief Executive Officer, Manager, Chief Financial Officer, Company Secretary and such other officers as may be prescribed from time to time.

The Company shall issue an appointment letter to every Key Managerial Personnel (KMP) / Senior Management Personnel (SMP).

The remuneration components may be:

a. Fixed salary:

Each KMP and SMP 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 KMP and SMP shall be as per the Performance Linked Pay Scheme / Incentive Scheme of the Company, which is designed to bring about increase in overall organizational effectiveness through alignment of Company, Unit and Individual objectives.

Every KMP and SMP shall be entitled for variable compensation, based on responsibility of the position and performance of the organization as detailed in the Performance Linked Pay Scheme / Incentive Scheme.

The variable pay shall be payable at the end of every quarter 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 Sales of the Company and Contribution earned by the respective Business Unit while arriving at bottom line of Company.

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 shared services parameters & its evaluation :

The average of Business Unit performance & Company level performance shall be applicable for all the corporate functions & sector shared services.

The entitlement as per the Performance Linked Variable Pay Scheme shall be disclosed in the appointment letter. Variable Pay

is assessed on quarterly basis and the same is paid in the salary of a month following the quarter ending month. 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 and SMP may include club membership, company vehicle, petrol reimbursement, vehicle maintenance, telephone, reimbursement of mobile phone bill, furnishings, reimbursement of medical expenditure for self and family and leave travel assistance.

KMP and SMP 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 and SMP for receiving stock options on the basis of the eligibility criterion of any scheme of stock options, if any, declared in 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.

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 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 Pneumatic Co. Ltd.

s/d

Rahul C Kirloskar

(Executive Chairman)

DIN 00007319