

NOMINATION AND REMUNERATION POLICY

INTRODUCTION

A cordial relationship between the Board of Directors, the executive management team, shareholders and other stakeholders are the core of corporate governance. Their appointment, remuneration and removal are important decisions to be taken by the shareholders and the management. It is also an element in the disclosures to be made to the shareholders and other stakeholders. Therefore the Nomination and Remuneration Committee (hereinafter referred to as "Committee") representing the Board has a vital role to play in ensuring that the aforesaid decision is taken at the most informed level

The Committee is appointed by the Board in order to ensure that the decisions pertaining to appointment, remuneration and removal are taken in appropriate way consequently enhancing the stakeholder's value. The terms of reference of the committee shall be as follows:

- To lay down criteria for appointment of directors including independent directors and recommend such appointment to the Board
- To lay down criteria for appointment of senior management and recommend such appointment to the Board (i.e., members of core management team comprising all members of management one level below the executive directors, including the functional heads and key managerial personnel)
- To evaluate every director's performance
- To recommend removal of directors and senior management – to the Board
- To formulate a policy for remuneration of directors, key managerial personnel and other employees

As per the aforesaid terms of reference, the Committee recommended this Nomination and Remuneration Policy to the Board (hereinafter referred to as "Policy") and the Board adopted the same

This policy is applicable to M/s Davangere Sugar Company Limited.

PURPOSE OF THE POLICY

- The policy is framed to attract, motivate and retain directors and employees to serve the best interest of the stakeholders of the Company.
- The policy intends to lay down broad criteria – for appointment and removal of directors and senior management and also for evaluating performance of directors
- The components of remuneration are structured for ensuring a balance between interest of the employees and directors viz-a-viz objectives of the Company.

- Endeavour is made to adopt highest standards of Corporate Governance.
- Endeavour is also made to have a transparent policy which provides for easy execution and clear disclosures.

THE POLICY AND CORPORATE GOVERNANCE

The committee will consist of not less than three directors, one of who is an independent director. The chairman of the committee will also be designated by the Board. The quorum necessary for conducting the meeting will be two members or one third members of the committee, whichever is greater.

The Board of Directors monitor the compliances with the Policy at least once a year. In case of any modifications are necessary based on the observations of the Board and the Committee, the same will be presented for approval in the Board Meeting.

A. CRITERIA FOR APPOINTMENT / CONTINUATION OF APPOINTMENT OF DIRECTORS:

1. Legal Requirements:

- a. As per Section 152(3) of Companies Act 2013, an appointee should have been allotted Director Identification Number u/s 154 of the said Act
- b. As per Section 164 of Companies Act 2013, the following persons are disqualified from being appointed as directors:
 - i. Who is of unsound mind and stands so declared by a competent court;
 - ii. Who is an undischarged insolvent;
 - iii. Who has applied to be adjudicated as an insolvent and his application is pending;
 - iv. Who has been convicted by a court of any offence, whether involving moral turpitude or otherwise, and sentenced in respect thereof to imprisonment for not less than six months and a period of five years has not elapsed from the date of expiry of the sentence
 - v. An order disqualifying him for appointment as a director has been passed by a court or Tribunal and the order is in force;
 - vi. Who has not paid any calls in respect of any shares of the company held by him, whether alone or jointly with others, and six months have elapsed from the last day fixed for the payment of the call;
 - vii. Who has been convicted of the offence dealing with related party transactions under section 188 at any time during the last preceding five years;
 - viii. Who is or has been disqualified by virtue of being a director of a company which has committed following defaults and a period of five years have not elapsed since the date of such disqualification:

- non-filing of financial statements or annual returns for any continuous period of three financial years; or
 - failure to repay the deposits accepted by it or pay interest thereon or to redeem any debentures on the due date or pay interest due thereon or pay any dividend declared and such failure to pay or redeem continues for one year or more
- c. As per Section 165, the appointee shall not be holding directorship in twenty companies or more, including maximum ten public companies. The limit also includes position of alternate directorships. The directorships in private companies which are either subsidiary or holding company of public company will be considered as directorship in public company
- d. As per Section 196 read with Part I of Schedule V of Companies Act 2013, the following conditions shall be fulfilled by an appointee to the position of Managing Director / Whole-time Director. However, specific approval of Central Government / shareholders may be sought for any deviation therefrom:
- i. The appointee shall not be below the age of twenty-one years or shall not have attained the age of seventy years
 - ii. The appointee shall not be an undischarged insolvent or has at any time been adjudged as an insolvent;
 - iii. The appointee should not have at any time suspended payment to his creditors or makes, or has at any time made, a composition with them; or
 - iv. The appointee should not have at any time been convicted by a court of an offence and sentenced for a period of more than six months
 - v. The appointee should not have been sentenced to imprisonment for any period, or to a fine exceeding one thousand rupees, for the conviction of an offence under any of the Acts specified in Schedule V
 - vi. The appointee should not have been detained for any period under the Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974
 - vii. Where he is a managerial person in more than one company, he draws remuneration from one or more companies subject to the ceiling provided in section V of Part II of Schedule V
 - viii. The appointee shall be resident in India
- e. A director shall be considered to be independent director when he / she satisfies the following criteria laid down in Section 149(6) of Companies Act 2013 read with Section 150 and Rule 5 of Companies (Appointment and Qualification of Directors) Rules, 2014:

- i. who, in the opinion of the Board, is a person of integrity and possesses relevant expertise and experience;
 - who is or was not a promoter of the company or its holding, subsidiary or associate company;
 - who is not related to promoters or directors in the company, its holding, subsidiary or associate company;
- ii. who has or had no pecuniary relationship with the company, its holding, subsidiary or associate company, or their promoters, or directors, during the two immediately preceding financial years or during the relevant current financial year;
- iii. none of whose relatives has or had pecuniary relationship or transaction with the company, its holding, subsidiary or associate company, or their promoters, or directors, amounting to two per cent or more of its gross turnover or total income or fifty lakh rupees, whichever is lower, during the two immediately preceding financial years or during the relevant current financial year;
- iv. who, neither himself nor any of his relatives—
 - holds or has held the position of a key managerial personnel or is or has been employee of the company or its holding, subsidiary or associate company in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed;
 - is or has been an employee or proprietor or a partner, in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed, of—
 - a firm of auditors or company secretaries in practice or cost auditors of the company or its holding, subsidiary or associate company; or
 - Any legal or a consulting firm that has or had any transaction with the company, its holding, subsidiary or associate company amounting to ten per cent. or more of the gross turnover of such firm;
 - holds together with his relatives two per cent or more of the total voting power of the company; or
 - is a Chief Executive or director, by whatever name called, of any non-profit organisation that receives twenty-five per cent or more of its receipts from the company, any of its promoters, directors or its holding, subsidiary or associate company or that holds two per cent or more of the total voting power of the company; or
- v. Who possess appropriate skills, experience and knowledge in one or more fields of finance, law, management, sales, marketing, administration, research, corporate governance, technical operations or other disciplines related to the company's business

- vi. Who is named as independent director in the databank of independent directors maintained by Central Government (optional – at the decision of the committee)

2. Requirements of Articles of Association vis-à-vis Joint Venture Agreement:

- a. An appointee shall be nominated by appropriate shareholders group as specified in Article 112 of Articles of Association of the Company
- b. However such requirement shall not apply to independent directors and women director appointed in compliance of Section 149 of Companies Act 2013 and nominee directors appointed by financial institutions

3. Other requirements:

- a. Qualifications - is not particularly specified
- b. Experience - 10 years or more in their respective field of business or profession or services.
- c. Other attributes – Ability to manage and advice the board

B. CRITERIA FOR APPOINTMENT / CONTINUATION OF APPOINTMENT OF SENIOR MANAGEMENT PERSONNEL:

- 1. Senior Management Personnel shall mean members of core management team comprising all members of management one level below the executive directors, including the functional heads, chief financial officer and company secretary
- 2. Criteria for appointment:
 - a. Qualifications – Degree/Master degree/Professional qualification in their respective fields.
 - b. Experience – 10 years or more
 - c. Other attributes – Requisite skills in the field.
- 3. The aforesaid table shall be the minimum requirement. The HR department of the company may specify additional / stricter requirement – on ad-hoc basis

C. CRITERIA EVALUATION OF DIRECTORS' PERFORMANCE:

- 1. Broad criteria for evaluation shall be:
 - a. Governance – Applicable for all the directors
 - b. Leadership abilities – Applicable for all directors except independent directors
 - c. Operational performance – Applicable for Managing Director and Whole-time Directors

2. Broad criteria for evaluating performance pertaining to governance:
 - a. Compliance with domestic & foreign laws (wherever applicable)
 - b. Compliance with Shareholders Agreement
 - c. Adherence with policies and procedures of the company
 - d. Adopting internationally accepted best practices
 - e. Upholding of ethical standards of integrity and probity
 - f. Acting objectively and constructively
 - g. Bona fide actions
 - h. Exercising independent and professional judgement
 - i. Avoidance of conflict of interests
3. Broad criteria for evaluating performance pertaining to leadership abilities:
 - a. Effectual articulation of significance of organisational goals
 - b. Optimum utilization of resources
 - c. Efficient management of delegated powers
 - d. Constructive display of empathy
- 4. Broad criteria for evaluating performance pertaining to operational performance:**
5. The provisions of this policy pertaining to evaluation of director's performance does not apply to Nominee Directors of Financial Institutions
6. Evaluation procedure:
 - a. Evaluation shall be made for each financial year
 - b. A meeting of the Committee shall be conducted during the last quarter of the financial year for determining specific self-appraisal benchmarks – considering the dynamics of that financial year
 - c. Each director (including members and Chairman of the Remuneration committee) shall conduct self-appraisal and submit the same to the Chairman of the Remuneration committee within one month from the end of each financial year
 - d. The Chairman of the Remuneration Committee shall verify the self-appraisal and submit the same to the Chairman of the Board along with his recommendations. Self-appraisal of Chairman of Remuneration Committee shall be verified by any other member of Remuneration Committee

D. CRITERIA FOR REMOVAL OF DIRECTORS AND SENIOR MANAGEMENT:

1. Noncompliance of any of criteria specified in this policy for continuation of appointment of director / senior management as per the opinion of the committee. In such circumstance, committee shall make specific report to the Board detailing the reasons for its recommendation
2. Non-performance / under performance of director as per the opinion of the committee. In such circumstance, committee shall make specific report to the Board detailing the reasons for its recommendation
3. Removal of directors by shareholders who nominated them under Clause 126 of Articles of Association
4. Removal of directors under Section 169 of Companies Act 2013
5. These criteria does not apply to retirement by rotation, cessation of office of nominee director by the action of financial institution, cessation of office of additional director / alternate director / director in casual vacancy by operation of law, other cessations by operations of law or by order of any tribunal or court

E. REMUNERATION COMPONENTS

1. The remuneration components detailed hereunder apply to Managing Director, Whole-time director and Key Managerial Personnel. Remuneration of Managing Director and Whole-time directors shall be subject to limits prescribed and compliances to be made under Companies Act 2013 and rules made thereunder. Remuneration of other employees shall be as per the HR policy of the company
2. The remuneration components consist of the following:
 - a. Fixed remuneration
 - b. Performance bases remuneration
 - c. Pension scheme (where applicable)
 - d. Other benefits
 - e. Severance payment (where applicable)
3. Fixed remuneration: The fixed remuneration or base salary is determined on the role and position of individual employees, including professional experience, responsibility, job complexity and market conditions. The fixed salary will be reviewed regularly by the committee.
4. Performance based remuneration:
 - a. The maximum performance based remuneration shall be 0.01% of Sales Turnover achieved during the year. This limit varies according to the position held by the employees. Performance based remuneration may be disbursed as cash bonus, shares, share based instruments, including conditional shares and other generally approved instruments. Issue of such shares etc shall be administered by a separate scheme to be approved by the board from time to time.

- b. Non-disbursed performance- based remuneration components are subject to back testing and should be forfeited in full or in part if granted on the basis of unsustainable results or if the financial result of the company has deteriorated significantly.
 - c. Disbursed and non-disbursed components are subject to claw back provision if granted on the basis of data which has subsequently proven to be misstated or inaccurate.
 - d. The performance based remuneration is awarded ensuring:
 - i. that there is a balance between fixed and performance based remuneration component
 - ii. that the fixed remuneration is sufficiently higher component in the total remuneration to make the non-payment performance based remuneration possible
 - e. Performance based remuneration is granted to reflect the company's financial results and the operational result of the business unit in which the employee is employed. Performance based remuneration is granted to employees with particular influence on company's results and stakeholder's value. Further, both financial and non-financial factors shall be taken in to consideration while deciding the individual's bonus. An assessment is made to ensure that other factors including which are not directly measurable are considered.
 - f. Stay-on fixed pay/ stay-on and guaranteed bonus may be granted only in exceptional cases on the joint recommendation of the head of HR department and the head of department to which the employee belongs. This remuneration is given to attract or retain highly talented and specialised employees.
5. Pension scheme: This remuneration component guarantees a cover for the employees in case of illness or death and pension payment on retirement. The employees are covered by defined contribution plan with a pension insurance company. The pension contributions of employees are subject to collective bargaining and are regulated by collective agreement. The pension scheme will be construed and offered to the employees as per the local practices and regulations.
 6. Other benefits: Employees on individual employment contract will be eligible to certain other benefits. These benefits will be based on the local market standards. Some of these benefits will include allowances such as dearness allowance, house rent allowance, travel allowance, medical reimbursement etc, as may be determined by the HR department
 7. Severance payment: Subject to individual agreement certain key employees are eligible for severance payment on termination of employment. This payment will be made as per the local laws and collective agreement.
 8. Approval process: The proposed appointment, remuneration and removal of each appointee / employee covered under this policy or proposed changes thereto - shall pass through the following approval process:

- a. Recommendation by the committee
- b. Recommendation by audit committee, if required as per the law
- c. Approval of the Board
- d. Approval of shareholders, if required as per the law
- e. Approval of government, if required as per the law

F. MODIFICATIONS

The adequacy of this policy will be reviewed by the committee at such intervals as may be deemed fit and the Board can make any modifications to this policy without giving any prior notice.