

FFS

DEFENCE ENGINEERING LTD.

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NOMINATION AND REMUNERATION POLICY

1. Legal framework and Objectives

Section 178 of the Companies Act, 2013 ("Act") read with the applicable Rules thereto, provisions of Regulation 19 of the SEBI (Listing Obligations and Disclosure Requirement) Regulations, 2015 ('SEBI Regulations') read with Part D of Schedule II of SEBI Regulations (together referred to as "Applicable Laws") require the Nomination and Remuneration Committee ("NRC" or the "Committee") of the Board of Directors of every listed company, among other classes of companies, to:

- 1) Identify persons who are qualified to become directors and who may be appointed in a KMP or SMP role in accordance with the criteria laid down, and recommend to the Board their appointment and removal;
- 2) Formulate the criteria for determining qualifications, positive attributes and, independence of a director;
- 3) Devising a policy on diversity of board of directors;
- 4) Specify the manner and criteria for effective evaluation of the performance of the Board, its committees and individual directors. Basis the performance evaluation results of independent directors, decide whether to extend or continue their term of appointment or not;
- 5) Recommend to the Board of directors a policy relating to the remuneration of the directors, KMP and other employees including SMP
- 6) Recommend to the Board, all remuneration, in whatever form, payable to senior management;

This Policy shall act as a guideline on some of the above-mentioned objectives of the NRC.

2. Definitions

- 1) **"Act"** means the Companies Act, 2013 and the Rules framed thereunder, as amended from time to time.
- 2) **"Applicable Laws"** means applicable provisions of the Act and the SEBI Regulations.
- 3) **"Board"** means the collective body of the directors of the Company.
- 4) **"Committee"** means the Nomination & Remuneration Committee.
- 5) **"Company"** means FFS Defence Engineering Limited.
- 6) **"Directors"** means a director appointed to the Board of the Company.
- 7) **"Independent Director"** means as provided under Applicable Laws
- 8) **"Key Managerial Personnel" or "KMP"** means
 - a. the chief executive officer or the managing director or the manager;
 - b. the company secretary;
 - c. the whole-time director;
 - d. the chief financial officer; and Any other person as defined under the Act from time to time
- 9) **"Policy"** means the Nomination and Remuneration Policy
- 10) **"Remuneration"** means any money or its equivalent given or passed to any person for services rendered by them and includes perquisites as defined under the Income tax Act, 1961.

11) ***“SEBI Regulations”*** means the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015, as amended from time to time.

12) ***“Senior Management”*** or ***“Senior Management Personnel”*** or ***“SMP”*** means as provided under SEBI Regulations.

3. **Composition and Chairmanship**

The members of the Committee will be appointed by the Board and may be removed by the Board in its discretion. These members will serve until their cessation on the Board of Company or removed by the Board or their successors have been duly appointed. The Committee shall comprise of at least three directors and at least two third of the directors shall be independent directors. All directors of the Committee shall be non-executive directors. However, the executive chairperson of the Board (if any) may be appointed as a member of the Committee but shall not chair the Committee. The Chairperson of the Committee shall be an independent director and shall be appointed by the Board. In case the Chairperson is not present at any Committee meeting, the members present at the meeting shall, amongst themselves, elect a Chairperson for that particular meeting.

Composition of Nomination and Remuneration Committee:

Name of Director	Designation in the Committee	Designation
Mr. Manoj Kumar Ramrikh Pandey	Chairman	Non-Executive Independent Director
Ms. Dipti Jain	Member	Non-Executive Independent Director
Mr. Trilok Singh Bahra	Member	Non-Executive Director

4. **Frequency of meeting and Quorum**

The Committee shall meet at least once in a year and the quorum for the meeting shall be either two members or one third of the members of the Committee, whichever is greater, including at least one independent director in attendance.

5. **Appointment and removal of Director, KMP and SMP**

The Committee shall evaluate the balance of knowledge, skill, professional & functional expertise, industry orientation, board diversity, age etc. on the Board and, in the light of this evaluation, prepare and recommend to the Board, a description of the role and capabilities required for a particular appointment.

For every appointment of independent director, the Committee shall:

- Evaluate the balance of skills, knowledge and experience on the Board and on the basis of such evaluation, prepare a description of the role and capabilities required of an independent director;
- Ensure that the person recommended to the Board for appointment as an independent director shall have the capabilities identified in such description.

For the purpose of identifying suitable candidates, the Committee may: 1.) use the services of an external agency, if required; 2.) consider candidates from a wide range of backgrounds, having due regard to diversity; and 3.) consider the time commitments of the candidates.

In case of Directors, KMPs and SMPs, in addition to the above specifications, the NRC shall ensure that the potential candidates possess the requisite qualifications and attributes as per the Applicable Laws. Refer Annexure A for the criteria for determining the Independence of Directors in case of appointment of Independent Directors.

With respect to removal of any Director, KMP and SMP, the NRC shall in consultation with either the Chairman of the Company, review the performance and/or other factors meriting a removal and subject to the provisions of the Applicable Laws and the Articles of Association of the Company, recommend to the Board its course of action.

6. Board Diversity

The Committee in its nomination process and while making recommendations to the Board shall endeavour to have an optimum combination of directors from different fields and gender. The Committee shall operate on the premise that a diverse and inclusive Board will be able to leverage different skills and perspectives which is essential for achieving long-term growth and development. The Committee shall set out the criteria for determining qualifications, positive attributes and independence while evaluating a person for appointment /re-appointment as Director with no discrimination on the grounds of ethnicity, nationality, gender or race or any other such factor. While reviewing the composition of the Board, the Committee will consider the benefits of all aspects of diversity including, but not limited to, those described above.

7. Board Familiarization and Learning

Regulation 25(7) of the SEBI LODR requires a company to familiarize the independent directors *inter-alia* with the Company and their roles and responsibilities in the Company. Accordingly, the NRC has adopted a structured program for orientation and training of non-executive directors including independent directors at the time of their joining so as to enable them to understand the Company - its operations, business, industry and environment in which it operates.

The Company has a separately defined Familiarization Program for the Directors which also focusses to update the Directors, on a continuing basis, on any significant changes therein so as to be in a position to take well-informed and timely decisions.

8. Performance Evaluation of the Board, its committees and individual directors

Each year, the NRC formulates the criteria and the process for evaluation of performance of the Board, individual directors, Chairperson and the committees of the Board and recommend the same to the Board. The evaluation shall be carried out either by the Board, Committee or by an independent external agency and the NRC shall review its implementation and compliance with Applicable laws as well as the criteria and process laid out.

The evaluation of the independent directors shall be done by the entire Board of directors which shall include:

- a. performance of the directors; and
- b. fulfilment of the independence criteria including their independence from the management as specified under Applicable Laws. Directors who are subject to this evaluation shall not participate in their own evaluation.

The independent directors of the Company shall hold at least one meeting in a year, without the presence of non-independent directors and members of the management and all the independent directors shall strive to be present at such meeting. The independent directors in their separate meeting shall, *inter alia*:

- a. review the performance of non-independent directors and the Board of directors as a whole;
- b. review the performance of the Chairperson of the Company, taking into account the views of executive directors and non-executive directors; and
- c. assess the quality, quantity and timeliness of flow of information between the management of the Company and the Board of directors that is necessary for the Board of directors to effectively and reasonably perform their duties.

Basis the evaluation results, the NRC will make its recommendations to the Board on the appointment / re-appointment / continuation of Directors on the Board.

9. Remuneration Criteria

A. GENERAL

- 1) The remuneration / compensation / commission etc. to be paid to Directors will be determined by the Committee and recommended to the Board for approval.
- 2) The remuneration and commission to be paid to the Managing Director/Whole-time Director shall be in accordance with the provisions of the Act, and the rules made thereunder.
- 3) Increments to the existing remuneration / compensation structure may be recommended by the Committee to the Board which should be within the limits approved by the Shareholders in the case of Managing Director/ Whole-time Director.
- 4) Where any insurance is taken by the Company on behalf of its Directors, KMP and Senior Management for indemnifying them against any liability, the premium paid on such insurance shall not be treated as part of the remuneration payable to any such personnel. Provided that if such person is proved to be guilty, the premium paid on such insurance shall be treated as part of the remuneration.

B. REMUNERATION OF NON-EXECUTIVE AND INDEPENDENT DIRECTORS

- 1) Non-Executive and Independent Directors ("NEDs") will be paid remuneration by way of sitting fees and commission. The remuneration/ commission/ compensation to the NEDs will be determined by the Nomination and Remuneration Committee ("Compensation Committee") and recommended to the Board for its approval.
- 2) Such remuneration and commission will be approved by the Board and shareholders, as may be required, in accordance with the provisions of the Act.
- 3) The payment of the commission to the NEDs will be placed before the Board every year for its consideration and approval. The sitting fee payable to the NEDs for attending the Board and Compensation Committee meetings will be fixed, subject to the statutory ceiling. The fee will be reviewed periodically and aligned to comparable best in class companies.
- 4) Keeping with evolving trends in industries and considering the time and efforts spent by specific NEDs, the practice of paying differential commission will be considered by the Board.
- 5) NEDs will not be eligible to receive stock options under the existing employee stock option scheme(s) ("ESOP") of the Company.

- 6) NEDs are entitled to be paid all travelling and other expenses they incur for attending to the Company's affairs, including attending meetings of the Company.
- 7) The remuneration payable by the Company to NEDs shall be subject to the conditions specified in the Act and the SEBI Listing Regulations including in terms of monetary limits, approval requirements and disclosure requirements.

C. REMUNERATION OF EXECUTIVE DIRECTOR

- 1) The compensation paid to the executive directors (including Managing Director) will be within the scale approved by the shareholders. The elements of the total compensation, approved by the Compensation Committee will be within the overall limits specified under the Act.
- 2) The elements of compensation of the executive director include the elements as described in 4 below.
- 3) The Compensation Committee will determine the annual variable pay compensation in the form of annual incentive and annual increment for the executive director based on Company's and individual's performance as against the pre-agreed objectives for the year.
- 4) The executive directors, except for a promoter director, will also be eligible for ESOPs as per the ESOP scheme in force from time to time. Grants under the ESOP scheme shall be approved by the Compensation Committee.
- 5) In case of inadequacy of profit in any financial year, the remuneration payable to the executive director shall be further subject to the relevant provisions of the Act.
- 6) Executive directors will not be paid sitting fees for any Board/ committee meetings attended by them.
- 7) The remuneration payable by the Company to the executive directors shall be subject to the conditions specified in the Act and the SEBI Listing Regulations including in terms of monetary limits, approval requirements and disclosure requirements.

D. REMUNERATION TO KEY MANAGERIAL PERSONNEL / OTHER EMPLOYEES

- 1) The Company's total compensation for Key Managerial Personnel as defined under the Act / other employees will consist of:
 - fixed compensation;
 - variable compensation in the form of annual incentive;
 - benefits; and
 - work related facilities and perquisites.
- 2) In addition, select senior executives will be eligible for long-term incentive plan in the form of ESOPs, as per the ESOP scheme in force from time to time. Grants under the ESOP scheme will be approved by the Compensation Committee.
- 3) Fixed compensation will be determined on the basis of size and scope of the job typically as reflected by the level or grade of the job, trends in the market value of the job and the skills, experience and performance of the employee. Fixed compensation will include basic salary, housing allowance, leave travel allowance and a cash allowance.
- 4) The annual incentive (variable pay) of executives will be linked directly to the performance of the Company.
- 5) The employees shall receive benefits based on the grade and seniority of employees as per the policy of the Company.
- 6) Employees will also be eligible for work related facilities and perquisites as may be determined through human resources policies issued from time to time based on the grade of the employee.

- 7) A formal annual performance management process will be applicable to all employees, including senior executives. Annual increases in fixed and variable compensation of individual executives will be directly linked to the performance ratings of individual employee.

- ✓ Overall compensation shall be subject to periodic reviews which takes into account data from compensation surveys conducted by specialist firms, as well as factors such as affordability based on the Company's performance and the economic environment;
- ✓ Employees may be eligible for ESOPs as per the ESOP scheme approved by the Shareholders and in force from time to time. The objective of the ESOP is to reward the Eligible Employees, for their past association and performance as well as to motivate them to contribute to the growth and profitability of the Company; and
- ✓ Employees may be eligible for severance payments in accordance with the termination clause in their employment agreement subject to applicable regulatory requirements.

10. Succession Planning

Succession Planning is done to ensure that the affairs of the Company are not impeded on account of events viz; retirement, resignation, death, etc. The NRC shall draft and recommend to the Board a succession plan for the appointments made to the Board as well as KMPs & SMPs. The NRC shall review such plan on an annual basis and recommend revisions, if any, to the Board. The NRC shall work with the management and follow the following process for effective succession planning:

- a. Assessment of potential employees and creation of a leadership pool.
- b. Development of the talent pool through actions such as involvement in strategic meetings, leadership workshops with top management, coaching, anchoring, job rotations, role enhancement, council memberships and involvement in cross function projects etc.

11. Interpretation and amendments in law

The Board of Directors may on recommendation of the NRC and in their discretion, make any changes/modifications and/or amendments to this Policy from time to time.

Unless the context otherwise requires, words and expressions used in this Policy and not defined herein but defined in the Applicable Laws, as may be amended from time to time, shall have the meaning respectively assigned to them therein. In the event of any conflict between the provisions of this Policy and the Applicable Laws or any other statutory enactments, rules, shall prevail over and automatically be applicable to this Policy and the relevant provisions of the Policy would be amended/modified in due course to make it consistent with the law.

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