



Castrol India Limited

POLICY ON NOMINATION, INDEPENDENCE, REMUNERATION, DIVERSITY AND EVALUATION

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CASTROL INDIA LIMITED

POLICY ON NOMINATION, INDEPENDENCE, REMUNERATION, DIVERSITY AND EVALUATION

(Consolidated Policy approved by the Board of Directors 6 February 2018)

This Policy of Castrol India Limited (the “Company”) shall be referred to as “Policy on Nomination, Remuneration, Diversity and Evaluation (the “Policy”). This Policy shall act as a guideline for “Nomination and Remuneration Committee” (the “Committee”) on matters relating to Appointment of Directors including Independent Directors, Remuneration of Directors, Key Managerial Personnel (KMPs) and Senior Management Personnel, Board evaluation and Board Diversity. This Policy has been prepared pursuant to the provisions of Section 178(3) of the Companies Act, 2013 (the “Act”), SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (the “SEBI Listing Regulations, 2015”) and is subject to the provisions of other applicable laws as amended from time to time.

1. POLICY

The Committee is responsible for recommending this Policy to the Board including any amendments to be made in this Policy.

2. REVIEW OF THE POLICY

The Board of Directors (the “Board”) is responsible for approving and overseeing implementation of this Policy and the same will be reviewed and reassessed by the Committee as and when required and appropriate. Recommendations shall be made to the Board to update this Policy for reasons that include but are not limited to regulatory changes.

Implementation of this Policy shall be the responsibility of the Company Secretary who shall advise the Board from time to time. All the terms like Director, Managing Director, KMP, Independent Director, Remuneration, Committee shall have the same meaning as assigned under the Act read with SEBI Listing Regulations, 2015.

The power to interpret and administer the Policy shall rest with the Chairperson of the Committee whose decision shall be final and binding. The Chairperson is also empowered to make any supplementary rules/orders to ensure effective implementation of the Policy. These will, however, be reported to or placed before the Committee, from time to time, to ensure the Committee’s oversight on these issues.

3. POLICY ON APPOINTMENT OF DIRECTORS

a. In accordance with Company’s Articles of Association, the Board determines, from time to time, the size of the Board and may fill any vacancies that occur between annual general

meetings. The Committee periodically evaluates and makes recommendations to the Board concerning the appropriate size of the Board based upon the needs of the Board.

- b. Appointment of a Director will be based on the outcome of a proper planning. The Committee shall consider the standards of qualification, expertise and experience of the candidates for appointment as Director and accordingly recommend to the Board his/her appointment. The Committee will assess skill-sets, the Board needs to have for the industry the Company operates in and also in view of Group corporate philosophy and governance standards.
- c. The Committee shall request reference internally for a candidate having relevant experience or from external consultants or any other source as deemed appropriate by the Committee.
- d. For inducting Directors, the Committee members shall personally meet the potential candidate and assess suitability of the candidate for the role in view of Castrol values and standards of governance.
- e. The Committee shall recommend appointment of the shortlisted candidate for directorship to the Board for its consideration. The Committee shall also recommend compensation that can be paid to a Director, commensurate to the industry norms and position.
- f. If position of a Director suddenly becomes vacant by unanticipated occurrence of any event, the Committee shall meet at the earliest opportunity to discuss succession and fill such vacancy.

g. Criteria for selection

- i. The Board Candidate should be of the highest ethical character and share the values of Castrol as reflected in the Code of Conduct and Corporate Governance principles. Board candidate should have reputation, both personal and professional, consistent with the image and reputation of Castrol.
- ii. The Board candidate should be of the highest moral and ethical character. The candidate must exhibit independence, objectivity and be capable of serving as a representative of the stockholder.
- iii. The Board candidate should have the personal qualities to be able to make a substantial active contribution to Board deliberations. These qualities include intelligence, self-assuredness, a high ethical standard, inter-personal skills, independence, courage, and willingness to ask the difficult questions, communication skills and commitment.
- iv. The Board candidate must be willing to commit, as well as have, sufficient time available to discharge the duties of Board membership and should not have any prohibited interlocking relationships or conflict of interest.
- v. Board Candidate should be highly accomplished in its respective field, with superior credentials and recognition.
- vi. In recognition of the fact that the foundation of the Company is in lubricants industry, the Board should prefer person who has relevant experience. A candidate should have extensive and relevant leadership experience including understanding of the complex challenges of enterprise leadership. International experience will in many cases be considered a significant positive characteristic in a Board candidate's profile. An ideal

Board candidate will have gained this experience in one or more of the settings outlined below:

- a. Business - The Board candidate is or has been the Chief Executive Officer, Chief Operating Officer or other major operating or officer of a major corporation, with a background in law/marketing/ finance/ business operations/strategic management.
- b. Industry - The Board candidate has experience in the fast-moving consumer goods (FMCG) industry / automobile industry or other complementary field.
- c. Information Technology - The Board candidate should have fair understanding of information technology, e-commerce or digital marketing and also of regulatory framework in which the industry operates.

In considering candidates for election to the Board of Directors, the Board should constantly be striving to achieve the diversity of the communities in which the Company operates. The Committee shall work with the Board to determine the appropriate characteristics, skills and experience for the Board as a whole and its individual members with the objective of having a Board with diverse backgrounds and experience as per Diversity Policy of the Company.

4. POLICY ON INDEPENDENCE OF DIRECTORS

For the Independent Directors, the Committee shall assess the independence of Directors at the time of appointment / re-appointment and the Board shall assess the same annually as per the 'Policy on Independence of Directors'. The Board shall re-assess determinations of independence when any new interests or relationships are disclosed by a Director.

The Independent Directors shall abide by the "Code for Independent Directors" as specified in Schedule IV to the Act. This policy is subject to the provisions of the Companies Act, 2013 and Listing Regulations issued by Securities and Exchange Board of India (SEBI) from time to time and that the Nomination and Remuneration Committee/Board to assess the Independence of Independent Directors of the Company according to the criteria of Independence laid down by the Companies Act, 2013 read with Listing Regulations.

5. POLICY ON REMUNERATION OF DIRECTORS

While determining Remuneration, the Committee shall take into account -

- i. Salary level of new director/employee is competitive, relative to the peer group.
- ii. Variable remuneration is awarded within the parameters, and is subject to a requirement of continued service and corporate performance condition.
- iii. Where an existing employee is promoted to the Board, the Company will honour all existing contractual commitments including any outstanding share awards or pension entitlements.
- iv. Where an individual is relocating in order to take up the role, the Company may provide certain one-off benefits such as reasonable relocation expenses, accommodation for a period following appointment and assistance with visa

applications or other immigration issues and ongoing arrangements such as tax equalization, annual flights home, and housing allowance.

- v. Where an individual would be forfeiting valuable remuneration in order to join the Company, the Committee may award appropriate compensation based on evidence.

In making/revising remuneration package, the Committee would balance shareholder expectations, current best practice and the requirements of any new recruit.

The Committee may recommend to the Board, changes in remuneration terms of Directors, Key Managerial Personnel or Senior Management Personnel subject to the provisions of the Act and applicable Group policies, regulations of Service, Code of Ethics and Principles of legal compliance framed and adopted by the Company from time to time. The Directors and Key Managerial Personnel / Senior Management Personnel shall superannuate as per the applicable provisions of the regulation and prevailing policy of the Company. The Board of Directors will have the discretion to retain the Whole-time Director, Key Managerial Personnel and Senior Management Personnel in the same position / remuneration or revised remuneration after attaining the age of superannuation, for organizational development reasons.

The Committee will discuss succession plans for the Directors, Key Managerial Personnel and Senior Management Personnel in consonance with the Company's policies, as applicable from time to time.

(i) Remuneration for Independent Directors (IDs) and Non-Independent Non-Executive Directors (NED)

The remuneration should be sufficient to attract, motivate and retain world-class, non-executive talent. Remuneration practice should be consistent with recognized best practice standards for Chairman and NED remuneration. The aggregate annual remuneration payable to the NEDs is determined by shareholder resolution, subject to the limits of Law. The Non-Executive Directors nominated by Promoters are not entitled to receive any remuneration.

- a. Directors Sitting Fees - The NEDs are entitled to sitting fees as determined by the Board from time to time for attending Board / Committee meetings thereof in accordance with the provisions of Act. Sitting fees amount may be subject to review on a periodic basis, as required. Within the parameters prescribed by law, the payment of sitting fees will be recommended by the Committee and approved by the Board.
- b. Profit-linked Commission - The profit-linked commission shall be paid to the NEDs within the monetary limit approved by the shareholders of the Company subject to the same not exceeding 1% of the net profits of the Company computed as per the applicable provisions of the Act. Amount of Commission would be determined considering the overall performance of the Company, attendance at the meetings of Board / Committees, Membership / Chairmanship of Committees and contribution by the respective NEDs. The Committee will recommend to the Board, the quantum of commission for each Director based upon the outcome of the evaluation process.

c. The IDs and NEDs are not entitled to any stock options of the Company.

NEDs are supported through the Company Secretary's office. This support includes assistance with travel and transport, security advice (when needed) and administrative services. NEDs shall be issued letters of appointment that recognize that, their service is at the discretion of shareholders.

The quantum and structure of the Chairman's remuneration is set by the Board based upon a recommendation from the Nominations Committee. The Chairman is not involved in setting his own remuneration. The Chairman's office is not maintained by the Company however he is provided administrative support and all reasonable travelling, communication and other expenses incurred in carrying out his duties are reimbursed.

(ii) **Remuneration for Managing Director (MD)/ Whole-time Directors (WTDs) / Key Managerial Personnel (KMPs) and Senior Management Personnel (SMPs)**

A. The remuneration policy for the Managing Director (MD)/Whole-time Directors (WTDs)/KMPs and Senior Management Personnel (SMPs) shall be guided by five key principles.

- *Linked to strategy:* A substantial proportion of remuneration is linked to success in implementing the Company's strategy.
- *Performance related:* The major part of total remuneration varies with performance, with the largest elements being share based, further aligning with shareholders' interests.
- *Long term:* The structure of pay is designed to reflect the long-term nature of Castrol's business and the significance of safety and environmental risks.
- *Informed judgement :* There are quantitative and qualitative assessments of performance with the Committee making informed judgement within a framework approved by shareholders.
- *Fair treatment :* Total overall pay takes account of both the external market and Company conditions to achieve a balanced, 'fair' outcome.

B. The aim of this policy is to ensure that whole-time directors are remunerated in a way that reflects the Company's long-term strategy. Consistent with this, a high proportion of directors' total potential remuneration has been, and will be, strongly linked to the Company's long-term performance. Salaries will normally be set in the home currency of the Director and reviewed annually. Remuneration shall comprise of two broad components; fixed and variable. Fixed portion comprises of Base pay and perquisites and variable pay termed as Performance Linked Bonus (PLB) comprises of a pre-determined maximum compensation that can be paid at the end of the performance year. Entire remuneration shall be paid as per the contract approved by the Board and terms approved by shareholders, as under:

- i. Fixed Component – This includes Salary and other perquisites/benefits. This provides base-level fixed remuneration to reflect the scale and dynamics of the business and to be competitive with the external market. Basic/fixed salary is provided to all employees to ensure that there is a steady income in line with their skills and experience. In addition to the basic/fixed salary, the Company may provide employees with certain perquisites, allowances and benefits to enable a certain level of lifestyle and to offer scope for savings and tax optimisation, where possible. The Company may also provide all employees with a social security net (subject to limits) by covering medical expenses and hospitalisation through re-imbursing or insurance cover and accidental death and dismemberment through personal accident insurance.
 - ii. Performance Linked Bonus (PLB) – The specific amount payable to the MD/EDs would be based on performance as evaluated by the Board. It provides a variable level of remuneration dependent on short-term performance against the annual plan. Total overall Bonus is based on performance relative to measures and targets reflected in the annual plan, which in turn reflects Company's strategy.
 - iii. Retirals in the form of contribution to Provident Fund, Superannuation and Gratuity be paid as per statutory requirements.
 - iv. Based on the organizational need for retaining high performing employees and also those who are playing critical roles, from time to time, certain retention features may be rolled out as part of the overall compensation package. These may take form of Retention Bonuses, group Share Value Plan etc.
 - v. Severance Pay may be awarded (under supervision and with approval of the Committee) to the eligible MD / WTDs / KMPs / SMPs in case of major organisational structuring(s).
 - vi. Long Term Incentives may be awarded (under supervision and with approval of the Committee) to the eligible MD / WTDs / KMPs / SMPs based on their contribution to the performance of the Company, relative position in the organisation, and length of service.
- C. Annual Compensation Review - The compensation review year will be financial year of the Company. The annual compensation review, as a part of the performance management system cycle, shall be guided by Industry/business outlook, employee differentiation based on individual performance rating achieved during the applicable performance year.

6. **BOARD EVALUATION**

1. The Board is committed to assessing its own performance as a Board in order to identify its strengths and areas in which it may improve its functioning. Towards this end, the Committee shall establish the criteria and processes for evaluation of performance of Individual Directors, Chairperson of the Board, the Board as a whole and the Committees of the Board and recommend the same to the Board.

2. The Board is responsible for monitoring and reviewing of the Board Evaluation framework.
3. The Committee shall
 - formulate of criteria for evaluation of performance of independent directors and the board of directors;
 - carry out evaluation of every director's performance;
 - determine whether to extend or continue the term of appointment of the independent director, on the basis of the report of performance evaluation of independent directors.
4. The performance evaluation shall take place annually. It shall be the responsibility of the Chairperson of the Committee to organise the evaluation process.
6. The appointment / re-appointment / continuation of Directors on the Board shall be subject to the outcome of the yearly evaluation process.
7. The process and criteria for evaluation shall be guided by the "Guidance Note on Board Evaluation" issued by SEBI (No. SEBI/HO/CFD/CMD/CIR/P/2017/004 dated January 5, 2017), applicable provisions of the SEBI Listing Regulations, 2015 and the Act and amendments / modifications thereto made from time to time.
8. Meeting of Independent Directors:

The Independent Directors of the Company shall hold at least one meeting in a year, without the attendance of Non-independent Directors and members of the management.

Such meeting shall:

- a) review the performance of Non-independent Directors and the Board 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;
- c) assess the quality, quantity and timeliness of flow of information between the Company management and the Board that is necessary for the Board to effectively and reasonably perform their duties.

The Independent Directors may call such meeting(s) at any point of time as desired.

7. **BOARD DIVERSITY POLICY**

1. The Board Diversity Policy aims to set out the approach to achieve diversity on the Board of Directors of the Company. Building a diverse and inclusive culture is integral to the success of Company. Ethnicity, age and gender diversity, underpinned by meritocracy are areas of strategic focus for the employee base and the same principle is applied to the composition of Board.

2. **Policy Statement**

The Board of Directors shall comprise of Directors having expertise in different areas / fields like Strategic Planning, Finance, Law, Sales, Engineering or as may be considered appropriate. In designing the Board's composition, Board diversity shall not be limited to gender, age, cultural and educational background, ethnicity, professional experience, skills and knowledge. The Board shall have at least one Board member who has accounting or related financial management expertise and at least one woman director.

The Board recognises the benefits that diversity brings to the Board. In considering the composition of the Board, directors will be mindful of:

- Diversity: ensuring the Board and the Company reflects the global communities in which it works;
- Inclusiveness: creating an environment where all board members, employees and business partners are valued and can give of their best;
- Meritocracy: ensuring that Board appointments are made on the basis of merit alone.

The Board delegates the search and nomination of new directors to the Committee. When considering the nomination of new directors, the Committee will evaluate the balance of skills, knowledge and experience on the Board in order to identify the capabilities desirable for a particular appointment. Such evaluations will also consider the diversity the individual brings to the overall Board and will aim to ensure as diverse a mix as possible.

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