

**22.0 Environment, Social & Governance**  
**P22.5 Clawback Policy**  
**Vardhman Group**

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**Document Attributes**

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### 22.5.1. Overview

A clawback policy allows a company to recover or reclaim compensation previously paid to employees of senior management. Clawback policies typically relate to compensation paid under incentive-based plans and provide for recovery of compensation paid based on fraudulent or inaccurate financial measures.

### 22.5.2. Objective

The main purpose is to allow the company to recover performance-based compensation that was paid to senior management employees based on financial metrics that later turn out to be flawed or inaccurate. This is typically triggered when a company's financial statements are found to be misstated, leading to an overpayment of compensation.

By enforcing clawback policies, companies aim to hold senior and key management employees accountable for their actions, particularly when it comes to ensuring the accuracy and integrity of financial reporting. Enforcing clawback policies helps the company mitigate legal risks, particularly in the event of regulatory scrutiny or investigations. It also safeguards the company's reputation by demonstrating a commitment to accountability and transparency.

### 22.5.3. Scope & Applicability

This policy is applicable to all individuals of Senior Management employees including Key Managerial Personnel of Vardhman Textiles Limited.

### 22.5.4. Definition

1. **Misconduct:** The term "misconduct" means an action or inaction without proper approvals or actions beyond the delegated authority or code of conduct for Senior and Key Managerial Personnel(s).
2. **Clawback/ Malus:** Malus refers to adjustment/reduction of 'at risk' remuneration, prior to vesting/ due date of an Incentive (defined later). Clawback refers to the cancellation of unvested/pending Incentives and includes recovery of paid Incentives.
3. **Performance Based Compensation:** The term "performance-based compensation" means all bonuses and other incentive and equity compensation awarded to any of the company's senior management employee(s), the amount, payment and/or vesting of which was calculated based wholly or in part on the application of objective performance criteria measured during any part of the period covered by the restatement of financial results of the company.
4. **Restatement of Financial Statements:** The term "restatement of financial statements" means restating the amounts in the financial statements in which the error occurred due to misconduct by senior management employee(s). Such restatement shall be in accordance with the provisions of Companies Act.
5. **Senior Management Employee:** The expression "Senior Management Employee(s)" means Director Locations, Unit Heads, Unit Commercial Heads, and Corporate HOD's.

### **22.5.5. Restatements Triggering Events**

1. In the event of restatement of financial statements or significant deterioration in financial health of the company or major risk management failure, the variable pays or its deferred component shall be subject to clawback/ malus arrangements.
2. Clawback/ Malus provision shall allow prevention of vesting of all or part of deferred component of variable pay including cash and share-linked components.
3. Clawback shall be triggered under any of the following conditions, or any other conditions:
  - Material restatement of financials
  - Detrimental conduct including but not limited to illegal activity, breach of fiduciary duty, fraud, deliberate harm to the company's reputation
  - Significant responsibility for a material adverse outcome for organization as whole or business unit;
  - Wilful misleading to Board, shareholders, financial institutions, or regulators.

### **22.5.6. Board Actions**

1. The NRC may, based upon the facts and circumstances surrounding the restatements, initially direct, the company in respect of any senior management employee(s) to stop their increment or promotion.
2. Considering the nature and severity of misconduct the NRC may also direct the company to recover all or a portion of incentive compensation paid, or cancel all, or part of, the stock-based awards granted, to a senior management employee(s).
3. In addition, the NRC may also seek to recoup any gains realized with respect to equity-based awards, including stock options granted under the company's stock option plan.
4. Each senior management employee(s) shall repay the company to the fullest or partial extent as directed by the NRC, any annual incentive or other performance-based compensation awards ("Awards") received by him or her, provided that;
  - the payment, grant or vesting of the Awards was based on the achievement of financial results that subsequently underwent restatement in the company's financial statements; or
  - the NRC determines in its sole discretion, exercised in good faith, that the senior management employee(s) was engaged in misconduct that caused or contributed to the need for the restatement; or
  - the amount of the compensation would have been lower than the amount actually received by the senior management employee(s), had the financial results been properly reported; or
  - the NRC determines in its sole discretion that it is in the best interests of the company and its stakeholders for the senior management and Key management employees to repay all or any portion of the Awards.

### **22.5.7. Authority of Decision Making**

1. The NRC shall have full and final authority to make all determinations under this policy. The Board before determining / deciding on any matter under this policy shall consider the recommendation of NRC.
2. All determinations and decisions made by the NRC pursuant to the provisions of this policy shall be final, conclusive and binding.
3. Each award agreement or other document setting forth the terms and conditions of any annual incentive or other performance-based award granted to the senior management employee(s) shall deemed to be included in the provisions of this policy.

### **22.5.8. Exception**

The NRC shall not seek recovery to the extent it determines:

- i. that to do so would be unreasonable; or
- ii. that it would be better for the company not to do so.

In making such determination, the NRC shall take into account such considerations as it deems appropriate.

### **22.5.9. Due Process Right**

Before the NRC determines to seek recovery pursuant to this policy, the company shall provide a written notice and the opportunity to be heard to the concerned employee(s).

### **22.5.10. Manner of Recovery**

If the NRC determines to seek a recovery pursuant to this policy, the company shall make a written demand for recovery from the employee(s) and, if the employee(s) does not tender amount within a reasonable period in response to such demand letter, and the NRC determines that he or she is unlikely to do so, then the company may seek a legal course of action against the employee(s) for such recovery on any dues payable by concerned employee from the company.

### **22.5.11. Governance**

Nomination and Remuneration Committee (NRC) of the Board shall govern the Clawback Policy.

### **22.5.12. Policy Review**

This policy will be reviewed As and When needed to protect its financial integrity and ensure that employees, particularly in senior positions, are held accountable for their actions.