



# **DR. REDDY'S LABORATORIES LIMITED**

## **NOMINATION, GOVERNANCE AND COMPENSATION POLICY**

*(As amended and approved by the Board of Directors on May 9, 2025)*

## **NOMINATION, GOVERNANCE AND COMPENSATION POLICY**

### **INTRODUCTION**

This Nomination, Governance and Compensation Policy (“Policy”) of Dr. Reddy’s Laboratories Limited (“DRL” or “Company”) is formulated under the provisions of Section 178 of the Companies Act 2013 (“the Act”), rules made thereunder, Regulation 19 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (hereinafter referred as “Listing Regulations”) and any other regulatory requirements, as amended from time to time.

This policy is applicable to Directors, Key Management Personnel (KMPs), Senior Management Personnel (SMPs) and other employees which covers general criteria for appointment, remuneration principles, succession planning and performance evaluation of directors.

The purpose of this policy is to set over principles, parameters and governance framework for appointment and remuneration of Directors, KMPs, SMPs and other employees. This policy will assist the Board to fulfil its responsibility towards attracting, retaining, and motivating the directors, KMPs, SMPs and other employees through competitive and reasonable remuneration in line with the corporate and individual performance. Further, the policy will also apply on Board related governance including conflict of interest matters and other governance matters which are not assigned to any specific committee of the Board and connect to the culture or people of the organization.

### **DEFINITIONS**

“**Board**” means board of directors of the Company.

“**Committee**” means Nomination, Governance and Compensation Committee of the Company as constituted or reconstituted by the board, from time to time.

“**Company**” means Dr. Reddy’s Laboratories Limited.

“**Director**” means directors of the company.

“**Employee**” means any person who is in the permanent employment of the company.

“**Independent Director**” means a director referred to in Section 149(6) of the Act and rules thereunder, and Listing Regulations.

“**Key Managerial Personnel**” is as defined under the Act and means-

- a) the chief executive officer or the managing director or the manager (having ultimate controls over affairs of the company);
- b) the company secretary;
- c) the whole-time director;
- d) the chief financial officer; and
- e) such other officer as may be prescribed under the applicable statutory provisions/regulations from time to time.

“**Senior Management**” shall mean the officers and personnel of the company who are members of Company’s core management team, excluding the Board of Directors, and shall also comprise all the members of the management one level below the Chief Executive Officer or Managing Director or Whole Time Director or Manager (including Chief Executive Officer and Manager, in case they are not part of the Board of Directors) and shall specifically include the functional heads, by whatever name called and the persons identified and designated as key managerial personnel, other than the board of directors, by the Company.

In line with above, the Committee/Board has identified Senior Management to be KMPs and the Management Council Members of the Company

Unless the context otherwise requires, words and expressions used in this policy and not defined herein but defined in the Act as may be amended from time to time shall have the meaning respectively assigned to them therein.

## **CONSTITUTION OF THE NOMINATION, GOVERNANCE AND REMUNERATION COMMITTEE**

The Board has constituted the “Nomination, Governance and Remuneration Committee” (“NGCC” or “Committee”) in line with the requirements under the Act, SEBI Listing Regulations and any other regulatory requirements, as amended from time to time. The Board has authority to reconstitute this Committee from time to time. Membership of the Committee shall be disclosed in the Annual Report and website of the Company. The terms of the Committee shall be continuing unless terminated by the Board of Directors. This Policy and the Committee’s Charter are integral to the functioning of the Committee and are to be read together, key role of the Committee is hereunder:

- To formulate the criteria for determining qualifications, competencies, positive attributes and independence for appointment of a director (Executive and Non-Executive including Independent Directors) and identify the persons who are qualified to become Director and persons who may be appointed in Key Managerial and Senior Management positions and to determine their remuneration and changes therein;
- To determine remuneration based on the Company’s size, business strategies and financial position and trends and practices on remuneration prevailing in peer companies;
- To formulate the criteria to carry out evaluation of the performance of Board of directors.
- To recommend to the Board, appointment, and removal of Director, KMP and Senior Management Personnel
- To formulate, implement and administer Employee Stock Option Scheme, Performance Stock Units and Long-Term Incentive plan or other employee benefit scheme of the Company.
- Devising a policy on Board diversity.
- To establish and review succession plans of the Board of Directors of the Company (“Board”), KMP and Senior Management;
- To retain, motivate and promote talent and to ensure long term sustainability of talented managerial persons.
- To deal with board governance including conflict of interest matters and other governance matters which are not assigned to any specific committee of the Board and connect to the culture or people of the organization.

## **POLICY STRUCTURE**

This Policy is divided into four parts:

- Part – A covers the appointment and removal of Directors, KMPs, SMPs and other employees;
- Part – B covers remuneration for Directors, KMPs, SMPs and other employees;
- Part – C covers performance evaluation;
- Part – D covers succession planning; and
- Part – E Covers Board Governance

PART – A

POLICY RELATING TO APPOINTMENT AND REMOVAL OF DIRECTORS, KMPs, SMPs AND OTHER EMPLOYEES

BOARD OF DIRECTORS

The Committee shall identify persons in accordance with the criteria laid down and recommend to the Board about appointment and removal of Directors (including Independent Directors) as per the provisions of the Act and Listing regulations and any other regulatory requirements. The following criteria shall be considered by the Committee before the appointment of Directors: -

- **Ideal Board Size:** The Board shall have an appropriate combination of Executive, Non-Executive, Independent and Women Directors.
- **Evaluation factors:** The Committee shall be responsible for identifying suitable candidate for appointment as Director of the Company. While evaluating a person for appointment / re-appointment as Director, the committee shall:
  - i. Evaluate number of factors including but not limited to background, knowledge, skills, abilities (ability to exercise sound judgement), professional experience and functional expertise, educational and professional background, Diversity of thoughts, personal accomplishment, age, gender, high performance standards, experience of pharma sector / industry, technology, finance and other disciplines relevant to the business
  - ii. Identify the ability to allot sufficient time for his professional commitments as director and commitment to attend all the board meetings, either physically or through video-conferencing.
  - iii. for the purpose of identifying suitable candidates, the Committee may:
    - a. use the services of an external agencies, if required;
    - b. consider candidates from a wide range of backgrounds, having due regard to diversity; and
    - c. consider the time commitments of the candidates
  - iv. evaluate such other factors that the Committee might consider relevant and applicable from time to time towards achieving a diverse Board and the candidates identified for appointment as Directors should not be disqualified under applicable provisions of the Act and the other applicable regulations/laws.
- **Ethical Standards:** Every candidate shall uphold ethical standards of
  - i. integrity and probity;
  - ii. exercise his/ her duties with due and reasonable care;
  - iii. skill and diligence and exercise independent judgment;
  - iv. maintain confidentiality;
  - v. Capability and readiness to represent the shareholders' long and short-term interests and aware of Company's responsibility towards its stakeholders.
  - vi. Comply with the provisions of the Act, Listing Regulations and Code of Business Conduct and Ethics of the Company and any other policy as may be framed by Board of Directors.
- **Independence:** A Director will be considered independent if he/she meets the criteria laid down in Section 149(6) of the Act, the Rules framed thereunder and Regulation 16(1)(b) of the Listing Regulations. The Committee evaluates 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. The Company shall not appoint any resigning independent director, as whole-time director, unless a period of one year has elapsed from the date of resignation as an independent director.

### **Appointment of Key Managerial Personnel and Senior Management**

Every whole-time key managerial personnel and Senior Management Personnel shall be appointed by means of a resolution of the Board/Committee, containing the terms and conditions of the appointment including the remuneration.

*A whole- time KMP shall not hold office in more than one company at a same time except in its subsidiary. However, he/she can be appointed as Director with the permission of the Committee/Board.*

### **Appointment of Other Employees**

The appointment of other employees shall be made on the basis of the experience, qualification, expertise of the individual as well as the roles and responsibilities required for the position and shall be approved by the Human Resource Department under the overall control of the respective department.

The appointment of Directors, KMPs, and SMPs is approved by the Board based on the recommendation of the Committee and is subject to approval of shareholders, wherever applicable.

### **Removal of Directors, KMPs and other SMPs**

The removal of directors, KMPs or SMPs may be warranted due to reasons for any disqualification mentioned in the Act or Listing Regulation and Board basis recommendation of the Committee with the reasons recorded in writing, remove a Director, KMPs or SMPs subject to the provisions and compliance of the Act and Listing Regulations.

## **PART – B**

### **POLICY RELATING TO REMUNERATION OF DIRECTORS, KMPs, SENIOR MANAGEMENT PERSONNEL AND OTHER EMPLOYEES**

The Committee shall ensure that remuneration payable to Directors is in accordance with the provisions of Chapter XIII (Section 196 -203) read with Schedule V to the Act and Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014

The committee shall recommend to the board, any remuneration to be paid to the directors. The committee will separately review and approve the remuneration to be paid to KMPs and senior management personnel.

The level and composition of remuneration so determined by the Committee shall be reasonable and sufficient to attract, retain and motivate directors, KMPs and senior management in order to run the company successfully. There shall be a clear linkage of remuneration to performance and health targets. The remuneration shall be a mix of fixed and variable pay/long-term pay reflecting short and long-term performance objectives appropriate to the working of the company and its strategic goals.

The key principles for each of the positions are outlined below:

- 1) **Executive directors** – The executive directors shall be paid remuneration by way of monthly compensation and profit based commission, which shall be decided and approved by the Board on the recommendation of the Committee and approved by the Shareholders wherever required. The total remuneration to be paid to the executive directors shall be within the limits prescribed under the provisions of the Act and rules made thereunder.

Minimum Remuneration – If, in any financial year, the Company has no profits or its profits are inadequate, the Company shall pay remuneration to its Executive Director(s) in accordance with the provisions of Schedule V of the Act and such other provisions as may be applicable.

Provisions for Erroneously Awarded Compensation- If any Executive Director whose behavior caused material financial harm to shareholders, material reputational risk to the Company, or resulted in a criminal investigation of material nature, even if such actions did not ultimately result in a material restatement of past results, the Company shall through NGCC Committee promptly recoup the amount of any Erroneously Awarded Compensation received by any Covered Executive, as per the Recovery Policy of the Company.

- 2) **Non-executive directors** – The non-executive directors shall receive remuneration by way of sitting fees and reimbursement of expenses for attending meetings of board or committee thereof. In addition, the non-executive and independent directors shall also be eligible to receive profit related commission, as may be approved by the shareholders of the company. Independent Directors are not entitled to any stock options;

The chairman of the company shall propose remuneration to be paid to non- executive directors. The proposal for the remuneration shall be benchmarked with global pharmaceutical companies and the contribution made and time dedicated by each director;

- 3) **KMPs and senior management personnel** – The Company recognizes that those chosen to lead the organization are vital to its ongoing success and growth. Thus, these executives should be offered competitive and reasonable compensation so that the Company can attract, retain and encourage critical talent to meet important organizational goals and strategies. The compensation will be the mix of fixed pay, variable pay, performance based incentive plans or stock options. The executive total compensation program will be flexible to differentiate pay to recognize an individual incumbents' critical skills, contributions, and future potential to impact the organization's success.
- 4) **Other employees** – The compensation program for employees is designed to help drive performance culture and align employees for the creation of sustainable value through behaviors like execution excellence, innovation and leadership. In line with the organization principles of managing the long-term and meritocracy, there are four principles of pay which have been enumerated – ability to pay, position-linked pay, person-specific pay and performance-linked pay. The company may periodically review the compensation and benefits at all levels to ensure that the company remains competitive and is able to attract and retain desirable talent.

The committee may review the overall compensation approach for employees and on any changes done for the entire organization.

## **PART – C**

### **PERFORMANCE EVALUATION OF DIRECTORS**

- 1) The NGCC shall recommend & formulate the performance criteria, trainings & education programs for the board so that the Non-Executive Directors are provided with adequate information regarding the business.
- 2) The Committee shall also review its implementation and evaluate the requirement for appointing an External Independent Agency to carry out the performance evaluation.
- 3) The committee shall set a Key Performance Objectives or Key Performance Parameters which are aligned with the immediate and long-term goals of the company for evaluating the performance of MD and Whole Time Directors.
- 4) The Committee/Board shall consider the performance evaluation of the Independent Directors and their engagement level at the time of re-appointment or the extension of the term of Independent Directors.

5) The evaluation criteria of the executive and non-executive directors for the purpose of determining remuneration (based on profitability of the company), are as outlined below:

A. Executive directors:

- Financial metrics covering growth in return on capital employed (RoCE) and profitability;
- Non-financial metrics covering aspects such as health, brand building, compliance, quality, ESG and sustainability of operations of the organization, as may be agreed upon from time to time with the company.

B. Non-executive directors:

- Level of engagement, independence of judgment, etc., and their contribution in enhancing the board's overall effectiveness;
- The non-executive directors remuneration shall be globally benchmarked with similar organizations;
- Participation in the committees (either as chairperson or member) and the board meetings.

## **Part – D** **SUCCESSION PLANNING**

The Committee shall frame an effective succession plan for the uninterrupted current and future strategic business plans and growth of the Company, retaining talent and preparing for leadership transitions. The Committee shall take following key steps to develop succession plan:

- Evaluate the current leadership positions and skills and competency requires to handle the key responsibilities for such position.
- Define short term and long-term succession goals of the Company.
- Identify potential successors from Internal and external source.
- Ensuring the systematic and long-term development of individuals in the middle management level to replace Senior Management as and when the need arises.
- Establish a clear Transition process for a smooth handover by providing time for the current leader to mentor their successor and gradually transition responsibilities.
- Regular review and update in succession plan to reflect change in business goals, workforce dynamic and employee performance.

## **PART – E** **POLICY RELATING TO BOARD GOVERNANCE**

The Committee shall oversee Board governance matters and governance matters that are not specifically assigned to any other Committee of the Board and connect to the culture or people of the organization, ensuring a comprehensive and integrated approach to ethical leadership, accountability, and organizational integrity. This governance responsibility includes, but is not limited to:

### **Conflict of Interest Management**

- The Committee shall establish and uphold clear guidelines to identify, disclose, and manage conflicts of interest of directors and senior management, ensuring that decisions are made in the best interests of the organization and its stakeholders.
- Directors and senior management are required to act with transparency, integrity, and impartiality, adhering to the highest ethical standards.

### **General Governance Responsibilities**

Matters requiring Board oversight, but not assigned to a specific committee, shall be addressed through appropriate deliberation, ensuring consistency with the organization's values, mission, and strategic objectives.

## **CONFIDENTIALITY**

The members of the committee may not disclose, in particular, the information contained in the confidential reports they receive or the contents of confidential discussions. They shall also ensure that any employee appointed to support them likewise comply with this rule.

## **APPLICABILITY TO SUBSIDIARY COMPANIES**

This Policy may be adopted by the Company's subsidiaries subject to suitable modifications and approval of the board of directors of the respective subsidiary companies.

## **REVIEW**

This policy will be reviewed at appropriate time, as decided by the committee. The utility and interpretation of this policy will be at the sole discretion of the committee.

In case of any subsequent changes in the provisions of the Act, Listing Regulations or any other regulations which makes any of the provisions in the policy inconsistent with the Act or regulations, then the provisions of the Act or regulations would prevail over the policy and the provisions in the policy deemed to modified to the extent of in consistency with law.