



BOARD EVALUATION POLICY

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Policy for Evaluation of the Performance of the Board of Directors

Introduction

As one of the most important functions of the Board of Directors is to oversee the functioning of company's top management, this policy aims at establishing a procedure for conducting periodical evaluation of directors' performance and formulating the criteria for determining qualification, positive attribute and independence of each and every director of the company in order to effectively determine issues relating to remuneration of every director, key managerial personnel and other employees of the company. This policy further aims at ensuring that the committees to which the Board of Directors has delegated specific responsibilities are performing efficiently in conformity with the prescribed functions and duties. In addition, the Nomination and Remuneration Committee shall carry out the evaluation of performance of every director, key managerial personnel in accordance with the criteria laid down.

Objective

The object of this policy is to formulate the procedures and also to prescribe and lay down the criteria to evaluate the performance of the entire Board of the Company

Need For Board Evaluation

The purposes of the Board evaluation can be enumerated as under:

- Improving the performance of Board towards corporate goals and objectives.
- Assessing the balance of skills, knowledge and experience on the Board.
- Identifying the areas of concern and areas to be focused for improvement.
- Identifying and creating awareness about the role of Directors individually and collectively as Board.
- Building Team work among Board members.
- Effective Coordination between Board and Management.
- Overall growth of the organisation.

Appraisal of Board's performance includes fixing up of individual and collective roles and responsibilities of its directors, creating awareness among Directors about their expected level of performance and thereby improving the effectiveness of the Board. Board evaluation contributes significantly to improved performance at three levels - organizational, Board and individual Board member level. It also improves the leadership, teamwork, accountability, decision-making, communication and efficiency of the board. A commitment to annual evaluation is powerful change agent.

The Board evaluation sets the standards of performance and improves the culture of collective action by Board. Evaluation also improves teamwork by creating better understating of Board dynamics, board-management relations and thinking as a group within the board. It helps to maximize board/ director contribution by encouraging participation in meetings and highlighting the skill gaps on the Board and those of individual members. Directors demonstrate commitment to improvement, based on the feedback provided on individual and collective skill gaps.

Legal Framework in India

Board evaluation, until recently, was recognised as a good corporate governance practice and largely undertaken voluntarily. The erstwhile Clause 49 of the Listing Agreement as a non-mandatory requirement, provided for performance evaluation of non-executive directors by a peer group. Further, the Corporate Governance Voluntary Guidelines 2009 recommended that the Board should undertake a formal and rigorous evaluation of its own performance and that of its committee and individual directors.

The Companies Act, 2013 (the Act) now mandates formal annual evaluation of the Board, its committees and individual directors.

Section 134 of the Companies Act, 2013 inter- alia specifies the contents that are required to be part of Board's Report.

According to Section 134 sub-section 3(p) read with Sub-rule (4) of Rule 8 of the Companies (Accounts) Rules, 2014 every listed company and every other public company having paid- up share capital of twenty five crores or more calculated at the end of the preceding financial year should include in the report by

its Board of Directors, a statement indicating the manner in which formal annual evaluation has been made by the Board of its own performance and that of its committees and individual directors.

Requirements under schedule IV

The Schedule IV i.e. "Code for Independent Directors" provides that independent directors shall bring an objective view in the evaluation of the performance of Board and management.

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 management. All the independent directors of the company shall strive to be present at such meeting. The 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 nonexecutive 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.

Responsibility

➤ Responsibility of the Board

It shall be the duty of the chairperson of the board, who shall be supported by a Company Secretary to organise the evaluation process and accordingly conclude the steps required to be taken. The evaluation process will be used constructively as a system to improve the directors' and committees' effectiveness, to maximise their strength and to tackle their shortcomings. The Board of Directors shall undertake the following activities on an annual basis.

- a) The board as a whole shall discuss and analyze its own performance during the year together with suggestions for improvement thereon, pursuant to the performance objectives.
- b) Review performance evaluation reports of various committees along with their suggestions on improving the effectiveness of the committee. Also, the requirement of establishing any new committees shall be reviewed by the Board on an annual basis.
- c) Review the various strategies of the company and accordingly set the performance objectives for directors.
- d) Ensure that adequate disclosure is made with regard to performance evaluation in the Board's Report.

➤ Responsibility of the Nomination & Remuneration Committee

It shall evaluate the performance of individual Directors of the Company as per its terms of and the Nomination and Remuneration Policy of the Company framed in accordance with the provisions of section 178 of the Companies Act, 2013.

➤ Responsibility of Independent Directors

Independent Directors are duty bound to evaluate the performance of non-independent directors and Board as a whole. The independent directors of the Company shall hold at least one meeting in a year to review the performance of non-independent directors, performance of the chairperson of the Company and Board as a whole, taking into account the views of executive directors and non-executive directors.

The independent directors at their separate meetings 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.

Evaluation of Independent Director shall be carried on by the entire Board of Directors of the Company except the Director getting evaluated.

Broad Evaluation Methodologies

The Act is silent on how the Board evaluation is to be undertaken. It only provides that the Nomination & Remuneration Committee shall carry out Board evaluation. Further Schedule IV of the Act provides that

the independent directors shall bring an objective view in the evaluation of the performance of Board and management. Listing Agreement is also silent on what process needs to be adopted for the purpose of evaluation. Companies should ensure that the process for evaluation of the board, committees and directors should be developmental rather than just a compliance exercise. Doing just bare minimum of compliance would mean squandering the opportunity of genuinely improving the work of the Board. Typically, the Board evaluation process should comprise of both assessment and review. This would include analysis of how the Board and its committees are functioning, the time spent by the Board considering matters and whether the terms of reference of the Board committees have been met, besides compliance of the provisions of the Act.

Generally Board appraisals include following components:

1. Evaluation of the Board as a whole
 - a. Internally
 - b. Externally
2. Evaluation of Individual Directors (Independent, Executive, Non- executive, Whole Time Director)
 - a. Self evaluation
 - b. Peer to peer evaluation
 - c. External
3. Evaluation of the Committees
 - a. Internal (by the Board)
 - b. External
4. Evaluation of the Chairperson
 - a. All Directors
 - b. External

These are elaborated below:

- (a) Internal Evaluation: In case of internal evaluation, the Board is responsible for managing both the process as well as the content. Evaluation methodology may be set by the Nomination and Remuneration Committee. The Boards' performance may generally be evaluated by a standard questionnaire and/or through one-on-one interviews.

This approach has certain drawbacks, which includes:

- . Reluctance of directors to share issues within the company.
- . The approach may not be entirely acceptable to stakeholders, as they may question the rigour of the process.

- (b) External evaluation: External evaluation may be externally facilitated. Externally facilitated evaluations are undertaken with the assistance of an external expert, this adds to the level of independence of the evaluation. This approach is also recommended by the UK Code for Corporate Governance for FTSE 350 companies and also in the revised ASX Corporate Governance Council Principles & Recommendations. The Higgs Review states: "The conduct of the evaluation by an external third party can bring objectivity to the process".

These evaluations may be made by using a questionnaire and/or one-on-one interviews. External evaluators are expected to bring their own judgment on the quality of the Board's performance during the evaluation.

- (c) Peer Review : In this case the evaluation of each Director is done by the Directors other than the one being evaluated. It is of great importance that trust is established in the credibility and confidentiality of the process of Board evaluations, regardless of whether it is managed by the Board itself or by a third party.

1. Evaluation of the Board

The performance of the Board as a whole may be evaluated either from the reviews/ feedback of the directors themselves or by some external source. The broad parameters for reviewing the performance of the Board, inter alia, shall contain the following:

- Development of suitable strategies and business plans at appropriate time and its effectiveness;
- Implementation of robust policies and procedures;
- Size, structure and expertise of the Board;
- Oversight of the Financial Reporting Process, including Internal Controls;

- Willingness to spend time and effort to learn about the Company and its business; and
- Awareness about the latest developments in the areas such as corporate governance framework, financial reporting, industry and market conditions.

The Independent Directors at their separate meeting shall also 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.

Quality of information includes its relevance, completeness, and authenticity, how comprehensive and concise and clear such information is. As regards quantity, the independent director need to assess that the information is neither too less nor too much resulting in an information overload. Typically the information to the board members should carry an executive summary which is supplemented by detailed notes and where necessary back-up papers as annexures. Timeliness of information flow can be gauged from facts such as how soon important events are communicated between board meetings, timeliness of the agenda papers, etc.

2. Evaluation of Individual Director(S)

i. Evaluation of Managing Director / Whole time Director / Executive Director

The performance evaluation of Managing Director, Executive Director of the Company may be done by all the directors. The external facilitation may also serve as the efficient tool for evaluation. The Code for Independent Directors also provides that Independent Directors shall review the performance of non-independent Directors, which include Managing Director / Whole time Director/ Executive Director.

The broad parameters for reviewing the performance of Managing Director/Executive Director are:

- Achievement of financial/business targets prescribed by the Board;
- Developing and managing / executing business plans, operational plans, risk management, and financial affairs of the organization;
- Display of leadership qualities i.e. correctly anticipating business trends, opportunities, and priorities affecting the Company's prosperity and operations;
- Development of policies, and strategic plans aligned with the vision and mission of Company and which harmoniously balance the needs of shareholders, clients, employees, and other stakeholders;
- Establishment of an effective organization structure to ensure that there is management focus on key functions necessary for the organization to align with its mission; and
- Managing relationships with the Board, management team, regulators, bankers, industry representatives and other stakeholders.

ii. Evaluation of Non-Executive Directors

In terms of the Code for Independent Directors, the Independent director(s) on the Board of the Company can evaluate the performance of Non-independent director(s) which include non-executive director(s). Peer Review method or external evaluation may also facilitate the purpose of evaluating Non-executive directors. The broad parameters for reviewing the performance of Non-executive Directors are:

- Participation at the Board / Committee meetings;
- Commitment (including guidance provided to senior management outside of Board/ Committee meetings);
- Effective deployment of knowledge and expertise;
- Effective management of relationship with stakeholders;
- Integrity and maintaining of confidentiality;
- Independence of behaviour and judgment; and
- Impact and influence.

iii. Evaluation of Independent Directors

The Schedule IV of the Act i.e. "Code for Independent Directors" also provides for the evaluation of Independent Directors. It requires that the performance evaluation of independent directors shall be done by the entire Board of Directors, excluding the director being evaluated. On the basis of the report of performance evaluation, it shall be determined whether to extend or continue the term of appointment of the independent director. This also means that Independent Directors (other than the Independent Director being evaluated) also become a part to assess the Independent Director being evaluated.

The revised Listing Agreement provides that the Nomination Committee shall lay down the evaluation criteria for performance evaluation of independent directors. The company shall disclose the criteria for performance evaluation, as laid down by the Nomination Committee, in its Annual Report. The entire Board of Directors (excluding the director being evaluated) shall do the performance evaluation of independent directors.

In addition to the parameters laid down for Directors, which shall be common for evaluation to both Independent and Non- executive directors, an Independent director shall also be evaluated on the following parameters:

- Exercise of objective independent judgment in the best interest of Company;
- Ability to contribute to and monitor corporate governance practice; and
- Adherence to the code of conduct for independent directors.

3. Evaluation OF the Committees

The performance of the committees may be evaluated by the Directors, on the basis of the terms of reference of the committee being evaluated. The evaluation may be externally facilitated.

The broad parameters of reviewing the performance of the Committees, inter alia, are:

- Discharge of its functions and duties as per its terms of reference;
- Process and procedures followed for discharging its functions;
- Effectiveness of suggestions and recommendations received;
- Size, structure and expertise of the Committee; and
- Conduct of its meetings and procedures followed in this regard.

4. Evaluation of Chairperson of the Board

The performance of the Chairperson is linked to both the functioning of the Board as a whole as well as the performance of each director.

In terms of Code for Independent Directors, the Independent Director shall review the performance of the Chairperson of the company taking into account the views of the executive directors and non-executive directors.

All the directors of the Board of the company thereof contribute in evaluating the performance of the Chairperson of the Board. External agencies may also be involved in evaluating the Chairperson.

The broad parameters for reviewing the performance of Chairperson of the Board are:

- Managing relationship with the members of the Board and management;
- Demonstration of leadership qualities;
- Relationship and communication within the Board;
- Providing ease of raising of issues and concerns by the Board members; and
- Promoting constructive debate and effective decision making at the board;
- Relationship and effectiveness of communication with the shareholders and other stakeholders;
- Promoting shareholder confidence in the Board and
- Personal attributes i.e. Integrity, Honesty and Knowledge etc.

Frequency of Board Evaluation

Reading section 134(3)(p) it can be inferred that there has to be a formal annual evaluation of Board of its own performance and that of its committees and individual directors. The Company may undertake annual evaluation either in accordance with calendar year or financial year, as there is no clarity on this. Ideally, the same should be as per financial year.

This type of disclosure does not however, discuss the findings of specific evaluation. Instead, it details the criteria of the assessment process to show how the Board identifies gaps in the skills generally.

Steps for Board Evaluation

Identification of objectives

The first step for Board evaluation is to identify the objective of evaluation. It is important to determine what to assess, since it is critical in designing an appropriate evaluation framework. The Board has to undertake various important responsibilities including strategic development, risk management, etc. Before the evaluation even begins it is important that the directors set the targets of the company against

which the performances can be measured, after thorough Board discussion.

The evaluation process should be used constructively as a mechanism to improve Board effectiveness, maximise strengths and tackle weaknesses. Board evaluation can be divided into two main factors; people factors (knowledge, personal characteristics, Board size, structure, directors contribution, interpersonal skills, level of commitment, Board room behaviour, etc) and process factors (planning and managing Board meetings, information flow, oversight management, risk management, coordination, succession planning, etc.)

Important Steps for Evaluation Process

- To develop a methodology for evaluation. It may be different for different Companies.
- As a good practice, the Company may also develop a Policy on Board Evaluation.
- Ideally, evaluation process could commence each year (during last quarter) to evaluate the performance of concerned body or individual in the succeeding year.
- It is a good practice that each director is given a copy of the form for assessing the overall performance of Board/ Committees/Directors/ Chairperson/ Managing Director/ Wholetime Director / Executive Director, as the case may be, sufficiently in advance.
- The forms which include a set of questions, should have a rating mechanism or subjective questions, which may be analysed by the Nomination & Remuneration Committee.
- Ideally, the Nomination & Remuneration Committee should compile the feedback and comments in the evaluation forms and appropriately review the same.
- Thereafter the consolidated feedback and comments along with its recommendation be placed before the Board.

Policy Review

Subject to the approval of Board of Directors, the “Nomination and Remuneration Committee” reserves its right to review and amend this policy, if required, to ascertain its appropriateness as per the needs of the company. The Policy may be amended by passing a resolution at a meeting of the Nomination and Remuneration Committee.

Disclosure

In accordance with the requirement under the Act, disclosure regarding the manner in which the performance evaluation has been done by the Board of Directors of its own performance, performance of various committees of directors and individual directors’ performance will be made by the Board of Directors in the Board’s Report. Further, the Board’s Report containing such statement will be made available for the review of shareholders at the general meeting of the Company.

The Policy has been made available on Company’s official website and the key features of this Policy have also been included in the corporate governance statement contained in the annual report of the Company.

Effective Date

This Policy shall be effective from **November 1, 2023**.