

VARIABLE COMPONENT COMPUTATION AND PAYMENT

(This document contains confidential information of the Company)

Objective:

To provide the required policy inputs with regard to the applicability, computation and payment of Variable Component of the salary structure of all confirmed employees of Integra Micro Software Services (P) Ltd.

Definition:

Variable Component is that component of the salary structure which gets paid only if the Company turns profitable during the applicable period. The computation of the payment is made taking the following two factors into account:

1. Percentage of the profit of the company
2. Individual performance of the employee

Applicability:

- This policy document will be effective from 1 October 2011.
- This policy document is applicable only to the employees who are on the rolls of Integra Micro Software Services (P) Ltd.
- Variable Component is payable only to the confirmed employees of the Company whose salary structure as per the confirmation letter/salary revision letter issued includes the Variable Components
- Any leave on loss of pay less than or equal to 30 days, availed by an employee during the financial year will make the employee ineligible to receive the Variable Components for one quarter
- Any leave on loss of pay more than 30 days, availed by an employee during the financial year will make the employee ineligible to receive the Variable Components for two quarters
- Any employee who has left the organisation (or) is serving notice period at the time of announcement of VCP/VIP, is not eligible for the payment of VCP/VIP

The variable portion as per the salary structure contains two components: (i) Variable component linked to Company Performance (VCP) and (ii) Variable component linked to Individual Performance (VIP).

Payment Criteria:

- Variable Components (VCP and VIP) will be payable if and only if the Company is profitable and the Operating Profit Before Tax (OPBT) percentage (after payment of the applicable VCP/VIP) is above the stipulated minimum percentage of 1.5%
- Payment of Variable Components (VCP and VIP) will be effected only based on annual performance
- Accordingly the Variable Component linked to Company Performance (VCP) will be computed and paid annually.
- However the Variable Component linked to Individual Performance (VIP) will be computed for the first six months viz., April – September

- If the OPBT percentage is above the stipulated minimum percentage of 1.5%, then 80% of the computed VIP for the first six months will be released as an Interim Payment.
- This Interim amount released will be adjusted in the total variable component payable at the end of the financial year. However if the interim amount paid out is more than the VIP payable at the end of the year no recovery will be made of the amount already paid.
- The cumulative quarterly results of the employee's business division will be considered for this purpose, using the MIS maintained by the Company.
- In case employee works for two or more divisions/Company, the weighted average of the percentage of the effort spent in the respective Companies / Divisions will be taken.

Variable Computation Process:

- The OPBT is first computed by taking the revenue from your line of business ("revenue") and subtracting all related expenditure except tax ("expenditure"). Expenditure includes the applicable variable components of staff salaries.
- OPBT is expressed as a percentage of the revenue and used as the indicator of company performance. The calculation of OPBT is done by taking the revenue and expenditure for the applicable period only.
- The base VCP and VIP as given in the appointment/salary revision letter is multiplied by the applicable multiplier from Table 1 to arrive at the adjusted VCP and VIP.
- The VCP payable is the adjusted VCP as calculated below.

Table 1: Variable component adjustment computation

S. No.	OPBT Percentage Range	VCP and VIP Multiplier
1.	≥ 1.5 & < 2.0	20%
2.	≥ 2.0 & < 2.5	40%
3.	≥ 2.5 & < 3.0	60%
4.	≥ 3.0 & < 3.5	80%
5.	≥ 3.5 & < 4.0	100%
6.	≥ 4.0 & < 4.5	110%
7.	≥ 4.5 & < 5.0	120%
8.	≥ 5.0 & < 5.5	130%
9.	≥ 5.5 & < 6.0	140%
10.	≥ 6.0	150%

VIP Computation Process:

- The adjusted VIP as described under VCP Computation Process above is taken.
- The average of the performance grade that an employee has obtained for the applicable period as per the performance appraisal process is used for selecting the applicable percentage payout from Table 2.
- The VIP payable is the adjusted VIP as described above multiplied by the percentage payout.

Table 2: Performance Grade Vs Percentage Payout

S. No.	Performance Grade	Percentage Payout
1.	A – Excellent	120%
2.	B – Very Good	100%
3.	C – Good	80%
4.	D – Average	60%
5.	E – Poor	NIL

Note: For an E Grade there is no VCP or VIP payout, and the process for either improvement or exit would be put in place.

Sample Computations:

Example 1:

VIP Computation:

Mr. A's confirmation letter/salary revision letter states VIP as Rs. 4,000/- per month. Mr. A's business division has shown an OPBT of 2.8% for the first Six months of a financial year. Mr. A has obtained an average of A grade in his performance appraisal for the first and second quarter

- The adjusted VIP value per month as per Table 1 for the relevant OPBT percentage range ($\geq 2.5\%$ and $< 3.0\%$) is Rs. $4,000 * 60\%$
- Total VIP payable will be 120% (percentage payout for A grade) of the adjusted value of 60% ie Rs. $4,000 * 60\% * 120\% * 6 = \text{Rs. } 17,280/-$ for the first six months viz., (Q1+Q2) of the financial year.
- Out of the calculated VIP of Rs. 17,280/-, 80% of the amount, equal to Rs. 13,824/- will be released as Interim Payment.
- Applicable TDS will be deducted

VCP Computation:

Mr A.'s confirmation letter/salary revision letter states VCP as Rs. 6,000/- per month and VIP as Rs. 4,000/- per month. Mr. A has obtained an average of B grade in his performance appraisal for the entire year (all quarters). Mr. A's business division has shown an OPBT of 3.1% for the entire financial year.

- The adjusted VCP value per month as per Table 1 for the relevant OPBT percentage range ($\geq 3.0\%$ and $< 3.5\%$) is Rs. $6,000 * 80\%$ (VCP multiplier)
- The VCP payout for Mr. A for the entire year = Rs. $4,800 * 12 = \text{Rs. } 57,600/-$
- VIP payout will be 100% (percentage payout for B grade) of the adjusted value of 80% ie Rs. $4,000 * 80\% * 100\% * 12 = \text{Rs. } 38,400/-$ for the entire year
- The total (VCP+VIP) payable for the entire year will be $57600+38400 = 96,000/-$
- Subtracting the Interim payment of Rs. 13,824/- from the total amount of Rs. 96,000/- the balance of Rs. 82,176/- will be released
- Applicable TDS will be deducted

Example 2:

VIP Computation:

Mr A.'s confirmation letter/salary revision letter states VIP as Rs. 4,000/- per month. Mr. A's business division has shown an OPBT of 2.8% for the first Six months of a financial year. Mr. A has obtained an average of A grade in his performance appraisal for the first and second quarter

- The adjusted VIP value per month as per Table 1 for the relevant OPBT percentage range ($\geq 2.5\%$ and $< 3.0\%$) is Rs. $4,000 * 60\%$
- Total VIP payable will be 100% (percentage payout for B grade) of the adjusted value of 60% ie Rs. $4,000 * 60\% * 120\% * 6 = \text{Rs. } 17,280/-$ for the first six months viz., (Q1+Q2) of the financial year.
- Out of the calculated VIP of Rs. 17,280/-, 80% of the amount, equal to Rs. 13,824/- will be released as Interim Payment.
- Applicable TDS will be deducted

VCP Computation:

Mr A.'s confirmation letter/salary revision letter states VCP as Rs. 6,000/- per month and VIP as Rs. 4,000/- per month. Mr. A has obtained an average of B grade in his performance appraisal for the entire year (all quarters). Mr. A's business division has shown a negative trend during the period October – March and the cumulative OPBT for the entire year has come down to 1.0%.

This OPBT percentage is less than the minimum stipulated percentage of 1.5% and hence no variable component is payable for the year. However the Interim amount already paid will not be deducted.