



INDIA RELATED PARTY TRANSACTIONS POLICY

A. BACKGROUND AND PURPOSE:

- 1.1 CG Power and Industrial Solutions Limited ("CG" or "the Company") is the parent company of the CG Group which has manufacturing, systems, services and sales facilities at various locations across the world. CG's products and services cover the entire value chain of electrical offerings, ranging from transformers, switchgears, circuit breakers, network protection & control gear, motors, generators, drives and automation products, as well as design, servicing and execution of turnkey substation projects and solutions.
- 1.2 CG has various international and domestic subsidiaries and affiliates as separate legal entities. These entities act as catalysts in the business development of the CG Group across the globe.
- 1.3 CG's strategy focuses on a three dimensional approach to growth: geographic expansion, moving up the value chain and widening the production footprint through lean manufacturing in low cost countries. This results in inter-company interactions and transactions between CG and its Group entities, in India and overseas.
- 1.4 CG has been traditionally following internationally accepted transfer pricing methods in its transactions with its group entities. The Companies Act, 2013 and rules made thereunder ("Act"), clause 49 of the erstwhile Listing Agreement and Regulation 23 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations") (which embodies the principles of the erstwhile Listing Agreement) requires the Company to articulate a policy with respect to dealing with Related Party Transactions including materiality thresholds in compliance with the said provisions and to publish the Policy on its website and also provide a web link in its Annual Report.
- 1.5 This Policy is a tool and framework to assist CG in evaluating the pricing of inter-company transactions between CG as a legal entity in India on the one hand and all its Related Parties. As such, this Policy shall apply to transactions of CG only.



B. DEFINITIONS:

- 2.1 **"Act"** means the Companies Act, 2013 and rules made thereunder including any statutory modification(s) or re-enactment(s) thereof for the time being in force.
- 2.2 **"Arm's length transaction"** means a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest.
- 2.3 **"Risk and Audit Committee"** or **"Audit Committee"** means audit committee of the Board of Directors of the Company constituted in accordance with the applicable provisions of the Act or Listing Regulations.
- 2.4 **"Board" or "Board of Directors"** means the Board of Directors as defined under the Companies Act, 2013.
- 2.5 **"Listing Agreement"** means the Equity Listing Agreement entered by the Company with the respective Stock Exchanges in India.
- 2.6 **"Listing Regulations"** means the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (including any statutory modification(s) or re-enactment(s) thereof for the time being in force).
- 2.7 **"Material transactions"** would mean related party transactions as defined under Regulation 23 of Listing Regulations and/or requiring shareholder's approval in terms of section 188 of the Act and rules made thereunder.

As per the current provisions, any transaction which either individually or taken together with the previous transactions during a financial year, vis-à-vis the related party, exceeds 10% of the consolidated annual turnover of the Company as per the last consolidated audited financial statements or such limits as may be prescribed under section 188 of the Act read with rules made thereunder, whichever is stricter, from time to time, will be considered 'material transaction'. The definition of the 'material transaction' will be deemed to be changed without any prior Audit Committee and Board approval, as and when there is any corresponding amendment to the Statutory provisions of the listing Regulation or the Act.

- 2.8 **"Related Party"** is a party as defined in sub-section (76) of section 2 of the Act, Rule 2 of Companies (Meeting of Board and its Powers) Rules, 2014 as well as the related parties as defined in accounting standards prevailing from time to time.

2.9 **“Related Party Transaction” or “RPT” or “Transaction”** means such transactions between CG and its Related Party(ies), as defined under clause (a) to (g) of sub-section (1) of section 188 of the Act, sub-clause (zc) of clause 2 of the Listing Regulations as defined hereinafter and transactions covered under Accounting Standards prevailing from time to time.

Any other term not defined herein shall be construed to have same meaning as defined in the Act, Listing Regulations or any other applicable law or regulation.

C. POLICY:

3.1 Save as otherwise provided in this Policy and exempt under the applicable provisions under the Act and Listing Regulations, all RPT which are identified to be in **ordinary course of business** and for which the pricing criteria meets the norms mentioned at para 3.5 of this Policy shall be considered to be an **Arm’s length transaction**, shall be pre-approved by the Audit Committee and the Board.

3.2 Following is the illustrative list of transactions which may be considered as transactions executed in ordinary course of business:

- Supply of manufactured products, sub-assemblies, spares and other related components;
- Provision of technical services including designing, commissioning, erection, repairs and testing of transformers, control and automation solutions, EPM services;
- Purchase of raw material, parts / sub assemblies and other related components;
- Purchase/Availing lease of or leasing out of plant, machinery, land and other business infrastructure;
- Purchase of services & amenities required for the process of manufacture, office administration, commissioning, erection, repairs, servicing, monitoring and maintenance of products & turnkey solutions proposed to be sold or already sold to customers;
- IT application development and licensing for business processes and product development;
- Consultancy fees;
- Marketing services;
- Reimbursement of expenses;
- Loan transactions and interest payments thereon;
- Dividend payment;
- Acquisition, sale or disposal of investments; and
- Provision of security, guarantee

The aforesaid list is subject to provisions of Section 185, 186, 73 and any other applicable provisions and the rules made thereunder from time to time and is only illustrative and the guidance of CG Global taxation team may be sought to establish ordinary course nature for new types of transactions, not listed above, with due regard to industry benchmarks, business realities, case law and legal interpretations.

3.3 Material transactions even if executed in ordinary course of business and at Arms' length price, shall be further subject to prior approval of the Shareholders of the Company, except for such transactions which are exempt under applicable provisions of the Act and Listing Regulations.

3.4 Related Party Transactions which are not in ordinary course of business and/or not an Arm's length transaction would require prior approval of the Audit Committee as well as Board of Directors of the Company provided such transactions:

- are not Material Transactions and/or;

- are pre-approved/omnibus approved transactions as provided in clause 3.6 hereinafter.

Otherwise prior shareholders approval would be mandatory if the said transactions exceed the transaction specific exemption limits as defined in the Rules pursuant to proviso (1) of Section 188 of the Act.

3.5 Determination of Arms length price

a) Sales Transaction

From time to time, CG Management shall present to the Audit Committee and Board, operating margins (benchmarks) of other Companies in similar business as CG. These benchmarks shall act as a floor price for determining Arm's length price in a related party transaction. These minimum benchmarks shall be adhered to whilst accepting orders with related parties.

b) Trading Transaction

From time to time, CG Management shall present to the Audit Committee and Board, trading margins (benchmarks) of other entities engaged in similar trading activity as CG. These benchmarks shall act as a floor price/ mark-up for determining Arm's length price/ mark-up in relation to trading activity with related parties. These minimum benchmarks shall be adhered to whilst accepting orders in connection with trading activity with related parties.

c) Purchase and other Transactions

All other transactions must be entered with related parties at pricing and other terms and conditions which are similar to that with unrelated parties. These transactions may be benchmarked by the Company by following methods like Comparable Uncontrolled price (CUP), Cost plus Method (CPM), Re-sale price method (RPM), and such other methods which are globally accepted methods for transfer pricing.

Provided however that in case of material transactions with wholly owned subsidiaries of the Company as mentioned under clause 4.4 below, arms length price / mark-up may be determined by using other globally accepted methods

- 3.6 Any pre-approvals, special conditions and omnibus limits, if any, imposed by Audit Committee in terms of section 177 of the Act and rules made thereunder and Regulation 18 of the Listing Regulations for specific Related Party(ies) must be tracked and adhered to in addition to this Clause.
- 3.7 From time to time, the CG Global taxation team may issue guidance notes on application of various transfer pricing methods to enable the Company to effectively comply with this Policy.

D. PROCEDURE:

- 4.1 All proposed Related Party Transactions must be reported to the Audit Committee for prior approval by the Committee in accordance with this Policy whether at a meeting or by resolution by circulation or through electronic mode, in exceptional cases. In the case of frequent/regular/ repetitive transactions which are in the normal course of business of the Company, the Committee may grant omnibus approval for the proposed related party transactions to be entered into by the Company subject to such conditions as may be prescribed in terms of section 177 of the Act and rules made thereunder and Regulation 18 of the Listing Regulations. Such omnibus approval shall be valid for a period not exceeding one financial year and shall require fresh approvals after the expiry of one financial year. The Audit Committee shall review all Related Party Transactions based on this Policy on quarterly basis.
- 4.2 All RPT being transactions in ordinary course of business (excluding Material Transactions) and meeting the Arm's length criteria at clause 3.5 and clause 3.6 can be executed regularly by the Company.

- 4.3 Adherence to this Policy must be monitored by the Financial Controller of the respective Region / Business Unit continuously at the time when RPT contracts are entered into by the Company. On a quarterly basis, Financial Controller of Region / Business Unit must submit a declaration that all RPT transactions executed during the previous quarter have adhered to the principles laid down in this Policy.
- 4.4 The Finance Controller of a Region / Business Unit or the CG Global taxation team may, suo motu, recommend significant transactions with wholly owned subsidiaries, which do not meet the standard norms under clause 3.5, for scrutiny and approval of the Audit Committee and Board for a special approval under the proviso to clause 3.4 or clause 3.5.
- 4.5 The Company Secretary shall place such RPT transactions referred in clause 4.4 before Audit Committee and Board for scrutiny and approval.
- 4.6 Wherever any Material Transactions requires Shareholders' approval on account of it falling under Clause 3.2 or 3.4, the same will not be entered into till such time as the necessary approvals are obtained. In the event, some transactions are recommended by Board for shareholder approval, the Company Secretary's team will make arrangement for obtaining shareholder approval.

E. DISCLOSURE:

- 5.1 Appropriate disclosures as required under the Act and the Listing Regulations will be made in the Annual Return, Board's Report and to the Stock Exchanges.

F. APPROVAL AND AMENDMENTS:

- 6.1 This Policy has been approved by the Board of Directors of the Company at its Board Meeting held on 16th October, 2014 in terms of Clause 49 of the erstwhile Listing Agreement and has been updated in line with the provisions of the Listing Regulations vide approval of the Board of Directors of the Company dated 11th August, 2017 on the recommendation of the Risk & Audit Committee of the Board.
- 6.2 In the event of any conflict between the provisions of this Policy and of the Act or Listing Agreement or any other statutory enactments, rules, the provisions of such Act or Listing Agreement or statutory enactments, rules shall prevail over this Policy. Any subsequent amendment / modification in the Listing Regulations, Act and/or other applicable laws in this regard shall automatically apply to this Policy.