



## Policy & Procedure

Subject:	<u>Related Party Transaction Policy</u>	Issued Date:	October 01, 2014
Procedure Number:	<u>P - 3</u>	Revision Date:	November 03, 2015
Approved by:	<u>Board of Directors</u>	Supersedes:	

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### POLICY & PROCEDURES

#### POLICY

- I. Schneider Electric Infrastructure Limited (hereinafter referred to as “**Schneider Electric / Entity**”) has adopted this Related Party Transaction Policy and Procedures (“**Policy & Procedures**”) with regard to Related Party Transaction(s) and its compliance under the Companies Act, 2013 and Securities Listing Agreement, wherever applicable.
- II. This Policy and Procedures apply to all the business operations, and to all their directors, officers, employees and representatives and to be read in conjunction with the internal Delegation of Authorities (DoA) in place.
- III. Schneider Electric is committed to the adherence and compliance of this Policy & Procedures.
- IV. An “arm’s length transaction” (“**arm’s length**”) means a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest. “**Related Party**”, with reference to a Company means as per definition under Companies Act, 2013, or under the Securities Listing Agreement or under the applicable accounting standards , wherever applicable, (see Annexure-I for said definitions)
- V. Schneider Electric is committed to uphold the arm’s length principle while entering into Related Party Transaction(s) (“**RPT**”). RPT means any transaction entered into with a Related Party as defined under the Companies Act, 2013 and Securities Listing Agreement, wherever applicable.
- VI. Every employee, officers, directors and representatives; who plans to have the transaction(s) in the nature of RPT shall have the duty and responsibility to report the same to the Chief Financial Officer / Head of Finance (“**CFO**”) of the Entity and shall not carry out the RPT unless it is in accordance with this Policy & Procedures.

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VII. Any RPT not disclosed or reported and/or not taken prior approval as per this Policy & Procedures be immediately reported to CFO and Company Secretary for necessary compliance.

## PROCEDURES

### I. Transactions (including but not limited to the following) to be classified as RPT are:

- i. Purchase and sale of Goods, including import and export
  - Import or purchase of component / raw material from related party
  - Export or sale of finished products
  - Import of finished products for trading in India
  - Export of domestically purchased goods
- ii. Provision/ supply of Services
  - Research & Development services
  - Information Technology and IT enabled services (IT & ITES)
  - Engineering services
  - Manpower supply
- iii. Procurement/ receipt of services
  - Management support services
  - Research & Development services
  - Engineering services
- iv. Cost sharing agreement amongst the group companies to share external cost in an agreed proportion
  - Sharing of real estate/ infrastructure cost
  - Software license cost sharing
  - Any other third party services sharing
  - Agents fee charge back between group companies
- v. Purchase and/or sale of movable and immovable assets
- vi. Right to use of Intellectual Property including but not limited to trade mark and Royalty.

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- vii. Any other category of RPT that comes up in the ordinary course of business or otherwise; under the Companies Act, 2013 and Securities Listing Agreement, wherever applicable.

## **II. Methodology of price determination**

- a. The method and manner of determination of arm's length consideration/ price for RPT shall be based on the broad principles that are usually kept in mind while deciding consideration/ price with an unrelated party. Depending upon the nature and circumstances of transaction any of the following methods shall be followed :
  - i. Comparable uncontrolled price
  - ii. Cost plus method
  - iii. Transactional net margin method
  - iv. Cost sharing/ allocation
  - v. Profit Split Method
  - vi. Reduction of loss method
  - vii. Resale price method
  - viii. Any other appropriate method
- b. To avoid any confusion in understanding the above methods, reliance shall be placed on the provisions of Income Tax Act 1961 and the Rules made there under, to the extent applicable.

## **III. Responsibility & Accountability Matrix:**

### **i. CFO**

- a. The main responsibility of ensuring compliance with the Policy and Procedures shall rest with CFO,
- b. CFO shall create a mechanism whereby all RPTs are brought to his/her knowledge including all relevant details and rationale of the transaction, including; nature of

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transaction, annual volume and value of transactions, single or repetitive transaction, method of price determination,

- c. CFO shall ensure that such mechanism includes equal participation from Global Supply Chain (“GSC”), Information, Process & Organization (“IPO”), Research & Development (“R&D”), Commercial operations, Human Resources (“HR”), Human Resource Shared Services (“HRSS”) and any other necessary stakeholders. All above stakeholders’ participation is mandatory,
- d. CFO shall upon receiving validation of the RPT from the Core Committee place to the respective Audit Committee and/or Board and/or Shareholders of the Entity , as the case may be, for necessary approval,
- e. CFO shall take prior approval of the proposed RPT including draft terms and conditions of the RPT in quarterly Audit Committee and/or Board and/or Shareholders meeting, and shall also place details of RPT carried out during the previous quarter in quarterly Audit Committee and/or Board.

### ii. Core Committee

- a. Core Committee shall comprise representation from Treasury & Reporting, Tax and Legal,
- b. CFO of the Entity shall empower the Core Committee to review and validate all RPT and relevant RPT agreements,
- c. Core Committee shall review all details and data provided by CFO and seek further details, if necessary, for any review and validation,

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- d. The Core Committee shall validate that:
    - i. Such transaction(s) have business reasons for Schneider Electric to enter into,
    - ii. Such transaction(s) do not affect the independence of an independent director(s) or common director(s) or KMP(s),
    - iii. Such transaction(s) meet the arm's length principle.
  - e. Core Committee will be guided by Tax Team on determination of appropriate arm's length pricing methodology.
- iii. **Company Secretary**
    - a. Company Secretary shall be responsible to draft and execute necessary RPT Agreements and be the custodian of the said Agreements,
    - b. To monitor the compliance of the provisions of the Companies Act, 2013 ("**Act of 2013**"), Rules and Securities Listing Agreement, and
    - c. Maintain a register of all RPT Agreement(s) both in physical and electronic form, which will include the list of all the related parties to the best of his / her knowledge
  - iv. **Finance Shared Service team ("FiSS")**
    - a. Maintain data base of all RPTs,
    - b. Ensure no payment is made or invoice is raised under RPT without appropriate RPT Agreement(s) in place.

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- c. Make payments as per RPT Agreement terms and Maintain all accounting for all RPT, and
- d. Provide quarterly report of all RPT to the CFO of the Entity.

#### **IV. Timeline for Administration of this Policy & Procedures**

Every RPT shall have prior approval from Audit Committee and/or Board and/or Shareholders, as the case may be. The Audit Committee and/or Board meet every quarter under the Law. Thus, it would be imperative to plan all RPTs well in advance so that in all said quarterly meetings they are taken up for prior approval. Hence, following timelines shall be adhered to:

- a. As stated elsewhere, all concerned persons who conceive or plan to carry out an RPT shall keep the above time frame in mind and shall inform CFO with all the required details atleast by the end of 2<sup>nd</sup> month of each quarter so that it can be considered for approval in the next meeting held after the end of the quarter. For instance, RPT require approval in the Audit and/or Board meeting dated November 15, 2014 the details should be provided to CFO by 31<sup>st</sup> August, 2014. CFO will circulate a standard format in this regard.
- b. CFO shall forward the aforesaid details and any other relevant information to Core Committee on priority basis ordinarily within seven (7) working days.
- c. Core Committee shall complete the review and validation of the RPT within ten (10) working days from the date of receiving of all details from CFO.
- d. Company Secretary shall complete the draft RPT Agreements within 15 working days from the date of receiving the validation from Core Committee. Thereafter, Company Secretary shall provide the draft to CFO to present before the Audit Committee and/or Board Meeting.

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- e. Company Secretary shall complete the execution of the RPT Agreement within 15 working days after receiving the approval of Audit Committee and/or Board and/or Shareholders as the case may be.

**V. Materiality of Transaction<sup>1</sup>:**

The Company shall formulate a policy on materiality of related party transactions and on dealing with related party transactions.

A transaction with a related party shall be considered material if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceeds ten percent of the annual consolidated turnover of the Company as per the last audited financial statements of the Company.

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<sup>1</sup> \* *Inserted pursuant to approval in the Board of Directors meeting held on 03.11.2015*

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**Annexure – I**

**Definitions of Related Party:**

**A. Under the Securities Listing Agreement (clause 49 (VII) (B):**

*For the purpose of Clause 49 (VII), an entity shall be considered as related to the company if:*

- (i) such entity is a related party under Section 2(76) of the Companies Act, 2013; or*
- (ii) such entity is a related party under the applicable accounting standards."*

**B. Under the Companies Act, 2013 {Section 2(76)}**

*"Related party", with reference to a company, means—*

- (i) a director or his relative;*
- (ii) a key managerial personnel or his relative;*
- (iii) a firm, in which a director, manager or his relative is a partner;*
- (iv) a private company in which a director or manager or his relative is a member or director;*
- (v) a public company in which a director or manager is a director and holds along with his relatives, more than two per cent. of its paid-up share capital;*
- (vi) any body corporate whose Board of Directors, managing director or manager is accustomed to act in accordance with the advice, directions or instructions of a director or manager;*
- (vii) any person on whose advice, directions or instructions a director or manager is accustomed to act:*

*Provided that nothing in sub-clauses (vi) and (vii) shall apply to the advice, directions or instructions given in a professional capacity;*
- (viii) any company which is—*
  - (A) a holding, subsidiary or an associate company of such company; or*
  - (B) a subsidiary of a holding company to which it is also a subsidiary;*
- (ix) such other person as may be prescribed;*





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**C. Under the Applicable Accounting Standards (clause 10.1 of AS-18)**

*Related party - parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.*