

## Sterlite Technologies Limited

### Related Party Transactions Policy

**Owner:**  
Corporate Secretarial Department

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RPT Policy - 1.1

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The Board of Directors (the "Board") of Sterlite Technologies Limited (the "Company" or "Sterlite"), acting upon the recommendation of the Audit Committee, has adopted the following policy with regard to Related Party Transactions as required by Securities and Exchange Board of India Limited (Listing Obligations and Disclosure Requirements), Regulations, 2015 ("Listing Regulations"). The Audit Committee/the Board shall review this Policy atleast once in three years for making suitable amendments for better implementation of the Policy.

## 1. Purpose and Effective Date

Sterlite Technologies Limited has adopted this policy on Related Party Transactions (the "Policy"), to ensure the proper approval and reporting of transactions between the Company and one or more related party/parties as required under the provisions of Section 188 of the Companies Act, 2013 (the "Act") and the rules made thereunder and/or the provisions of Listing Regulations.

The purpose of this policy is to establish and govern the procedure applicable to related party transactions covered within the ambit of the Act and Listing Regulations as amended from time to time. This policy is intended to apply to all transactions where the Company is a participant and the related party has or is expected to have, direct or indirect interest.

This revised policy shall apply with effect from April 1, 2019.

## 2. Definitions

- i. "**Accounting Standards**" means accounting standards notified under Section 133 of the Act.
- ii. "**Audit Committee**" means a committee of the Board of Directors constituted as per the requirements of Listing Regulations and the Act.
- iii. "**Group**" includes all the entities which are included in the consolidated financial statements of the Company.
- iv. "**Key Management Personnel**" ('KMP') means a person who is a KMP, as defined in subsection (51) of section 2 of the Act or KMP within the meaning of the Accounting Standard 18 – Related Party Disclosures ('AS 18').
- v. "**Material transaction**" means a transaction to be entered into with a Related Party, individually or taken together with previous transactions during a financial year, exceeding the following thresholds:



- a. In case of transactions involving payments made with respect to brand usage or royalty, if it exceeds 2% of the annual consolidated turnover of the Company as per its last audited financial statements;
  - b. In case of any other transaction, where the amount exceeds 10% of the annual consolidated turnover of the Company as per the last audited financial statements or such other limit as may be specified under the Listing Regulations as amended from time to time.
- vi. **"Related Party"** ('RP') means a related party as defined in sub section (76) of section 2 of the Act and in Listing Regulations as amended from time to time.
- vii. **"Related Party Transaction"** (RPT) means a related party transaction as defined in the Listing Regulations including contract or arrangement in which the Company and the related party are contracting parties either directly or indirectly with respect to the items specified in Section 188(1)(a) to (g) of the Act.

Words and expressions used and not defined in this policy, but defined in the Act or any rules framed under the Act or in the Securities Contracts (Regulation) Act, 1956 or the Securities and Exchange Board of India Act, 1992 or in Listing Regulations or the Accounting Standards shall have the meanings assigned to them in those Acts, Rules, Regulations or Standards.

### 3. List of Related Party Transactions and rationale

The following is an illustrative list of general related party transactions entered into by the Company.

#### i. Sale of preforms, optical fiber, optical fiber cables, etc.

The Company generally enters into various agreements with Group entities for supply of preforms, optical fiber, optical fiber cables and OPGW cables for telecom infrastructure projects, etc. These agreements/transactions are fundamental to the forward integration strategy of the Group.

#### ii. Equity contributions / loans / Non-Convertible Debentures (NCDs) and interest thereon

The Company invests in Group entities in the form of equity and/or loans/NCDs. Such investments are required to supplement the financing needs of Group entities and to assist them in setting-up/operating their businesses. The Company charges interest on such loans/NCDs on a case-to-case basis subject to the requirements of the Act and transfer pricing regulations under the Income Tax Act, 1961.

#### iii. Corporate Guarantees and Commission

In certain cases the Company is required to provide guarantees to third parties/banks on behalf of Group entities. The Company charges commission on such guarantees on a case-to-case basis subject to the requirements of the Act and transfer pricing regulations under the Income Tax Act, 1961.



All the subsidiaries are engaged in the activities which in one way or the other support the main business activity carried out by the Company or are part of forward integration strategy of the Group. These financing activities are undertaken by the Company for supporting the activities undertaken by the subsidiary companies.

#### **iv. Reimbursement of expenses/Shared services**

The Company incurs certain expenses on behalf of other Group companies on account of various operational activities. These are tracked separately and charged back to the respective companies on actual basis.

#### **v. ESOPs to KMPs/ Directors**

Employees of the group, including certain related parties like KMP's and Directors are granted ESOPs in order to reward and retain them for their performance. These are granted in accordance with the ESOP guidelines issued by SEBI.

### **4. Related Party framework**

#### **i. Identification of related party**

The Corporate Secretarial department shall maintain the list of related parties and shall update the same based on declarations received from the Directors/KMP's and based on other data maintained by it.

#### **ii. Identification of related party transaction**

In the event that a proposed transaction is to be entered into with any of the parties identified as a Related Party in the list of Related Parties, the proposed transaction shall be considered as a Related Party Transaction. Relevant Head of department of the Company will need to report the proposed transaction with related party to Corporate Secretarial department for obtaining prior approval from Audit Committee. The Corporate Secretarial Department in coordination with various department heads shall maintain the updated list of related party transactions.

#### **iii. Ordinary course of business**

##### **Background**

The term "ordinary course of business" is not defined under the Act or rules made thereunder. The term in common parlance would mean activities that are necessary, normal, and incidental to the business. These are common practices and customs of commercial transactions. The assessment of whether a



transaction is in ordinary course of business is subjective, judgemental and can vary on case-to-case basis giving consideration to many factors including, the nature of business and objects of the entity. The purpose of making such assessment is to determine whether the transaction is usual or customary to the Company and/ or its line of business.

Evaluation as to whether a transaction is in the ordinary course of business will be done by the Company Secretary in consultation with the CFO and CEO. This would be subject to review and approval by the Audit Committee and the Board.

An illustrative list of transactions that would need evaluation to determine whether those are in the ordinary course or not is given as Appendix - I. Such transactions, if they are undertaken or proposed to be undertaken, should be reported to the Company Secretary for further evaluation and conclusion on whether they are in the Ordinary course or not.

The following are some of the transactions which are regularly undertaken by the Company based on historical data and hence are by default considered as being in Ordinary course of business, unless they contain one or more features mentioned in the list given in Appendix - I;

- a) Sale of preforms, optical fiber, optical fiber cables, etc.
- b) Equity contributions/ loans/NCDs and interest thereon. ~~on loans.~~
- c) Corporate Guarantees and Commission
- d) Reimbursement of expenses/Shared services
- e) ESOPs to KMPs/ Directors

#### iv. Arm's length evaluation

For the purposes of Section 188(1) of the Act, the term "Arm's length transaction" is defined as a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest."

In the absence of any guidance in the Act or the Rules made thereunder, evaluation done for arm's length under the transfer pricing guidelines in the Income Tax Act, 1961 may be used as a basis for determining whether a transaction is at arm's length price.

There may be certain transactions which do not need an arm's length evaluation or documentation under the Income-tax Act 1961. In such cases also, it is considered appropriate if the principles of transfer pricing guidelines under the Income Tax Act, 1961 are used for arm's length evaluation.

In situations, where it is not appropriate to determine the arm's length price through the methods prescribed by the Income-tax Act, 1961, reliance can be placed on expert valuation obtained from an external agency of repute. However, such situations are expected to be rare and hence the need to



obtain this would be taken by the CFO and Company Secretary jointly with the guidance of the Board and Audit Committee.

## 5. Notification by related parties

- i. Every Director/KMP of the Company, shall notify the Company Secretary of the Company about:
  - (a) his/her shareholding interests or memberships or directorships (directly or through relatives);
  - (b) any change in his/her relatives; or
  - (c) any change in shareholding interests or directorships or memberships of any entity, held by the person himself or by his relatives.
- ii. Directors/KMP shall give notification of his interest or change in interest within 7 days of the relevant event. At the beginning of each quarter, the Company Secretary of the Company shall provide the details of related parties as per records maintained by the Company to head of departments of the Company as well as to the Audit Committee along with changes since the last meeting of the Audit Committee.
- iii. The Company Secretary should also self-declare his interest or any change in interest to the Company and the Audit Committee.

## 6. Approval of Related Party Transactions

### i. Audit Committee Approval

Audit Committee of the Company shall approve all the related party transactions before the Company enters into such transactions. Any modification to related party transaction approved by audit committee will also require prior approval of Audit Committee.

In the event the management determines that it is impractical or undesirable to wait until a meeting of the Audit Committee to enter into a Related Party transaction, such transaction may be approved by the Audit Committee by way of a circular resolution, subject to the provisions of the Act. Any such approval must be ratified by the Audit Committee at its next meeting.

For every approval, the Audit Committee shall be provided with information/details as specified in Appendix – II.

### Factors to be considered by the Audit Committee

In determining whether to approve the transaction or not, the Audit Committee shall consider the following factors:





- The purpose, timing and terms of such transaction;
- The nature and extent of related party's interest in the transaction;
- Whether the terms of the Related Party Transaction are fair to the Company and would apply on the same basis if the transaction did not involve a Related Party;
- Whether there is an adequate business rationale for the Company to enter into the Related Party Transaction;
- Whether the Related Party Transaction would impair the independence of an otherwise independent director;
- Whether the Related Party Transaction results in a conflict of interest for any director or KMP, considering the size of the transaction, the overall financial position of the director or other Related Party, the direct or indirect nature of the director's, KMP's or other Related Party's interest in the transaction and the ongoing nature of any proposed relationship.
- Whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the proposed transaction.
- Any other relevant information regarding the transaction which the Audit Committee deems relevant.

It is understood that the Audit Committee may not be expert in evaluating every Related Party Transaction and may need assistance in the form of expert comments, external views, etc. before arriving at a decision. If such need is felt by a majority of the Audit Committee members present at the meeting, then such assistance may be taken.

#### **Omnibus approval in certain cases:**

Subject to the provisions of the Listing Regulations, the Audit Committee may grant omnibus approval for RPT proposed to be entered into by the Company provided such omnibus approval be granted only for transactions in the ordinary course of business and which are repetitive in nature. While granting the approval, the Audit Committee shall satisfy itself of the need for the omnibus approval and that same is in the interest of the Company.

Such omnibus approval shall be valid for a period not exceeding one year and shall require fresh approval after the expiry of one year. Further, the Audit Committee shall review, at least on a quarterly basis, the details of RPTs entered into by the Company pursuant to each of the omnibus approval given.

Every omnibus approval shall specify, at a minimum, the following details:





- the name(s) of the related party, nature of transaction, period of transaction, maximum amount of transaction that can be entered into;
- the indicative base price / current contracted price and the formula for variation in the price, if any; and
- such other conditions as the Audit Committee may deem fit.

Where the need of the RPT cannot be foreseen and all prescribed details are not available, Audit Committee may grant omnibus approval subject to the value per transaction not exceeding Rupees One Crore only. The details of such transaction shall be reported at the next meeting of the Audit Committee for ratification.

## ii. Board Approval

The Board shall approve any contract or arrangement (before it is entered into) with related party with respect to items specified in Section 188(1)(a) to (g) by a resolution passed at a Board meeting. Provided that such approval shall not be required if the transaction is undertaken in the ordinary course of business on an arm's length basis. Further, if the Audit Committee determines that a RPT should be brought before the Board, or if the Board chooses to review any RPT or it is mandatory under any law for the time-being in force for Board to approve the RPT, then the Board shall consider and approve the RPT and the factors to be considered set forth above shall apply to the Board's review and approval of the RPT, with such modification as may be necessary or appropriate under the circumstances.

None of the related parties shall be entitled to vote on a resolution relating to a related party transaction in the Board meeting.

## iii. Shareholders' Approval

All Material Transactions shall require approval of the shareholders of the Company; and no related party shall vote to approve such resolutions whether the entity is a party to the particular transaction or not.

All Related Party Transactions which are not in the ordinary course of business or not at arm's length and which are in excess of the limits prescribed under the Act and Rules made thereunder, requiring the approval of shareholders, shall require approval of the shareholders of the Company and in such cases, the Related Party/(ies) to the transaction shall abstain from voting on such resolution.

Aforesaid approvals (Audit Committee, Board and Shareholders) shall not be applicable for any transaction entered into between the Company and its wholly owned subsidiary whose accounts are consolidated with the Company and placed before the shareholders at the general meeting for approval, subject to the provisions of Section 188(1) of the Act & the Listing Regulations.



## **RPT undertaken without approval**

In the event the Company becomes aware of a Related Party Transaction that by oversight has not been approved, the transaction shall be placed at the next meeting of the Audit Committee or Board or Shareholders. The Audit Committee, Board or Shareholders shall consider all relevant facts and circumstances, take legal consultation (if required) and shall evaluate all options available to the Company, including but not limited to ratification, revision, or termination of such transaction.

## **7. Reporting of Related Party Transactions**

Appropriate disclosures as required under the Law shall be made in the Annual Return, Boards' Report and to the Stock Exchanges on which equity shares of the Company are listed and to such other authorities as may be prescribed under the Act or the Listing Regulations.

## **8. Compliance with the Policy**

It shall be the responsibility of the Company Secretary to ensure compliance with the Policy and that the approval process is duly followed and data required for the approval process is made available to the respective approving authority.

In case of non-compliances, it shall be the responsibility of the Company Secretary to report the non-compliances to the Audit Committee/Board of Directors. The Audit Committee/Board of Directors may take appropriate mitigating actions in compliance with prevailing laws.

In case there is any conflict between the provisions of this Policy and the Listing Agreement, the Act or any other Statute/Rule/Regulation, the provisions of the Listing Agreement, the Act or such other Statute/Rule/Regulation shall prevail over this Policy.

This Policy shall be communicated to all employees and other concerned persons of the Company. Further, this Policy shall be uploaded on the website of the Company and website link for the same shall be provided in the Annual Reports of the Company.



**List of transactions referred to in Para 4(iii) of the Policy:**

- a) Sale of investments (including investment in subsidiaries, associates or joint ventures) to related parties at a consideration which is lower than the valuation report obtained from external agency of repute;
- b) Issue of securities/options relating to securities offered to related parties, on differential terms or on terms not offered to other investors;
- c) Amalgamation, merger, demerger, corporate restructurings, acquisitions;
- d) Loans taken from related parties which are not in the business of lending;
- e) Loans given to related parties (excluding subsidiaries, associates or joint ventures and loans given under a scheme of the Company);
- f) Purchase or sale of fixed assets and/or intangibles from/to related parties;
- g) Post transaction extension of credit period of trade receivable to a related party beyond normal credit period of receivable for similar products for sold to unrelated parties under similar terms;
- h) Post transaction reduction in credit period of trade payable to a related party beyond normal credit period of payable for similar products for procured from unrelated parties under similar terms;
- i) Availing of services or rendering services at terms which are dissimilar compared to external vendor/customer (excluding transaction with subsidiary company);
- j) Transactions with related parties for no or inadequate consideration;
- k) Appointment of related party consultant or agent for any services;
- l) Employment of a related party at terms which are dissimilar compared to employees in similar grade;
- m) Retirement benefits given to related party not in accordance with general employee policy;



**Appendix – II****Indicative list of information which should be made available to the Audit Committee/Board of Directors for approval of Related Party transactions:**

- Nature and general description of the transaction
- Name of the related party and nature of relationship
- Estimated value of the transaction
- Rationale for related party transaction (business reasons for the Company to enter into the Related Party Transaction and the nature of alternative options, if any)
- Principle terms and conditions (including the indicative price and formula for price determination, if any)
- Period of the transaction
- Copy of the draft MOU, agreement, contract, purchase order or correspondence etc. if any;
- Valuation reports in case of sale or purchase or leasing / renting of capital assets or securities;
- Any advance paid / received or to be paid / received for the contract or arrangement, if any;
- In case of existing or approved contracts, transactions, details of proposed variations to the duration, current price / value and / or material terms of the contract or arrangement including a justification to the proposed variations;
- Management's evaluation regarding
  - whether it is a material transaction.
  - whether it is in ordinary course of business;
  - Whether it is at arm's length and the basis for conclusion (including expert valuation, if any).

