

RELATED PARTY TRANSACTION POLICY

1. PREAMBLE:

L&T Metro Rail (Hyderabad) Limited (“the Company”) is a Special Purpose Vehicle incorporated to execute the Hyderabad Metro Rail Project awarded by the Government of Telangana to develop a metro rail system. The project is executed on design, build, finance, operate and transfer basis across three corridors in the metropolitan area of Hyderabad. The promoter of the Company is Larsen & Toubro Limited (L&T) and holds 99% shareholding in the Company. One non-transferable equity share (the Golden Share) is held by Government of Telangana (Government) having a par value of ₹ 10 in pursuance of the Shareholders Agreement entered between the Company and the Government.

The Board of Directors (“the Board”) of the Company understands the importance of stakeholders’ confidence and trust in the Company. In order to preserve the same with transparency and to ensure that there is no conflict of interest inflicting any apprehension in the minds of its stakeholders, the Board of the Company, acting upon the recommendation of its Audit Committee (“the Committee”), has adopted the following policy and procedures with respect to Related Party Transactions.

2. PURPOSE:

The policy is not only to be in the best interests of its stakeholders but also in due compliance with the requirements of the Companies Act, Securities and Exchange Board of India (Listing Obligations & Disclosure Requirements) Regulations, 2015 and other applicable laws .

3. DEFINITIONS:

- (a) “Act” means the Companies Act, 2013 read with the Rules made thereunder and any subsequent amendments/ modifications thereof.
- (b) “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.

Pricing, though being an important factor, may not be the only determinant of a transaction being at arm’s length.

In order to ensure that the transaction is at arm's length, judgement needs to be applied and the following points can be considered for the same:

- Transaction is in line with the principles of the Transfer Pricing Guidelines of the Income Tax Act, 1961 (though transfer pricing is not applicable for domestic transactions under the IT Act)
- Transaction is as per the prevailing pricing policy / market price / same price (or margin) as compared to transactions with unrelated parties.
- Transaction is comparable with third party quotations / bids.
- Transaction is based on cost sharing agreements (in cases where cost is shared based on benefits derived).
- Transaction is at a price in line with the valuation done by an external independent expert.

Guidance may be taken from the examples laid down in the Standard on Auditing 550 on Related Parties (SA 550) for this purpose.

- (c) *"Audit Committee"* means Audit Committee of the Board of Directors of the Company.
- (d) *"Board"* means Board of Directors of the Company.
- (e) *"Group Company"* means subsidiaries and associates of the Company and shall also include subsidiaries and associates of the ultimate holding company of the Company.
- (f) *"Listing Regulations"* means the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 including any subsequent modifications or amendments thereof .
- (g) *"Material modification"* would mean any modification to the related party transaction which shall result in:
 - an impact on the value of the transaction by 30% as compared to the approval given by the Audit Committee / Board / shareholders earlier
 - the transaction not being at arm's length.
- (h) *"Material transactions"* would mean transactions or series of transactions in one financial year with any single related party exceeding Rs. 1,000 crore or 10% of the annual turnover of the Company whichever is lower as per the last audited financial statements of the Company.

Payments to a related party towards brand usage or royalty exceeding five percent of the annual turnover of the Company would be considered as '*material transaction*'.

- (i) '*Ordinary Course of Business*' means normal, regular business activities carried out by the Company in line with its Memorandum and Articles of Association. Since the term Ordinary Course of Business is not defined under the statute, the Company would exercise judgement on this aspect and for the purpose of the same, using the following guiding principles:

- The Company has done similar transactions in the past.
- Such transactions are carried out at regular frequency.
- Such transactions are common for the industry to which the Company belongs.

The guiding principles are not exhaustive and the facts and circumstances of each case would be examined before concluding on the matter.

- (j) "*Related Party*" is a party as defined in sub-section (76) of Section 2 of the Act and Regulation 2(zb) of Listing Regulations including modifications or amendments made thereto.
- (k) "*Related Party Transaction*" or "*RPT*" means transactions as given under clause (a) to (g) sub-section (1) of Section 188 and the Rules related thereto and as defined in Regulation 2(zc) of SEBI LODR including modifications or amendments made thereto. These include sale, purchase, leasing or supply of goods or property, availing / rendering of any services, appointment of agents for any of the above and underwriting of securities and transfer of resources, services or obligations between the Company and its related parties, irrespective of whether a price is charged or not.

4. POLICY:

Prior approval of the Audit Committee will be sought for the following Related Party Transactions:

- Transactions between the Company and its Related Party.
- Transactions between a subsidiary and its related party if the annual value of all transactions of such subsidiary with that related party exceeds 10% of the annual turnover of such subsidiary as per its last audited Balance Sheet.

- Transactions between the Company and / or its subsidiaries with unrelated parties, the purpose and effect of which is to benefit the Related Party of the Company or any of its subsidiaries
- Any material modifications to approved RPTs.'

5. AUDIT COMMITTEE:

The onus will be on the Business head and the Finance & Accounts (F&A) head of Company to refer RPT or potential RPT's to the Audit Committee for its consideration and approval.

The Audit Committee will consider the following factors while determining approval:

- (a) Name of the related party and its relationship with the Company or its subsidiary including nature of its concern or interest;
- (b) Nature, material terms, monetary values, tenure and particulars of the contract / arrangement / transaction;
- (c) Method and manner of determining the pricing and other commercial terms;
- (d) Whether the RPT is at arm's length;
- (e) Percentage of the value of the proposed RPT to the annual consolidated turnover of the Company/ standalone turnover of the subsidiary;
- (f) In case of RPT involving loan, advances, ICDs or investments made / given by the Company / subsidiary:
 - Details of sources of funds;
 - In case of indebtedness, nature of indebtedness, cost of funds and tenure;
 - Applicable terms including covenants, tenure, interest rate, secured or unsecured and repayment schedule;
 - Purpose of utilization of funds by ultimate beneficiary of such RPT.
- (g) Justification as to why the RPT is in the interest of the Company;
- (h) Copy of valuation / external party report, if any;
- (i) Percentage of the value of the proposed RPT to the annual consolidated turnover of the counterparty (voluntary); and
- (j) Any other information relevant or important for the Audit Committee / Board to take a decision on the proposed transaction.

The Audit Committee may grant omnibus approvals for the RPTs for a validity period of one financial year. The Audit Committee may grant approvals at a

meeting or by resolution through circulation. . The Audit Committee may also grant omnibus approvals for the RPTs of its subsidiaries as it may deem appropriate. The Audit Committee shall consider the following while granting omnibus approvals:

- (i). Omnibus approval shall specify
 - The name of related party, nature of transaction, period of transaction
 - The indicative base price/current contracted price and the formula for variation in the price, if any.
- (ii). Repetitiveness of the transaction;
- (iii). Justification for the need of omnibus approvals and whether such transaction is in the interest of the Company;
- (iv). Maximum value of the transactions, in aggregate, which can be allowed under the omnibus route in a year;
- (v). The maximum value per transaction which can be allowed;
- (vi). Extent and manner of disclosures to be made to the Audit Committee at the time of seeking omnibus approval;

Where a RPT cannot be foreseen and aforesaid details are not available, the Audit Committee may grant omnibus approval for such transactions subject to their value not exceeding Rupees One crore per transaction.

In the event the Company becomes aware of a transaction with a Related Party that has not been approved under the Policy prior to its consummation, the Audit Committee shall examine all facts and circumstances pertaining to non-reporting of such RPT to the Committee and may ratify such related party transaction.

Ratification is required to be done within 3 months of the date of the transaction or at the next meeting of the Audit Committee, whichever is earlier, subject to the following conditions:

- a. the value of the ratified transaction(s) with a related party, whether entered into individually or taken together, during a financial year shall not exceed Rs.1 crore;
- b. the transaction is not material in terms of provisions of Regulation 23 (1) of SEBI LODR;
- c. rationale for inability to seek prior approval is placed before the audit Committee; d) details of such ratification shall be disclosed along with the

disclosures of related party transactions in terms of provisions of Regulation 23 (9) of SEBI LODR.

Failure to seek ratification of the audit committee shall render the transaction voidable at the option of the Audit Committee.

Only those members of the Audit Committee who are Independent Directors will approve RPTs. Any member of the Audit Committee having a potential interest in the proposed RPT will not participate in the discussions nor vote on the proposal for approval of the transaction.

The Audit Committee shall at the end of every quarter would be appraised of the position of the approved transactions. The Audit Committee shall also review the status of long-term (more than one year) or recurring RPTs on an annual basis.

6. BOARD:

Pursuant to Section 188 of the Companies Act, 2013, the Board will approve all RPT's which are not at arm's length and / or which are not in the ordinary course of business basis the approval of the Audit Committee.

If the Audit Committee does not agree with a proposal for the RPT, it shall refer the same to the Board for further consideration.

Once contracts / arrangements with related parties are approved by the Audit Committee / Board, transactions arising out of the same would not be subject to evaluation when they are executed. This process will be monitored by the F&A head continuously.

7. SHAREHOLDERS:

All Material Transactions and subsequent material modification thereto, will require the below approvals

- (a) Prior No-objection certificate from the Debenture Trustee and the Debenture Holders who are not related with the Company and hold at least more than 50% of the value of debentures, on the basis of voting including e-voting.
- (b) After approval by debenture holders, approval from shareholders to be obtained.

A summary of information provided by the Management to the Audit Committee under Clause 5A (a) to (e) shall form a part of the explanatory statement. In addition to the same, the shareholders will be provided with information under clauses 5(g) to (i) and clause 5(f), wherever applicable.

Exclusions:

The following RPTs will not be put up for approval as permitted under law:

1. Transactions between the Company and its Wholly Owned Subsidiary (WOS) (if the Company is preparing consolidated accounts and placing the same before its shareholders for approval)
2. Transactions between two WOS of the Company (if the Company is preparing consolidated accounts and placing the same before its shareholders for approval)
3. In addition to the above, since the transactions or arrangements mentioned below are specifically dealt under different provisions of the Law/policy of the Company and executed under separate approvals, no approval of Audit Committee will be taken for:
 - a) Any RPTs approved by any of the other statutory Board Committees like the Nomination & Remuneration Committee and the CSR Committee.
 - b) Any transaction by the Company with its employee, who is a related party of L&T group, pursuant to the employment terms.
 - c) Employer's contribution to Provident Fund / Gratuity / Superannuation etc. to a recognized Trust as part of its statutory obligations.
 - d) Reimbursement of expenses at actuals based on supporting documents.

8. DISCLOSURE:

Appropriate disclosures as required under the Act and the SEBI LODR will be made in the Annual Report and to the Stock Exchanges.

9. REVIEW AND AMENDMENT:

Any change in the definitions and / or any provisions of this Policy pursuant to an amendment in the SEBI LODR or the Act will be effective without any further approval from the Audit Committee / Board. The Audit Committee / Board will be briefed about such changes.

The Board will review the Policy atleast once in three years.

In the event any provisions of the Policy are inconsistent with the provisions of SEBI LODR or the Act or any other applicable statutes, the provisions of the regulatory statutes will prevail.