

KIRLOSKAR PNEUMATIC COMPANY LIMITED
POLICY ON MATERIALITY OF RELATED PARTY TRANSACTIONS
AND DEALING WITH RELATED PARTY TRANSACTIONS

I. INTRODUCTION

The Government of India, Ministry of Corporate Affairs has made the provisions of section 188 and 189 of the Companies Act, 2013 (the “Act”) relating to Transactions with related parties applicable effective April 1, 2014 as applicable to the Company.

¹Securities and Exchange Board of India (SEBI) vide its circular No. CIR/CFD/POLICY CELL/2/2014 dated April 17, 2014 has mandated all listed companies to form policy on materiality of related party transactions and also on dealing with related party transactions. Further, on September 15, 2014, SEBI vide its Circular No. CIR/CFD/ POLICY CELL/7/2014 has amended the provisions of the above circular dated April 17, 2014 to make them in line with the provisions of the Companies Act, 2013.

¹ The Securities and Exchange Board of India (SEBI) has notified Listing Regulations, on 2nd September 2015 which is effective from 1 December 2015. Pursuant to these Regulations the Policy is amended in accordance with the Regulation 23. Accordingly, this Policy will be treated as the Policy under the said Regulation also, with effect from 1 December 2015.

Kirloskar Pneumatic Company Limited (“KPCL” or the “Company”) is a Company within the meaning of section 2(20) of the Companies Act, 2013 and is engaged in the manufacturing of various types of Compressors, Gears and Pinions. During the course of business and attaining its objectives, KPCL may enter into transactions with its related parties.

The Company has adopted this Policy on Materiality of related party transactions and Dealing with Related party transactions as required under Clause 49 of the Listing Agreement entered with Stock Exchange where Company’s equity shares are listed.

¹ - Inserted vide Resolution of the Board of Directors dated October 27, 2015.

This Policy will be applicable to the Company with effect from October 1, 2014.

This policy is applicable to transaction or contract between the Company and a 'Related Party'.

II. DEFINITIONS

1. **"Related Party"** means a party which is defined under the provisions of Section 2(76) of the Companies Act, 2013 and Rules thereof and under ¹under Regulation 2(1)(zb) of the Listing Regulations .

The definition of 'Related Party' as given under Section 2(76) is as under:

"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;
- iv. 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;
- v. 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;
- vi. 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. a director or key managerial personnel of the holding company or his relative ²

¹ - Inserted vide Resolution of the Board of Directors dated October 27, 2015.

The definition of 'Related Party' as given under ¹under Regulation 2(1)(zb) of the Listing Regulations is as under:

- a. Such entity is a related party under section 2(76) of the Companies Act, 2013;
or
 - b. Such entity is a related party under the applicable accounting standards.
2. **“Key Managerial Personnel” (KMP)**, in relation to a company, means—
 - i. the Chief Executive Officer or the managing director or the manager;
 - ii. the whole-time director;
 - iii. the Chief Financial Officer; and
 - iv. the company secretary;
 - v. such other officer as may be prescribed;
 3. **“Related Party Transaction (RPT)”** shall have the same meaning as assigned to it in the Companies Act, 2013 ¹under Regulation 2(1)(zc) of the Listing Regulations, as amended from time to time.
 4. **“Material Related Party Transactions”** means the transaction / transactions to be entered into individually or taken together with previous transactions during financial year with a Related Party, exceeds 10 % of the annual consolidated turnover of the Company as per the last audited financial statements of the Company.
 5. **“Arm’s length transaction”** as defined under Section 188 (1) of the Companies Act, 2013, shall mean a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest.
 6. **“Senior Leadership Team”** means an employee below one level below the Managing Director.

¹ - Inserted vide Resolution of the Board of Directors dated October 27, 2015.

III. APPROVAL REQUIREMENTS

A. Under Companies Act, 2013

1. All related party transaction shall require approval of the Audit Committee of the Board of Directors of the Company.
2. All related party transactions, which are not in the ordinary course of business but within the limits as specified in the Regulations from time to time, shall require prior approval of the Board of Directors of the Company or in exceptional circumstances by confirmation of the same within a period of 3 months, subject to the applicable provisions in the relevant rules.
3. All related party transaction, which are not at an Arm's Length basis but within the limits as specified in the Regulations from time to time shall require prior approval of the Board of Directors of the Company or in exceptional circumstances by confirmation of the same within a period of 3 months, subject to the applicable provisions in the relevant rules.
4. All related party transactions, which are not in the ordinary course of business and exceeding the limits as specified in the Regulations from time to time, shall require prior approval of Shareholders of the Company by ²resolution, subject to the applicable provisions in the relevant rules.
5. All related party transactions, which are not at an Arm's Length basis and exceeding the limits as specified in the Regulations from time to time, shall require prior approval of Shareholders of the Company by ²resolution, subject to the applicable provisions in the relevant rules.

B. Under Listing ¹Regulations

1. All related party transactions shall require prior approval of Audit Committee of the Board of Directors of the Company, except transactions with wholly owned subsidiary companies.
2. All Material related party transactions shall require approval of Shareholders of the Company by resolution, except transactions with wholly owned subsidiary companies.

¹ - Inserted vide Resolution of the Board of Directors dated October 27, 2015.

IV. PROCEDURE

1. Disclosure by Directors / Key Managerial Personnel (KMP)

Every Director / KMP of the Company shall at the beginning of the financial year provide information about his / her (including relatives) nature of interest or concern as prescribed under Companies Act, 2013 to the Company. Thereafter any changes therein need to be informed to the company promptly.

2. Identification of transactions with Related Parties

The Secretarial Department will circulate list of identified Related Parties to the Senior Leadership Team members on a periodical basis. The Senior Leadership Team members shall submit details of proposed transaction(s) to the Secretarial Department along with certain documents like comparable quotations, purchase orders, invoices or other certificates so as to establish comparable price.

The Company Secretary will place the details of the proposed transaction before the Audit Committee and Board of Directors / Shareholders, if required.

3. Review and approval of Related party transaction

A. Audit Committee

Prior approval of Audit Committee is required for all related party transactions except where the transactions are to be entered into with its wholly owned subsidiary, which can be approved by the Audit Committee subsequently.

The Audit Committee shall consider following factors while deliberating related party transactions for its approval.

- a. Whether the proposed Related party transaction is in ordinary course of business
- b. Whether the proposed related party transaction is at arm's length basis.
- c. Whether there are any compelling business reasons for the Company to enter into the related party transaction and the nature of

alternative transactions, if any

d. Materiality of the related party transaction.

e. Any other factor.

However, the Audit Committee may grant omnibus approval for related party transaction proposed to be entered into by the Company. While granting the omnibus approval, the Audit Committee shall consider the following :

i. Names of the related party

ii. Nature of transaction

iii. Period of transaction

iv. Expected amount of transaction

v. The indicate base price and any formula for calculation of price variations;

Provided that where the need for the related party transaction cannot be foreseen and aforesaid details are not available, the Audit Committee may grant an omnibus approval for such related party transactions subject to their value not exceeding Rs. 1 Crore per transaction.

The Audit Committee shall review all related party transactions on a quarterly basis, where the omnibus approval is given.

Such omnibus approvals will be valid for a period not exceeding one year and shall require fresh approvals after the expiry of one year.

B. Board of Directors

If the Audit Committee determines, the proposed related party transaction is not in the ordinary course of business or not on an arm's length basis, the Board shall consider the following factors while deliberating related party transaction for its approval.

a. Whether the transaction is within the threshold as specified under point no. 3 (C)(a) of this policy

- b. Justification for entering into proposed related party transaction
- c. Any other factor relevant which Board deems relevant.

C. Shareholders

Following transactions with related party transaction will require the approval of Shareholders by a resolution

a. Companies Act, 2013

In case of following type of related party transactions which are not in ordinary course of business or not on arm's length basis and which also exceeds threshold as given under in the Companies Act, 2013 and Rules thereof, will require approval of Shareholders

Sr. No.	Category of transaction	Threshold
1	Sale, Purchase or supply of goods or materials	10% of turnover or Rs. 100 Crore, whichever is lower
2	Selling or otherwise disposing of, or buying, property of any kind	10% of Net worth or Rs. 100 Crore, whichever is lower
3	Leasing of property of any kind	10% of Net worth or 10% of turnover or Rs. 100 Crore, whichever is lower
4	Availing or rendering of any service	10% of turnover or Rs. 50 Crore, whichever is lower
5	Such Related party's appointment to any office or place of profit in the company, subsidiary company or associate company	At a monthly remuneration exceeding Rs. 2.5 Lakh
6	Underwriting the subscription of any securities or derivatives thereof, of the Company	1% of Net worth

(The Turnover or Net Worth referred above shall be computed on the basis of Audited Financial Statements of the preceding Financial Year.)

b. ¹Clause 23 of the Listing Regulations

All material related party transactions will require the approval of Shareholders except the transactions entered into with its wholly owned subsidiary.

¹ - Inserted vide Resolution of the Board of Directors dated October 27, 2015.

4. **Related party transactions which are not approved under this Policy**

If a Related party transaction is entered into without being approved under this Policy, the same shall be reviewed by the Audit Committee. The Audit Committee shall evaluate the transaction and may decide such action as it may consider appropriate including ratification, revision or termination of the related party transaction.

In case where the Audit Committee determines not to ratify the related party transaction that has been commenced without approval, the Audit Committee as appropriate, may direct additional actions, including, but not limited to, immediate discontinuation or recession of the transaction.

In connection with any review of a related party transaction, the Audit Committee has authority to modify or waive any procedural requirements of this policy.

5. **Related Party Transactions of ongoing nature**

If related party transaction is of ongoing nature, the Audit Committee / Board of Directors shall periodically review and assess the ongoing relationship with related party and terms of transactions to see that they are in compliance with this Policy. Any amendment, renewal or extension of transaction or arrangement or relationship previously reviewed under this policy shall also be subject to subsequent review under this policy.

V. DISCLOSURE

- a) Every RELATED PARTY TRANSACTION entered into, which is not in the ordinary Course of Business and not on an arm's length basis shall be disclosed in the Board's Report along with the justification for entering into such transaction.
- b) All Material RELATED PARTY TRANSACTION shall be disclosed quarterly along with Compliance Report on Corporate Governance.
- c) This Policy is to be disclosed on the website of the Company and web

¹ - Inserted vide Resolution of the Board of Directors dated October 27, 2015.

link thereto shall be provided in the Annual Report.

VI. CONSEQUENCES OF CONTRAVENTION

Any director or any other employee of a Company, who had entered into or authorized the Related party transaction, in violation of the provisions of this Policy, shall be liable to punishments as prescribed under provisions of Companies Act, 2013, including rules thereof and/or the provisions of the Listing¹Regulations .

VII. AMENDMENT

The Board reserves its right to amend or modify this policy in whole or in part, at any time, when it deems appropriate.

In case of any subsequent changes in the provisions of the Companies Act, 2013 or any Regulations issued thereunder and/or in the provisions of the Listing¹Regulations, which makes any of the provisions in the Policy inconsistent with the Act or ¹Listing Regulations , the provisions of the Act or ¹Listing Regulations would prevail over the policy and the provisions in the policy would be modified in due course to make it consistent with the law.

For Kirloskar Pneumatic Company Limited

- s/d -

Rahul C. Kirloskar

Executive Chairman

Pune: 3rd November, 2014

Amended on 27th October, 2015

¹ - Inserted vide Resolution of the Board of Directors dated October 27, 2015.