

Related Party Transactions Policy and Framework (updated as on May 11, 2017)

(based on IL&FS approved Policy Framework)

- (I) **Background:** The Companies Act, 2013 read with the Companies (Meeting of Board and its Powers) Rules, 2014 (the Act) introduced specific provisions relating to Related Party Transactions (RPTs). The Board of Directors of IL&FS Energy Development Company Ltd (the Board) has adopted the following policy and procedures with regard to Related Party Transactions upon recommendation of the Audit Committee. The Audit Committee will review and may amend this policy from time to time. This policy will be applicable to the Company. This policy is to regulate transactions between the Company and its Related Parties based in terms of applicable laws and regulations applicable on the Company
- (II) **Transactions Covered under RPTs:** All transactions with Related Parties as per the list of identified transactions availed from and provided to Related Parties are provided in Annexure- I. The scope used for determining the Related Party Transactions is as per that given in Section 188 (1) of the Companies Act, 2013

In any circumstances, whether provisions of RPT Policy/Framework differ from any existing or newly enacted law, provision, rules, regulations by regulatory authority, the relevant statutory provisions or rules or regulations of regulatory authority will take precedence over the policy until such time it is changed to conform to the said provisions, rules or regulations

- (III) **List of Related Parties :** The Related Parties for the Company shall be drawn up based on the relevant provisions of the Companies Act 2013. A list of Related Parties would be periodically updated and the same will be reported to the Audit Committee
- (IV) **Definitions :**
- (a) **Committee of Directors of the Company (CoD):** The Committee of Directors for the purpose of the Policy would also include Administrative and other Committees formed by the CoD
- (b) **Ordinary Course of Business (OCB) :** The Act has not provided definition of this term. However, considering the business transactions of the Company following

parameters could be applied to evaluate whether a RPT is in the Ordinary Course of Business or not :

- (i) All types of payments, services availed and/or rendered to Related Parties for a period preceding three years or more should be considered as in OCB
 - (ii) Business mentioned in MOA
 - (iii) Historical Practice' with pattern or frequency
 - (iv) Common commercial practice
 - (v) Meets any other parameter/s laid down by the Board/AC
- (c) **Arm's Length basis (AL)** : As per provisions of the Act, AL transaction means a transaction between two Related Parties that is conducted as if they were unrelated, so that there is no conflict of interest
- (d) **Exempt RPTs**: RPTs of a Company in the OCB and on AL basis are referred to as "Exempt RPTs". There could be deviations in exempt RPT with Group Companies under the following circumstances :
- (i) Economic Reasons including Corporate Debt Restructuring, Financial Conditions and other extra-ordinary circumstances
 - (ii) Obligations of IEDCL as a Promoter / Joint Venture Partner of a Project and a Consortium Member
 - (iii) Regulatory enactments / obligations, if any
- (e) **Non-Exempt RPTs** : RPTs which are not in the OCB and/or not on AL basis are referred to as the "Non-Exempt RPTs"
- (f) **Key Managerial Personnel (KMP)**: means persons appointed by the Company as KMP pursuant to Section 203 of the Companies Act, 2013
- (g) **Management**: KMPs and Functional/ Department Heads who form part of the Unified Approval Framework
- (V) **Parameter For Arms' Length**: The parameters for AL be gauged based on any one or more of the following criteria:
- (a) Market Price if readily available and a market exists for the same

- (b) Price charged by the respective Group Company to Unrelated Parties
- (c) Independent Valuation by an Independent Valuer which have been approved by CoD
- (d) Obtaining one or more quotes, as may be available from Unrelated Parties for similar transactions, subject to availability
- (e) Regulatory and other Obligations including Compliance and Transfer Pricing norms as required under the Provisions of Income Tax Act, 1961
- (f) Sharing of cost (including OPE expenses) with Group Companies on actual basis
- (g) In case of shared IT / IT infrastructure services, the pricing at cost plus suitable margin (upto 15%) as decided at Group Level from time to time

With the objective to ensure the Standardized Operating Practices be followed in compliance with the Companies Act, 2013, an 'Illustrative list of documents supporting AL justification' in the Related Party Transactions Policy and Framework (the Policy) is provided as Annexure - II

(VI) **RPTs Framework Process**: The process for RPTs would be as follows:

- (a) **Omnibus Approval by the Audit Committee**: Notwithstanding provisions of sub-para (b), (c) and (d), the Audit Committee may provide omnibus approval for Related Party Transactions (RPTs) for a financial year based on the following:
 - (i) In order to facilitate smooth execution of Related Party Transactions (RPTs) by the Company, the Audit Committee of the Company may provide Omnibus Approval of RPTs for a particular financial year
 - (ii) The omnibus approval shall be valid for a financial year. If required, the Committee may review and revise the omnibus approval limits as well as the nature of transactions covered anytime during the relevant financial year
 - (iii) The omnibus approval of RPTs would specify:
 - name of the related parties;
 - nature and duration of the transaction;
 - maximum amount of transaction that can be entered into;
 - the indicative base price or current contracted price and the formula for variation in the price, if any; and
 - any other information relevant or important

- (iv) Further, prior to undertaking any RPT which falls under the omnibus approval, each RPT should be reviewed by the Managing Director/ Deputy Managing Director, Chief Financial Officer and Company Secretary through a RPT Assessment Memo for recording their comments on such transaction. Thereafter, the same be approved by the RPT Review Committee
- (v) Omnibus approval shall not be made for transactions in respect of selling or disposing of the undertaking of the Company
- (vi) Where the need for RPT cannot be foreseen and details as per (iii) above are not available, the Audit Committee may make omnibus approval for such transactions subject to their value not exceeding rupees one crore per transaction

(b) **Exempt RPT :**

- (i) The Committee of Directors (CoD) would review all other RPTs on an ongoing basis. The CoD shall confirm that all RPT transactions conform to the framework laid down by the Audit Committee. As a part of internal control and governance framework, all exempt RPTs not covered by omnibus approval will be approved by the CoD
- (ii) In the following cases, an RPT Review Committee comprising of Mr Hari Sankaran – Director-in-Charge and Mr Arun K Saha - Director shall be authorized to review and approve the RPTs
 - (a) exempt RPTs of any amount with Wholly Owned Subsidiary (ies) of the Company
 - (b) exempt RPTs comprising of value less than Rs 10 million per transaction with any other Related Party
- (iii) The Internal Auditors of the Company shall review all RPTs approved by CoD on a periodic basis and report their observations to the Audit Committee

(c) **Non Exempt RPT:** All Non-Exempt RPTs falling outside the framework and not in the OCB and / or not on an AL basis shall be liable for the compliance

requirement as prescribed under the Act. The procedure for approval of such Non-Exempt RPTs would be :

- (i) The CoD to put up the RPTs falling outside the RPT Framework to the Audit Committee of the Company (AC) for its review/ approval and further action as may be deemed appropriate by the Committee. RPTs falling outside the framework could be reviewed periodically and be included in the RPT Framework, based on recurrence and significance to the Company, providing adequate justification and documentation for the same wherever necessary
 - (ii) AC shall review and evaluate the Non-Exempt RPTs and if the proposed RPT was found to qualify as an Exempt RPT, approve the same or otherwise recommend to the Board for its review and decision, as long as RPTs are within the threshold limits prescribed under the Act
 - (iii) In case of Non-Exempt RPTs which fall outside the threshold limit, such RPTs should be taken to the Board for approval and thereafter to the Shareholders for their approval
 - (iv) Pursuant to the Act, the RPTs which are not in Ordinary Course of Business (OCB) and/or which are not on an Arm's Length basis (AL) would need prior approval of the Board and Shareholders of the Company, if falls outside threshold limit
- (d) Each RPT, whether exempt or not, should be reviewed by the Managing Director/Deputy Managing Director, Chief Financial Officer and Company Secretary through a RPT Assessment Memo for recording their comments on such transaction. Such Memo should be attached to the CoD or RPT Review Committee Approval Memo and / or other approval Memos, if applicable

The material threshold prescribed under the Companies Act, 2013 for seeking Shareholders Approval if RPT is not in Ordinary Course of Business or Not at Arms' Length or Both are as follows:

Nature of Transaction	Transaction value
Sale, purchase or supply of any goods or materials directly or through appointment of agents	Lower of: <ul style="list-style-type: none"> • >10% of turnover or • Rs 100 crore

Buying, selling or disposing of property of any kind directly or through appointment of agents	Lower of: <ul style="list-style-type: none"> • > 10% of net worth or • Rs 100 crore
Leasing of any kind of property	Lower of: <ul style="list-style-type: none"> • > 10% of turnover or • > 10% of net worth or • Rs 100 crore
Availing or rendering of any services directly or through appointment of agents	Lower of: <ul style="list-style-type: none"> • > 10% of turnover or • Rs 50 crore
Appointment to any office or place of profit in the company, its subsidiary company or associate company	Monthly remuneration > Rs 250,000
Remuneration for underwriting the subscription of any securities in or derivatives thereof	> 1% of net worth

Note : Turnover/ net worth shall be computed on the basis of audited financial statement of preceding financial year

(VII) **Disclosure:** Disclosure requirement under provisions of the Act as regards Directors' Report of the Company should be complied with

(VIII) The Management of the Company shall ensure compliance with Related Party Transactions Policy of the Company

Annexure - I

I Transactions with the Group Companies :

- (1) **Availing of Services from the Group Companies** : The business of the Company is spread across different areas of Power sector, including thermal, renewable and advisory services. The Company routinely avails /may avail various services including speciality services from Group Companies and/or reimbursement and sharing of expenses with Group Companies in the Ordinary Course of its Business. An indicative list of such services is as under:
- (a) Use of IL&FS Brand
 - (b) Availing Project Advisory Services
 - (c) Taking Business Premises on Lease
 - (d) Deputation of KMPs and Non KMP Personnel of IL&FS across Group Companies and accepting deputation from Group Companies
 - (e) Advisory and support services by various Departments /Division of the Company viz CSR Advisory services by the Social Inclusion Group to Group Companies
 - (f) Syndication Services
 - (g) Merchant Banking Services
 - (h) Project Finance Services
 - (i) Advisory on Investment/Divestment Valuation
 - (j) Custody and Depository Services
 - (k) Data Centre Management
 - (l) Trusteeship Services
 - (m) Document Management Services
 - (n) End to End Information Technology Services
 - (o) IT Infrastructure Management

- (p) CSR Implementation Services
 - (q) Miscellaneous administrative services for Group wide conferences and events etc
 - (r) Any other services as may be required / availed from time to time
- (2) **Framework for rendering services to IL&FS Group Companies:** The Company routinely renders following services to all the Group Companies. In certain cases Fees are charged and in other cases only the cost is recovered, in the Ordinary Course of its Business
- (a) Project Management and Contract Management
 - (b) Advisory and / or Consultancy Services
- (3) **Other Transactions with Group Companies :** Other Transactions of IEDCL with the Group Companies are as follows:
- (a) Lending to and Borrowing from Related Parties
 - (b) Acquisition of Investments from Related Entities
 - (c) Divestments
 - (d) Providing of Corporate Guarantee (CG) by IEDCL
 - (e) Providing of Bank Guarantee (BG), Letter of Credit (L/C) and Derivative by Banks of out IEDCL approved limit
 - (f) Sale / purchase / supply of power assets, power equipments, raw material like coal etc and other goods / material
 - (g) Leasing / sub-leasing of any kind of property or any part thereof (e.g., sharing of work stations) etc

II **Related Party Transactions with Directors, Key Managerial Personnel and their Relatives :** The Company enters/may enter into following Related Party Transactions with its Directors and Key Managerial Personnel (KMP) including transactions that are part of the terms of the employment of the Directors and KMPs and included in the Employee Hand Book of the Company which is approved by the Nominations and Remuneration

Committee under delegation/authorization by the Board of Directors of the Company. Such transactions are considered in the Ordinary Course of Business

- (a) Hiring Residential Premises from Related Parties for providing Accommodation to the Directors and Key Managerial Personnel

- (b) Hiring Residential Premises from Related Parties as Company Guesthouse

- (c) Purchase and Sale of Fixed Assets from/to Directors and Key Managerial Personnel and their Relatives

The matter regarding approval of terms of appointment, fixation / increase in remuneration, payment of PRP etc of the Directors and / or KMPs need not go through the RPT approval process separately as mentioned in the memo if appropriate approvals of the Nomination and remuneration Committee and / or the Board of directors of the Company are obtained

Annexure - II

The Illustrative list of documents for assessment of AL justification is as follows:

Sr. No.	Type of RPT	Material Terms	Illustrative list of documents supporting AL justification
1	Borrowing : Bridge financing/temporary support for operational cash flow mismatch	Rate of Interest	<p>The facility from group company is considered at Arm's length on the basis that the same is available to IEDCL as and when required along with no prepayment charges, no utilization restrictions and levy of similar rate of interest as charged by the group company from other group companies / other clients</p> <p>In case funds cannot be tied up with external lenders, a letter from syndicator that loan can't be tied up and a letter from group company that it is charging similar rate from other group companies / other clients (annually / as and when there is a change in rate of interest)</p>
2	Debt Syndication by IFIN	Syndication fees	Letter from IFIN, stating that same rate is being charged to outside parties
3	Lending - Term Loans / ICD / revolving line of credit	Rate of Interest	<p>In case borrowing SPVs / subsidiaries / associates are not able to arrange funds from external lenders, borrower to give a letter that funds cannot be arranged in a shorter time frame from outside.</p> <p>Depending upon tenure, security, risk, market conditions and such other factors, the Company will charge</p> <p>IL&FS rate of interest, or</p> <p>A margin of 2.00% p.a. over and above the average cost of Borrowing rate of such funds being extended as loan</p>

Sr. No.	Type of RPT	Material Terms	Illustrative list of documents supporting AL justification
4	Purchase of Power	Charging of Fees = Exchange price + exchange fee+ upto 7 paise margin	Fee is charged within the limits as per the CERC guidelines In case of multiple contracts / transactions, quotation from third party shall be taken once in a year that will be valid throughout the financial year in which the same has been obtained, subject to any change in the regulation
5	IT related services	Charging of Fees	Letter from the related party confirming that similar fees charged to other parties; or as per group policy and margin will not exceed the 15%
6	Depository / Other charges	Charging of Fees	Charging of similar fees from non-related parties by the service provider
7	Deputation Costs Recovery	Recovery of expenses on actual basis	Based on actual payroll cost which includes other cost if any incurred for the deputing party
8	Deputation Costs payment	Payment of Expenses on Actuals basis	Based on letter received from group company which deposes personnel to IEDCL i.e. the expenses are on actual basis.
9	Brand Fee	Charging of Fees	Fees charged on the basis of IL&FS Brand policy as approved by the Audit Committee of IEDCL
10	Rent / Maintenance / Other charges	Payment of Expenses on actual basis.	Similar Rent is charged to third parties by IL&FS Letter from IL&FS that similar rates are charged to outside parties
11	Temporary deposit of Surplus funds	Rate of Interest	Interest rate offered by IFIN is compared with Interest Rate offered by Scheduled Banks at their websites
12	Purchase / Sale of Investments	Cost of Investment	Fair value in accordance with Rule 11 UA of the Income Tax Act 1962 or book value, whichever is higher

Sr. No.	Type of RPT	Material Terms	Illustrative list of documents supporting AL justification
			Valuation by an Independent Valuer
13	Issuance of Corporate Guarantee in favour of Lenders of the Related Party by IEDCL (Guarantee Fee upto 0.50% p.a.)	Charging of Fees	As per lender's covenants, parent company being promoter is required to furnish corporate guarantees. In continuity IEDCL will charge 0.50% fee. BGs are not issued to non-related parties
14	Issuance of Corporate Guarantee in favour of IEDCL Lenders by IL&FS (Guarantee Fee upto 0.50% p.a.)	Payment of fees to IL&FS by IEDCL	Letter is obtained (annually) from IL&FS stating the percentage charged by them to all group companies is same
15	Providing Bank Guarantee/letter of credit on behalf of Related Party	Charging of Fees	Being promoter, Parent is under obligation to support SPV in case banking lines are not in place for SPV. The Company will charge a margin of 1.00% p.a. (to cover administrative cost) over and above the fees charged to it by lenders
16	Availing Bank Guarantee/letter of credit line of IL&FS	Payment of fees to IL&FS by IEDCL	Letter is obtained from IL&FS stating the percentage charged by them to all group companies
17	Fee for issuance of Letter of Awareness / Undertaking in favour of Lenders	Charging of Fees	IL&FS is charging similar fees to other group companies as per its approved framework by CoD
18	Fee for getting Letter of Awareness / Undertaking from IL&FS	Payment of fees to IL&FS by IEDCL	Letter is obtained from IL&FS stating the percentage charged by them to all group companies
19	Advisory Service		
		- Advisory Services	The fee is quoted on the basis of the approved man day rates of IEDCL and the no. of days of engagement of the project team. Similar

Sr. No.	Type of RPT	Material Terms	Illustrative list of documents supporting AL justification
			rates have been charged to external non-related clients
		- Advisory fees for project management consultancy (all phases)	a.) As per third party quotation taken by the group company, or b.) Similar fees charged or accepted by non-related party
20	Trading of Material	Trading of wind/solar project related material	A margin of 2.00% of the cost (to cover associated costs), or b.) As per third party quotation taken by the group company
21	Sale of asset to KMPs or group companies on transfer of employee	Cost Recovery	The asset will be sold or transferred at WDV on the date of sale of transfer or as per Employee Handbook wherever applicable
22	Reimbursement paid / recovered from group companies based on actual hence may be exempted from reporting		
(a)	Reimbursement paid/recovered from group companies based on actual	Actual cost prorated among companies	Charges are based on actual cost that is shared between group companies based on common method to determine the utilisation like time spent/no of users etc.
(b)	Recovery/payment of out of pocket expense	OPE Recovery	OPE recovery / reimbursement of expense will be on cost to cost basis with back up of actual cost incurred by related party
(c)	Training Expenses	Charging of Fees	Charges are based on actual cost that is shared between group companies based on common method to determine the utilisation like time spent/no of users etc.
(d)	Rent / Maintenance / Other charges	Recovery of expenses on actual basis	Recovery is made based on the proportionate of actual cost incurred