

POLICY ON RELATED PARTY TRANSACTIONS AND MATERIALITY OF RELATED PARTY TRANSACTIONS

INTRODUCTION

This policy on related party transactions and materiality of Related Party Transactions is formulated in terms of Regulation 23(1) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (effective from 1st December, 2015) and provisions of Section 188 of the Companies Act, 2013, and rules framed thereunder.

OBJECTIVE

This policy shall govern the all the present and prospective Related Party Transactions, whether material or not considering provisions of the Companies Act, 2013 as well as Regulation 23 of SEBI (LODR) Regulations, 2015.

The company to the extent possible does ensure that there are no related party transactions and if entered into due to exigencies, shall enter into the transaction as if entered into between unrelated parties.

SCOPE

The policy takes in to account various provisions on related party transactions mentioned in Regulation 23 of the SEBI (LODR) Regulations, 2015 and also in the Companies Act, 2013.

No Related Person Transaction shall be entered into by the Company, except in accordance with the provisions of this Policy.

DEFINITIONS

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.

Audit Committee means the audit committee constituted by the Board of Directors of the Company in accordance with applicable law, including the SEBI (LODR) Regulations, 2015 and the Companies Act, 2013.

Board means the Board of Directors of Punjab Communications Limited.

Company means Punjab Communications Limited.

Policy means this Policy, as amended from time to time.

SEBI (LODR) Regulations, 2015 shall mean SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended from time to time.

Meaning of Related Party

The term Related Party is defined in Section 2(76) of the Companies Act, 2013 and Regulation 2(zb) of SEBI (LODR) Regulations, 2015.

The definition of Related Party in Regulation 2(zb) of SEBI (LODR) Regulations, 2015 is broader than the definition given in Section 2(76) of the Companies Act, 2013. Hence, this policy is formulated to cover transactions with “Related Parties” as defined in the Companies Act, 2013 as well as Regulation 2(zb) of SEBI (LODR) Regulations, 2015.

As per the definition given in Regulation 2(zb) of SEBI (LODR) Regulations, 2015:

“related party” means a related party as defined under sub-section (76) of section 2 of the Companies Act, 2013 or under the applicable accounting standards:

Provided that this definition shall not be applicable for the units issued by mutual funds which are listed on a recognised stock exchange(s);

As per Section 2(76) of the Companies Act, 2013, “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 is a member or director;
- (v) a public company in which a director or manager is a director or 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 (i.e. a Director or Key Managerial Personnel of the holding company or his relative with reference to a company.)

A related party is a person or entity that is related to the company. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over

the other party, directly or indirectly, in making financial and/or operating decisions and includes the following:

1. A person or a close member of that person's family is related to a Company, if that person:
 - a. is a related party under Section 2(76) of the Companies Act, 2013;
 - b. who has control or joint control or significant influence over the company.
The term control means control as defined in Regulation 2(e) of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulation, 2011 which provides that "control" includes:
The right to appoint majority of the directors or to control the management or policy decisions exercisable by a person or persons acting individually or in concert, directly or indirectly, including by virtue of their shareholding or management rights or shareholders agreements or voting agreements or in any other manner.
2. An entity is related to a company if any of the following conditions applies:
 - a. The entity is a related party under Section 2(76) of the Companies Act, 2013, as defined above; or
 - b. The entity and the company are members of the same group (which means that subsidiary and fellow subsidiaries are related to the others); or
 - c. The entity is an associate or joint venture of the Company (or an associate or joint venture of a member of a group of which the other entity is a member); or
 - d. Both entities are joint ventures of the same third party; or
 - e. One entity is a joint venture of a third entity and the other entity is an associate of the third entity; or
 - f. The entity is a post-employment benefit plan for the benefit of employees of either the company or an entity related to the company. If the company is itself such a plan, the sponsoring employers are also related to the company; or
 - g. The entity is controlled or jointly controlled by a person identified in (1).
 - h. A person identified in (1)(b) has significant influence over the entity (or of a parent of the entity).

Provisions as to Related Party Transactions in the Companies Act, 2013 and SEBI (LODR) Regulations, 2015:

1. Under the Companies Act, 2013 the related party transactions are governed by Section 188 of the Companies Act, 2013 which covers only following transactions of commercial nature:
 - (a) sale, purchase or supply of any goods or materials;
 - (b) selling or otherwise disposing of, or buying, property of any kind;
 - (c) leasing of property of any kind;
 - (d) availing or rendering of any services;
 - (e) appointment of any agent for purchase or sale of goods, materials, services or property;

- (f) such related party's appointment to any office or place of profit in the company, its subsidiary company or associate company;
 - (g) underwriting the subscription of any securities or derivatives thereof, of the company.
2. The transactions of financial nature like giving of loan, guarantee and providing security to “any person in whom any director is interested” are governed by Section 185 of the Companies Act, 2013 which prohibits such transactions, whereas inter corporate loans, investment and guarantee, with or without related parties, are governed by Section 186 of the Companies Act, 2013.
3. Regulation 23 of SEBI (LODR) Regulations, 2015 has much wider scope and meaning, covering all related party transactions whether commercial or financial in nature as mentioned above. Moreover, it provides different regulatory provisions for related party transactions and **Material** related party transactions. Regulation 23(2) requires all related party transactions to be executed with prior approval of the Audit Committee, while Regulation 23(4) provides that **all material related party transactions** shall require **approval of the shareholders through resolution** and the **related parties shall abstain from voting on such resolutions** whether the entity is a related party to the particular transaction or not.
4. Regulation 23 of SEBI (LODR) Regulations, 2016 states that:
The listed entity shall formulate a policy on materiality of related party transactions and on dealing with related party transactions:
Explanation- 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 listed entity as per the last audited financial statements of the listed entity..

Meaning of Related Party Transactions:

The term Related Party Transaction as defined in Regulation 2(zc) of the SEBI(LODR) Regulations, 2015 states that:

“Related party transaction” means a transfer of resources, services or obligations between a listed entity and a related party, regardless of whether a price is charged and a “transaction” with a related party shall be construed to include a single transaction or a group of transactions in a contract:

Provided that this definition shall not be applicable for the units issued by mutual funds which are listed on a recognised stock exchange(s);

Meaning of Material related party transaction:

1. Provided that a transaction with a related party shall be considered material if the transaction / transactions 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.

As an example the annual turnover of the company and relevant percentage are as under:

Rs. In Lacs

Year	Turnover	10% of the annual turnover
As on 31 st March, 2017	3,048	305

2. All material related party contracts or arrangements, if any, during a particular year, which are likely to continue beyond the end of the Financial Year shall be placed for approval by way of Special Resolution of the shareholders in the immediately next Annual General Meeting of the company and the related parties shall abstain from voting on such resolution.
3. The details of all material related party transactions during a year, which are likely to continue beyond the end of the Financial Year, wherever required, as per the provisions of the Companies Act, 2013 and SEBI (LODR) Regulations, 2015 shall be placed before the Board for its approval and recommendations before the same is placed for approval of the shareholders at the immediate next Annual General Meeting.

Approvals, Disclosures and related provisions:

No Related Party Transaction shall be entered in to by the Company without complying with the following provisions:

1. The Company shall obtain **prior approval of the Audit Committee.**
2. The Company shall also obtain **consent of the Board of Directors** given by a resolution passed at a meeting of the Board.
 - i) The agenda item of the Board meeting shall disclose:
 - (a) the name of the related party and nature of relationship
 - (b) the nature, duration of the contract and particulars of the contract or arrangement
 - (c) the material terms of the contract or arrangement including the value, if any
 - (d) any advance paid or received for the contract or arrangement, if any
 - (e) the manner of determining the pricing and other commercial terms, both included as part of contract and not considered as part of the contract
 - (f) whether all factors relevant to the contract have been considered, if not, the details of factors not considered with the rationale for not considering those factors and

- (g) any other information relevant or important for the Board to take a decision on the proposed transaction.
 - ii) No Interested Director shall be present at the meeting during discussions on the subject matter of the resolution relating to related party transaction.
3. i) The Company shall obtain approval of the Company by a **special resolution** for any Related Party Transaction within the meaning of Section 188 of the Companies Act, 2013, unless the transaction entered in to by the Company is in the ordinary course of business and on arm's length basis.
- ii) The Company shall obtain approval of the Company by a special resolution for any **Material Related Party Transaction**.
- Provided that:
- (a) No member of the company shall vote on such special resolution, if such member is a Related Party.
 - (b) The special resolution passed by the holding company shall be sufficient for the purpose of entering into the transactions between wholly owned subsidiary and holding company.
 - (c) The explanatory statement to the notice of general meeting shall contain name of the related party, name of director or KMP who is related, if any, nature of relationship, nature, material terms, monetary value and particulars of the contract or arrangement and any other information relevant or important for the members to take a decision on proposed resolution.
4. Details of all related party transactions shall be disclosed quarterly along with the compliance report on corporate governance.
5. Every contract or arrangement with Related Party entered in to by the Company shall be referred to in the Board's Report to the shareholders along with justification for entering in to such contract or arrangement.
6. Board of Directors shall be responsible for monitoring and managing potential conflicts of interest of management, board members and shareholders, including misuse of corporate assets and abuse in related party transactions.

Provision for Omnibus Approval :

In pursuance with the provisions of Regulation 23(2) all Related Party Transactions shall require prior approval of the Audit Committee. However, as per the provisions of Regulation 23(3), the Audit Committee may grant omnibus approval for Related Party Transactions proposed to be entered into by the company subject to the following conditions, namely:

- (a) the audit committee shall lay down the criteria for granting the omnibus approval in line with the policy on related party transactions of the listed entity and such approval shall be applicable in respect of transactions which are repetitive in nature;
- (b) the audit committee shall satisfy itself regarding the need for such omnibus approval and that such approval is in the interest of the listed entity;
- (c) the omnibus approval shall specify:
 - (i) the name(s) of the related party, nature of transaction, period of transaction, maximum amount of transactions that shall be entered into,
 - (ii) the indicative base price / current contracted price and the formula for variation in the price if any; and
 - (iii) such other conditions as the audit committee may deem fit:
Provided that where the need for related party transaction cannot be foreseen and aforesaid details are not available, audit committee may grant omnibus approval for such transactions subject to their value not exceeding rupees one crore per transaction.
- (d) the audit committee shall review, at least on a quarterly basis, the details of related party transactions entered into by the listed entity pursuant to each of the omnibus approvals given.
- (e) Such omnibus approvals shall be valid for a period not exceeding one year and shall require fresh approvals after the expiry of one year:

Further, Regulation 23(5) states that:

The provisions of sub-regulations (2), (3) and (4) shall not be applicable in the following cases:

- (a) transactions entered into between two government companies;
- (b) transactions entered into between a holding company and its wholly owned subsidiary whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval.

Explanation.- For the purpose of clause (a), "government company(ies)" means Government company as defined in sub-section (45) of section 2 of the Companies Act, 2013.

AMENDMENTS:

The Related Party Transaction Policy may be amended at any time and is subject to:

- a) Amendments to the Companies Act, 2013 and rules framed thereunder, from time to time.
- b) Amendments to the Uniform Listing Agreement entered between the Company & BSE from time to time
- c) Amendments to SEBI (LODR) Regulations, 2015.
- d) Further guidance from the SEBI
- e) Consequential actions taken by the Board of Directors or the Audit Committee of the Company

This policy shall be deemed to be amended accordingly in the light of the said amendments itself.

RELEVANT EXTRACTS OF STATUTES

COMPANIES ACT, 2013

Section 2(76) (definition)

“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 is a member or director;
- (v) a public company in which a director or manager is a director or 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;

Section 188 - Related Party Transactions:

- (1) Except with the consent of the Board of Directors given by a resolution at a meeting of the Board and subject to such conditions as may be prescribed, no company shall enter into any contract or arrangement with a related party with respect to—
 - (a) sale, purchase or supply of any goods or materials;
 - (b) selling or otherwise disposing of, or buying, property of any kind;
 - (c) leasing of property of any kind;
 - (d) availing or rendering of any services;
 - (e) appointment of any agent for purchase or sale of goods, materials, services or property;
 - (f) such related party's appointment to any office or place of profit in the company, its subsidiary company or associate company; and
 - (g) underwriting the subscription of any securities or derivatives thereof, of the company;

Provided that no contract or arrangement, in the case of a company having a paid-up share capital of not less than such amount, or transactions not exceeding such sums, as may be prescribed, shall be entered into except with the prior approval of the company by a special resolution:

Provided further that no member of the company shall vote on such special resolution, to approve any contract or arrangement which may be entered into by the company, if such member is a related party:

Provided also that nothing in this sub-section shall apply to any transactions entered into by the company in its ordinary course of business other than transactions which are not on an arm's length basis.

(The above three provisos shall not apply to:

- a) A Government Company engaged in respect of contracts or arrangements entered into by it with any other Government Company.
- b) A Government Company, other than a listed company, in respect of contracts or arrangements other than those referred to in clause (a) in case such company obtains approval of Ministry or Department of Central Government which is administratively in charge of the company, or as the case may be, the state government before entering into such contract or arrangement.

As exempt by MCA vide Circular G.S.R._____ dated 5th June, 2015)

Explanation- In this sub-section,—

- (a) the expression “office or place of profit” means any office or place—
 - (i) where such office or place is held by a director, if the director holding it receives from the company anything by way of remuneration over and above the remuneration to which he is entitled as director, by way of salary, fee, commission, perquisites, any rent-free accommodation, or otherwise;
 - (ii) where such office or place is held by an individual other than a director or by any firm, private company or other body corporate, if the individual, firm, private company or body corporate holding it receives from the company anything by way of remuneration, salary, fee, commission, perquisites, any rent-free accommodation, or otherwise;
 - (b) the expression “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.
- (2) Every contract or arrangement entered into under sub-section (1) shall be referred to in the Board's report to the shareholders along with the justification for entering into such contract or arrangement.
 - (3) Where any contract or arrangement is entered into by a director or any other employee, without obtaining the consent of the Board or approval by a special resolution in the general meeting under sub-section (1) and if it is not ratified by the Board or, as the case may be, by the shareholders at a meeting within three months from the date on which such contract or arrangement was entered into, such contract or arrangement shall be voidable at the option of the Board and if the contract or arrangement is with a related party to any director, or is authorised by any other director, the directors concerned shall indemnify the company against any loss incurred by it.

- (4) Without prejudice to anything contained in sub-section (3), it shall be open to the company to proceed against a director or any other employee who had entered into such contract or arrangement in contravention of the provisions of this section for recovery of any loss sustained by it as a result of such contract or arrangement.
- (5) Any director or any other employee of a company, who had entered into or authorized the contract or arrangement in violation of the provisions of this section shall,—
 - (i) in case of listed company, be punishable with imprisonment for a term which may extend to one year or with fine which shall not be less than twenty-five thousand rupees but which may extend to five lakh rupees, or with both; and
 - (ii) in case of any other company, be punishable with fine which shall not be less than twenty-five thousand rupees but which may extend to five lakh rupees.

SEBI (LODR) REGULATIONS, 2015

Regulation 2 (definition)

- (zb) “related party” means a related party as defined under sub-section (76) of section 2 of the Companies Act, 2013 or under the applicable accounting standards:
Provided that this definition shall not be applicable for the units issued by mutual funds which are listed on a recognised stock exchange(s);
- (zc) “related party transaction” means a transfer of resources, services or obligations between a listed entity and a related party, regardless of whether a price is charged and a "transaction" with a related party shall be construed to include a single transaction or a group of transactions in a contract:
Provided that this definition shall not be applicable for the units issued by mutual funds which are listed on a recognised stock exchange(s);

Regulation 4 (2) (f) (ii): Key functions of the Board of Directors

- (6) Monitoring and managing potential conflicts of interest of management, members of the board of directors and shareholders, including misuse of corporate assets and abuse in related party transactions.

Regulation 23: Related party transactions

- (1) The listed entity shall formulate a policy on materiality of related party transactions and on dealing with related party transactions:
Explanation.- 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 listed entity as per the last audited financial statements of the listed entity.
- (2) All related party transactions shall require prior approval of the audit committee.
- (3) Audit committee may grant omnibus approval for related party transactions proposed to be entered into by the listed entity subject to the following conditions, namely-

- (a) the audit committee shall lay down the criteria for granting the omnibus approval in line with the policy on related party transactions of the listed entity and such approval shall be applicable in respect of transactions which are repetitive in nature;
 - (b) the audit committee shall satisfy itself regarding the need for such omnibus approval and that such approval is in the interest of the listed entity;
 - (c) the omnibus approval shall specify:
 - (i) the name(s) of the related party, nature of transaction, period of transaction, maximum amount of transactions that shall be entered into,
 - (ii) the indicative base price / current contracted price and the formula for variation in the price if any; and
 - (iii) such other conditions as the audit committee may deem fit:
Provided that where the need for related party transaction cannot be foreseen and aforesaid details are not available, audit committee may grant omnibus approval for such transactions subject to their value not exceeding rupees one crore per transaction.
 - (d) the audit committee shall review, at least on a quarterly basis, the details of related party transactions entered into by the listed entity pursuant to each of the omnibus approvals given.
 - (e) Such omnibus approvals shall be valid for a period not exceeding one year and shall require fresh approvals after the expiry of one year:
- (4) All material related party transactions shall require approval of the shareholders through resolution and the related parties shall abstain from voting on such resolutions whether the entity is a related party to the particular transaction or not.
- (5) The provisions of sub-regulations (2), (3) and (4) shall not be applicable in the following cases:
- (a) transactions entered into between two government companies;
 - (b) transactions entered into between a holding company and its wholly owned subsidiary whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval.
Explanation.- For the purpose of clause (a), "government company(ies)" means Government company as defined in sub-section (45) of section 2 of the Companies Act, 2013.
- (6) The provisions of this regulation shall be applicable to all prospective transactions.
- (7) For the purpose of this regulation, all entities falling under the definition of related parties shall abstain from voting irrespective of whether the entity is a party to the particular transaction or not.
- (8) All existing material related party contracts or arrangements entered into prior to the date of notification of these regulations and which may continue beyond such date shall be placed for approval of the shareholders in the first General Meeting subsequent to notification of these regulations.

SCHEDULE V: ANNUAL REPORT (PART-A)

The annual report shall contain the following additional disclosures:

Related Party Disclosure:

1. The listed entity shall make disclosures in compliance with the Accounting Standard on “Related Party Disclosures”.
2. The disclosure requirements shall be as follows:

Sr. no	In the accounts of	Disclosures of amounts at the year end and the maximum amount of loans/ advances/ Investments outstanding during the year
1	Holding Company	<ul style="list-style-type: none"> • Loans and advances in the nature of loans to subsidiaries by name and amount. • Loans and advances in the nature of loans to associates by name and amount. • Loans and advances in the nature of loans to firms/companies in which directors are interested by name and amount.
2	Subsidiary	Same disclosures as applicable to the parent company in the accounts of subsidiary company.
3	Holding Company	Investments by the loanee in the shares of parent company and subsidiary company, when the company has made a loan or advance in the nature of loan.

For the purpose of above disclosures directors’ interest shall have the same meaning as given in Section 184 of Companies Act, 2013.

SECRETARIAL STANDARDS

Secretarial Standard on Meetings of Board of Directors (SS-1) (Annexure)

Items which shall not be passed by RBC but only at a meeting of BOD
According sanction for Related Party Transactions which are not in the ordinary course of business or which are not on arm’s length basis.

Secretarial Standard on General Meetings (SS-2)

7.5.2 A Member who is a related party is not entitled to vote on a Resolution relating to approval of any contract or arrangement in which such Member is a related party.