

**PROCTER & GAMBLE HEALTH LIMITED  
(Formerly Merck Limited)  
RELATED PARTY TRANSACTION POLICY**

**PREAMBLE:**

The Procter & Gamble Company's *Worldwide Business Conduct Manual* provides that all employees and directors must disclose all potential conflicts of interest and promptly take actions to eliminate a conflict when the Company so requests. Procter & Gamble Health Limited, being a subsidiary of The Procter & Gamble Company, is covered by the Worldwide Business Conduct Manual.

Further in India, regulatory framework as laid down under Companies Act, 2013 and the SEBI (Listing Obligations and disclosure Requirements) Regulations, 2015 further prescribes review mechanism for transactions with related parties as well as disclosure of the Company's policies and procedures for review and approval of such transactions.

Accordingly, the Company's Board of Directors ("Board") has formally adopted the following written policies and procedures for the identification, review and approval of Related Party Transactions ("The Policy" or "RPT Policy").

**PURPOSE:**

The Policy prescribes the framework to ensure that all Related Party Transactions entered into by the Company shall be in the best interest of the Company and in accordance with the provisions of this Policy.

**SECTION I: DEFINITIONS**

For the purposes of this Policy, the following terms shall mean:

- a) "**Audit Committee**" means the Audit Committee of the Company;
- b) "**Board**" means the Company's Board of Directors;
- c) "**Company**" means Procter & Gamble Health Limited;
- d) "**Control**" shall have the same meaning as assigned to it under the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011;
- e) "**Director**" means a director appointed on the Board of Directors of the Company;
- f) "**Group company**" means a subsidiary of the Ultimate Holding Company;
- g) "**Holding company**" means a holding company as defined in sub-section (46) of section 2 of the Companies Act, 2013;
- h) "**Key Management Personnel**" means Chief Executive Officer, Managing Director, Manager, Whole- time Director, Chief Financial Officer and Company Secretary;
- i) "**Material Transaction**" means a transaction(s) with Related Party 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, or as may be stipulated by SEBI from time to time.
- j) "**Policy**" or "RPT Policy" means written policies and procedures for the identification, review and approval of Related Party Transactions;

- k) **"Promoter"** and **"Promoter group"** shall have the same meaning as assigned to them under the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009;
- l) **"Related Party(s)"** means a related party as defined under sub-section (76) of section 2 of the Companies Act, 2013 or under the applicable accounting standards;
- m) **"Related Party Register"** means the database (physical or electronic) containing the names, addresses, and other relevant details of the Related Party(s) to be maintained by the Company Secretary;
- n) **"Related Party Contract Register"** means a register (physical or electronic) in respect of all contracts or arrangements entered into between the Company and its Related Party(s) to be maintained by the Company Secretary in accordance with the Relevant Legislation.
- o) **"Related Party Transaction(s)"** or **"RPTs"** means a transfer of resources, services or obligations between the Company 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.
- p) **"Relevant Legislation"** means the Companies Act, 2013, Rules made there under, SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and any other regulations, prescribed by the Securities and Exchange Board of India concerning Related Party Transactions;
- q) **"Ultimate Holding company"** means The Procter & Gamble Company, USA;

*Terms used in this Policy not specifically defined herein shall have the meaning assigned to them in the Companies Act, 2013, Rules framed thereunder and the SEBI (Listing Obligations and disclosure Requirements) Regulations, 2015, as may be amended from time to time.*

## **SECTION II: STANDARDS FOR REVIEW AND APPROVAL OF RELATED PARTY TRANSACTIONS**

A Related Party Transaction will be considered approved if, after full disclosure of the Related Party's interest in the transaction, it is authorized in accordance with the standards set forth in this Section II and the process set forth in Section III, IV, V, VI, VII and VIII.

For those Related Person Transaction(s) presented to the Audit Committee, it shall review all relevant information available to it about the Transaction. The Audit Committee may approve a Related Party Transaction presented to it only if it determines that, based on all of the information presented, the transaction is not inconsistent with the best interests of the Company as a whole and is in compliance with the applicable laws.

As appropriate under the circumstances, Audit Committee review of a Related Party Transaction shall take into consideration the following in determining whether to approve such transaction:

- (a) Whether the transaction is undertaken in the ordinary course of business of the Company;
- (b) Whether the transaction with the Related Party is proposed to be entered into (or was entered into) on arm's length basis;
- (c) Whether the transaction is repetitive in nature and omnibus approval is requested ;
- (d) The approximate value of the amount involved in the transaction; and whether it is a Material Transaction;
- (e) The purpose and the potential benefits of the transaction(s) to the Company;
- (f) Any other information regarding the Related Party Transaction that would be material to shareholders of the Company.

i. Criteria to determine whether a Related party transaction is in ordinary course of business:

There is no definition of the term 'ordinary course of business' under the Act and the Companies Rules, 2013 ('Rules'). Accordingly, the meaning of the expression 'ordinary course of business' has to be construed in common parlance. The Black Law Dictionary, 7<sup>th</sup> Edition, defines 'course of business' as normal routine in managing a trade or business. It also states that 'course of business' is also termed as ordinary course of business, regular course of business, ordinary course, regular course. Para A25 and A38 of the Standard on Auditing 550 on Related Parties, specify the parameters to identify transactions which might be considered as outside entity's ordinary course of business, such as:

- (a) Whether the transactions are overly complex;
- (b) Has unusual terms of trade, such as unusual price, interest rates, guarantees and repayment terms;
- (c) Lacks an apparent logical business reason for its occurrence;
- (d) Involves previously unidentified related parties;
- (e) Transaction is processed in an unusual manner.

The following criteria shall be generally applied to determine as to whether the proposed transaction is in the 'ordinary course of business' or not:

- (a) Whether the activity is normal or otherwise unremarkable – These are activities undertaken by the enterprise as a part of its normal business. As per Accounting Standard 5 on 'Net Profit or Loss for the period, Prior Period Items and Changes in Accounting Policy', related activities in which the enterprise engages in furtherance of, incidental to, or arising from, would also be considered ordinary activities;
- (b) Frequency of the Activity – The more frequent an activity the more it would be considered to be normal or ordinary;
- (c) Regularity of an activity – This would relate to the predictability of the activity. An activity might not be frequent in nature but if its predictable and that would make it ordinary;
- (d) Activity meeting objectives – Where an activity is carried out to meet the objectives of the business it would be considered to be normal;
- (e) Resources committed to the activity – If there are certain resources are dedicated to a an activity then the activity would be considered ordinary. If the resources involved are significant and material then it is more likely that the activity is ordinary.

Thus, the transactions which are normally and routinely entered in managing the overall business of the Company could be regarded as transactions entered into in the 'ordinary course of business'.

ii. Criteria to determine whether the proposed RPTs have been entered into at a price that satisfies the "Arm's Length" test

Explanation (b) of Sub-section (1) of Section 188 of the Act defines the expression "arm's length transaction" as a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest. However, there is no methodology provided in the Act and Rules for evaluating and benchmarking the RPTs with a transaction/price with an unrelated party.

The concept of arm's length price between Associated Enterprises is present under the Income Tax Act (IT Act) and the Income Tax Rules. In fact, Section 92C of the IT Act prescribes six

methods for determining whether the transaction between two or more Associated Entities is at 'arm's length' price, which are listed down as follows:

- a. Comparable Uncontrolled Price method
- b. Resale Price Method
- c. Cost Plus Method
- d. Profit Split Method
- e. Transactional Net Margin Method
- f. Such other method as may be prescribed by the Board (Rule 10AB)

Further, OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations, 2010 ("OECD Guidelines") has laid down the principles and guidelines for determining 'arm's length' price.

Also, an examination can be made of any past precedents (or pending litigations) for the acceptability or otherwise, of pricing of the RPTs from various statutory authorities, to determine if the methods adopted by the Company have been accepted by various statutory authorities.

The methodology that has been adopted in the past and accepted by the Income tax authorities can be used for determining the arm's length price of the transaction.

Thus, in absence of detailed mechanism under the Act and Rules, one may resort to the Transfer Pricing methodologies prescribed under the IT Act ('Indian TP Regulations'), the OECD guidelines and any past precedence with the statutory authorities for benchmarking whether the RPTs entered into by the Company are at arm's length.

However, considering that the Company is a part of a global conglomerate in the business of fast moving consumer goods, the majority of the Related Parties are also generally engaged in identical or related business lines. Thus, in view of the above, Transactional Net Margin Method may normally be the most appropriate method to benchmark the RPTs of the Company, unless circumstances or the peculiar facts of a transaction warrant otherwise.

### **SECTION III: IDENTIFICATION AND REPORTING OF ALL RELATED PARTY TRANSACTIONS**

To ensure that all Related Party Transactions are identified, assessed and taken to the Audit Committee for review and approval, following processes will be followed by the Company, prior to taking the transaction to the Audit Committee:

#### **1. Identification Of Related Parties:**

- a) Key Managerial Personnel(s) and Directors of the Company shall provide the names of the Related Party(s) in so far as it relates to them;
- b) Chief Financial Officer shall identify and provide details of Related Party(s), covered under the definition of Group Company(s).
- c) Company Secretary shall identify details of Related Party(s), covered under the definition of Promoter(s).
- d) The details of Related Party(s) so received under clause (a), (b) and (c) hereinabove shall be updated on annual basis by the person(s) responsible for providing such details and any changes during the year shall be promptly intimated to the Company Secretary.

- e) The Company Secretary shall conduct a census of Related Party(s) based on the details so provided and as available with the Company; in order to facilitate compliance.
- f) The Company Secretary shall update Related Party Register whenever necessary and review the Related Party Register at least once a year to confirm the information provided in the previous year or to record any changes.

2. Update The Chief Financial Officer / Accounting Database:

Company Secretary shall collate the information provided in relation to Related Party(s), update the Related Party Register and send the list of Related Party(s) to the Chief Financial Officer who shall ensure that the accounting database is updated and that all function heads of the Company who are authorized to enter into transactions with third parties for and on behalf of the Company shall, before approving any transaction for and on behalf of the Company, verify whether the counter party is a Related Party.

If the counter party is a Related Party, then such function heads shall, report all relevant details of the proposed transaction in writing to the Company Secretary and the Chief Financial Officer prior to approving the transaction and/or entering into any binding contract or arrangement with such counter party for and on behalf of the Company.

3. Related Party Transaction, repetitive in nature

Function Heads will provide certification to the Chief Financial Officer on frequency of proposed transactions to be undertaken with the Related Party. In an event, the nature of transaction is such that proposed transaction is not an one-time transaction and is to be executed on repetitive basis; the Function Head(s) will disclose the following information, as required for obtaining an omnibus approval under Section IV:

- i) Name of related party,
- ii) Nature of transaction;
- iii) Period of transaction;
- iv) Indicative base price / current contracted price and the formula for variation in the price, if any;
- v) Maximum amount of transaction;

Subject to compliance with Section III (4) below, the Chief Financial Officer shall forward the details of repetitive Related Party Transaction to the Company Secretary.

**SECTION IV: REVIEW AND APPROVAL OF RELATED PARTY TRANSACTION (S) BY AUDIT COMMITTEE**

The Company Secretary shall put up the entire proposal alongwith the certification before the Audit Committee for its approval, in the Audit Committee Meeting. The Audit Committee may require the concerned Director or the Key Managerial Personnel or the function head(s) to provide additional information or clarification(s) as may be required by the Audit Committee before approving the relevant Related Party Transaction, whether repetitive or not.

Audit Committee Members shall analyze the information placed before the Audit Committee and follow the standards for review and approval of Related Party Transactions, mentioned under

Section II to review and approve or reject the transaction in accordance with the terms of this Policy.

Any omnibus approval granted by the Committee for repetitive Related Party Transactions will be valid for a period of one (1) year only.

#### **SECTION V: REFERENCE OF RELATED PARTY TRANSACTION (S) TO THE BOARD OF DIRECTORS FOR APPROVAL**

The Audit Committee shall obtain, from the concerned Director or the Key Managerial Personnel or the function head(s), a confirmation whether the proposed transaction can be regarded as one within the ordinary course of the Company's business and on arm's length basis.

In the event, the transaction is not in the ordinary course of Company's business or not on arm's length, the Audit Committee shall refer the proposed transaction for approval of the Board of Directors.

The Audit Committee shall also obtain a statement from the Company Secretary determining whether the proposed Related Party Transaction could be regarded as Material Transaction, and if so, to refer the same to the Board of Directors indicating that the same would require the approval of the Shareholders by way of a Resolution, in which related parties cannot vote in favour of the transaction.

#### **SECTION VI: MATERIALITY THRESHOLD**

A Related Party Transaction shall be considered material if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceeds 10% of the annual consolidated turnover of the Company as per the last audited financial statements of the Company or as may be prescribed by the Securities & Exchange Board of India from time to time. Material RPTs cannot be undertaken without the prior approval of the shareholders (other than the Related Parties).

#### **SECTION VII: REFERENCE OF RELATED PARTY TRANSACTION(S) TO THE SHAREHOLDERS FOR APPROVAL BY RESOLUTION**

In the event, the Board approves the Related Party Transactions referred to it by the Audit Committee as mentioned under Section V read with Section VI of this Policy, it shall refer the same to the General Body of the Shareholders for its approval, in which related parties cannot vote in favour of the transaction.

The Company Secretary shall then obtain the approval of the Shareholders, in accordance with the Relevant Legislation.

#### **SECTION VIII: RELATED PARTY TRANSACTIONS NOT APPROVED BY THE AUDIT COMMITTEE/ BOARD/ SHAREHOLDER**

In the event, any proposed Related Party Transaction is not approved by the Audit Committee or the Board or the General Body of the Shareholders, as the case may be, such Related Party Transaction shall not be acted upon and any financial step undertaken in anticipation of the approval shall forthwith be reversed.