

GILLETTE INDIA 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. Gillette India Limited, being a subsidiary of The Procter & Gamble Company- the ultimate holding company, is bound by the above.

Further in India, regulatory framework as laid down under Companies Act, 2013 and the Listing Agreement 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.

OBJECTIVE:

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 1: DEFINITIONS

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

- a) "**Relevant Legislation**" means the Companies Act, 2013, Rules made there under, Listing Agreement with the Stock Exchange (s) and any other regulations, prescribed by the Securities and Exchange Board of India;
- b) "**Company**" means Gillette India Limited;
- c) "**Policy**" means written policies and procedures for the identification, review and approval of Related Party Transactions;
- d) "**Parent/Holding company**" means a company that controls the composition of the Board of Directors; or exercises or controls more than one-half of the total share capital either at its own or together with one or more of its subsidiary companies, and includes holding companies of a holding company;
- e) "**Ultimate Holding company**" means The Procter & Gamble Company, USA;
- f) "**Group company**" means a subsidiary of the Ultimate Holding Company;
- g) "**Promoter**" means entity(s)/ person(s) classified as promoters, as per the shareholding pattern filed with the stock exchanges, under Clause 35 of the Listing Agreement for the preceding quarter;
- h) "**Director**" means a director appointed on the Board of Directors of the Company;
- i) "**Board**" means the Company's Board of Directors;
- j) "**Audit Committee**" means the Audit Committee of the Company;
- k) "**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;
- l) **“Key Management Personnel”** means Chief Executive Officer or Managing Director or Manager, Whole-time Director, Chief Financial Officer and Company Secretary;
 - m) **“Related Party(s)”** with reference to the Company, means a person specified in one or more of the following:
 - i. A Director of the Company and/ or his relatives;
 - ii. Any company, body corporate, firm or other association of individuals related to a Director of the Company;
 - iii. A Key Managerial Personnel of the Company or of a Parent/Holding Company and/or his relatives;
 - iv. Holding company, Group company, a subsidiary company and an associate company;
 - n) **“Related Party Transaction(s)”** means a transfer of resources, services or obligations between the Company and a Related Party, regardless of whether a price is charged. Without prejudice to the generality of the above, Related Party Transactions as per the Companies Act, 2013 shall include:
 - i. Sale, purchase or supply of any goods or materials,
 - ii. Selling or otherwise disposing of, or buying, property of any kind;
 - iii. Leasing of property of any kind;
 - iv. Availing or rendering of any services;
 - v. Appointment of any agent for purchase or sale of goods, materials, services or property;
 - vi. Such related party’s appointment to any office or place of profit in the company, its subsidiary company or associate company; and
 - vii. Underwriting the subscription of any securities or derivatives thereof, of the Company.
 - o) **“Material Transaction”** means a transaction/ transactions with Related Party to be entered into individually or taken together with previous transactions during a financial year, exceeds ten percent of the annual turnover of the company as per the last audited financial statements of the company, whichever is higher; or as may be stipulated by SEBI from time to time
 - p) **“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;
 - q) **“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.

Terms used in this Framework – Terms not specifically defined herein shall have their meaning assigned to them in the Companies Act, 2013, Rules framed thereunder and the Listing Agreement, as clarified/ 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 and VII.

For those Related Person Transaction(s) presented to the Audit Committee, it shall review all relevant information available to it about the Related Party 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 Relevant Legislation.

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 by the Company;
 - (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 to the Company;
 - (f) Any other information regarding the Related Party Transaction that would be material to investors in light of the circumstances of the particular transaction.
- i. Below states the 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, 7th 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.

In view of the above, following criteria that shall be applied to determine as to whether the proposed transaction can be said to be 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 it could be 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 particular 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 a trade or business could be regarded as transactions entered into in the 'ordinary course of business'.

- ii. Below states the 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 AE's is present under the IT Act and the IT Rules. In fact, Section 92C of the IT Act prescribes six methods for determining whether the transaction between two or more AEs 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, a reference can be made to the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations, 2010 ("OECD Guidelines"), which 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 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, it may be noted that the Company is a part of a global conglomerate in the business of fast moving consumer goods. It is our belief that the related parties are also part of the same group to which the company belongs, and would also be engaged in identical or related business lines. Thus, in view of the above, Transactional Net Margin Method would normally be the most appropriate method to benchmark the RPTs of the Company, unless circumstances 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 communicate 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.

4. Certification From Chartered Accountant/ Chartered Accountancy Firm Or Equivalent Expert

Upon receiving the details of the proposed Related Party Transaction as stated in Section III (2) and (3), the Chief Financial Officer shall obtain certification from chartered accountant/ chartered accountancy firm to confirm that the proposed Related Party Transaction(s) is entered into by the Company in its ordinary course of business and on an arm's length basis, and share the same with the Company Secretary on quarterly basis.

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

Upon receipt of certification from chartered accountant/ chartered accountancy firm, the Company Secretary shall put up the entire proposal alongwith the certification before the Audit Committee for its approval, in the upcoming Audit Committee Meeting. The Audit Committee may require the concerned Director or the Key Managerial Personnel or the function head(s) to provide 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 Transaction 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) or chartered accountant/ chartered accountancy firm, 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 Special Resolution.

SECTION VI: REFERENCE OF RELATED PARTY TRANSACTION (S) TO THE SHAREHOLDER FOR APPROVAL BY SPECIAL RESOLUTION

In the event, the Board approves the Related Party Transactions referred to it by the Audit Committee as mentioned under Schedule V, it shall refer the same to the General Body of the Shareholders for its approval, by way of a Special Resolution.

The Company Secretary shall then obtain the approval of the Shareholders, by way of a Special Resolution, in accordance with the Relevant Legislation.

SECTION VII: 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 be forthwith reversed.