

Novartis India Limited

POLICY FOR DEALING WITH RELATED PARTY TRANSACTIONS

1. OVERVIEW

1.1. OBJECTIVE

The Board of Directors (the 'Board') of Novartis India Limited (the 'Company' or 'NIL'), acting upon the recommendation of its Audit Committee has adopted the following policy and procedures for dealing with Related Party Transactions ('RPTs').

This policy is framed as per requirement of revised Clause 49 of the Listing Agreement ('LA') issued by the Securities and Exchange Board of India ('SEBI') through its *Circular no. CIR/CFD/POLICY CELL/7/2014 on 15th September 2014*. The policy is intended to ensure that the dealings in RPTs meet proper reporting and approval norms as required by the statute. The Audit Committee has approved this policy and may amend this policy from time to time.

This policy intends to list the approach adopted by the Company for transactions with its related parties. It is the objective of the Company that such transactions be based on principles of transparency and arm's length pricing.

1.2. DEFINITIONS

"Audit Committee or Committee" means Committee of Board of Directors of the Company constituted under the provisions of revised clause 49 of the LA ('Clause 49') and Companies Act, 2013 ('the Act').

"Board" means Board of Directors of the Company.

"Related Party" shall mean a person or entity that is related to the Company as defined under Section 2(76) of the Companies Act, 2013, or a related party as defined in Accounting Standard 18 (*Related Party Disclosure*) issued by the Institute of Chartered Accountants of India, or under Clause 49 (VII) of the revised LA with the Stock Exchanges as may be amended from time to time.

The definitions of the term "Related Party" as per the above is given in **Annexure A**.

"Related Party Transaction" shall mean any transaction entered into directly or indirectly with a Related Party, involving a transfer of resources, services or obligations, regardless of whether a price is charged.

Explanation: A "transaction" with a related party shall be construed to include single transaction or a group of transactions in a contract."

"Material transaction" shall mean a transaction with a related party which, 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 as per the last audited financial statements of the company.

“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.

“Key Managerial Personnel” includes –

- i. the Chief Executive Officer or the Managing Director or the Manager;
- ii. the Company Secretary;
- iii. the Whole-Time Director;
- iv. the Chief Financial Officer;

The terms Director, Whole-time Director, Managing Director, Chief Financial Officer, Company Secretary, Key Managerial Personnel (‘KMP’) shall have the same meaning as assigned to it under section 2 of the Companies Act, 2013.

“Control” shall have the same meaning as defined in SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011.

“Policy” means the policy for dealing with Related Party Transactions.

“Relative” means relative as defined under section 2(77) of the Companies Act, 2013 and includes anyone who is related to another, if –

- i. They are members of a Hindu undivided family;
- ii. They are husband and wife; or
- iii. Father (including step-father)
- iv. Mother (including step-mother)
- v. Son (including step-son)
- vi. Son’s wife
- vii. Daughter
- viii. Daughter’s husband
- ix. Brother (including step-brother)
- x. Sister (including step-sister)

1.3. POLICY GOVERNING RELATED PARTY TRANSACTIONS

All RPTs must be reported to the Audit Committee and referred for approval by the Committee in accordance with this Policy.

1.4. EFFECTIVE DATE

This policy is effective from 1st October 2014.

2. POLICY

All RPTs must be referred to the Audit Committee for approval in accordance with this Policy.

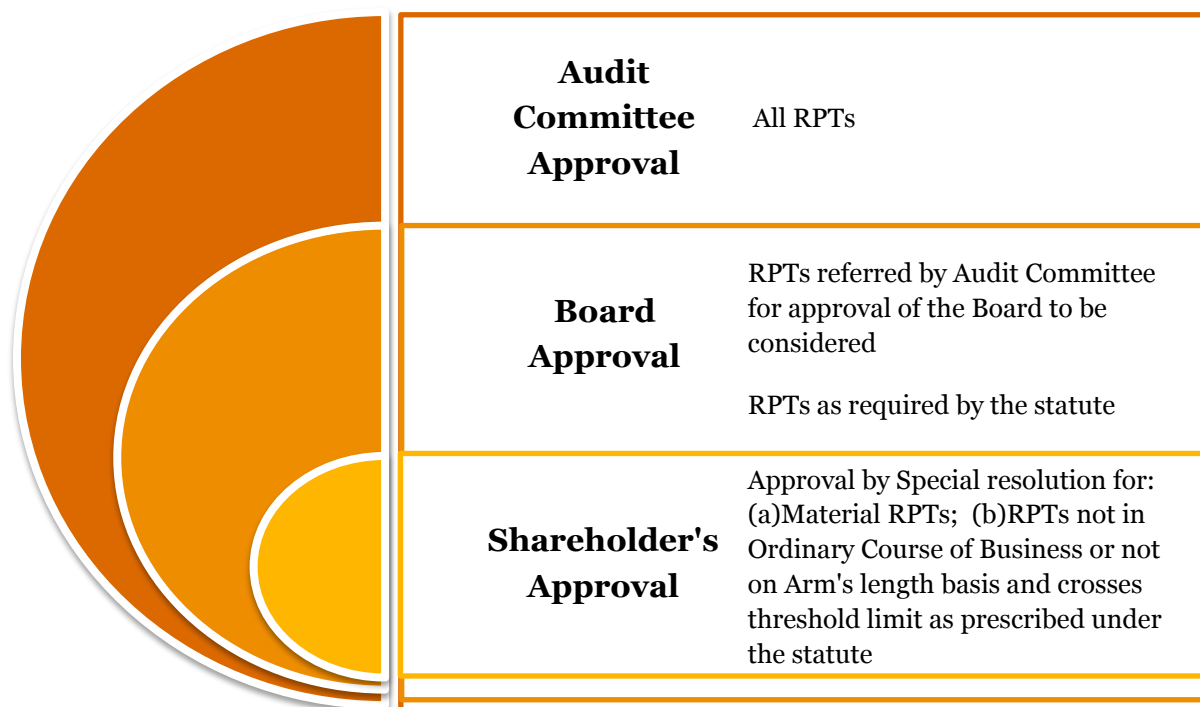
2.1. IDENTIFICATION OF RELATED PARTY AND RELATED PARTY TRANSACTIONS

- a) Each director and KMP is responsible for providing a notice to the Company Secretary of any potential RPTs involving him/her or his or her relative, including any additional information about the transaction that the Board/Audit Committee may request, for being placed before the Audit Committee and the Board. Such notice should be provided by the director or KMP at the earliest possible occasion that he/ she becomes reasonably aware of any potential RPTs involving him/her or his or her relative.
- b) The Company strongly prefers to receive such notice of any potential RPTs reasonably in advance so that the Audit Committee has adequate time to obtain and review information about the proposed transaction.
- c) The Company Secretary will obtain annual declarations from Directors and KMPs for identification of related parties.
- d) The list of related parties arising from the declarations will be compiled by the Company Secretary and shared with the Finance Shared Services.
- e) Finance Shared Services will keep track of the transactions with
 - a. The related parties identified under the above declarations
 - b. The holding company, fellow subsidiary companies and affiliate companies of the company.
- f) Finance Shared Services will establish a mechanism in the accounting system to track new transactions/ agreements/ arrangements made with Related Parties, from time to time and shall also be responsible for maintenance of records and monitoring statutory threshold for shareholder approval.

2.2. REVIEW AND APPROVAL OF RELATED PARTY TRANSACTIONS

All Material RPTs shall require approval of the shareholders through a special resolution and the Related Parties shall abstain from voting on such resolutions.

The approval policy framework is given below:



Every RPT shall be subject to the prior approval of the Audit Committee whether at a meeting or by resolutions by circulation. Any member of the Audit Committee who has a potential interest in any RPT will be abstained from discussions and voting on the approval of the RPTs.

In determining whether to approve, ratify, disapprove or reject a RPTs, the Audit Committee, shall take into account all the factors as it deems appropriate.

2.3. GENERAL CRITERIA FOR APPROVAL OF RELATED PARTY TRANSACTIONS

To review a RPT, the Audit Committee is provided with all relevant material information of the RPTs, including the terms of the transaction, the business purpose of the transaction, the benefits to the Company and to the Related Party, and any other relevant matters.

The information provided specifically covers the following:

- i. the name of the related party and nature of relationship;
- ii. the nature, duration of the contract and particulars of the contract or arrangement;
- iii. the material terms of the contract or arrangement including the value, if any;
- iv. any advance paid or received for the contract or arrangement, if any;
- v. the manner of determining the pricing and other commercial terms, both included as part of contract and not considered as part of the contract;
- vi. 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;
- vii. the persons/authority approving the transaction; and

viii. any other information relevant or important for the Committee to take a decision on the proposed transaction.

2.4. DECISION REGARDING TRANSACTION IN ORDINARY COURSE OF BUSINESS AND AT ARM'S LENGTH

The Audit Committee/ the Board shall, in respect of the RPTs referred to them for approval, after considering the materials placed before them; judge if the transaction is in the ordinary course of business or at arm's length basis.

The Audit Committee/ the Board may seek views of professionals/ specialists (on a need basis) for analyzing the appropriateness of the transactions from 'ordinary course of business' and 'arm's length' perspective.

2.5. OMNIBUS APPROVAL BY AUDIT COMMITTEE FOR RELATED PARTY TRANSACTIONS PROPOSED TO BE ENTERED

The Audit Committee may grant an omnibus (umbrella) approval for RPTs proposed to be entered into by a company subject to the following conditions:

- Such approval is in respect of transactions which are repetitive in nature and the criteria of granting such omnibus approval is in line with the RPTs policy of the company.
- The Audit Committee shall satisfy itself the need for such omnibus approval and that such approval is in the interest of the company
- The omnibus approval should specify :
 - the name/s of the related party
 - the nature of transaction
 - period of transaction
 - maximum amount of the transaction that can be entered into
 - the indicative base price / current contracted price and the formula for variation in the price if any
 - any other conditions as the Audit Committee may deem fit

Further, in case where the need for a RPTs cannot be foreseen and the above details are not available, the Audit Committee may grant such omnibus approval provided the value does not exceeds one crore per transaction.

The Audit Committee would review on a quarterly basis the aforesaid RPTs entered into by the company pursuant to each of the omnibus approval given.

Such omnibus approval would be valid only for a period of one year and would require fresh approval after expiry of the said period.

2.6. RELATED PARTY TRANSACTIONS NOT APPROVED UNDER THIS POLICY

In the event the Company becomes aware of an RPT with a Related Party that has not been approved under this Policy prior to its consummation, the Company would obtain post-facto approval from the Audit Committee.

In case the Company is not able to take prior approval from the Audit Committee, such a transaction shall not be deemed to violate this Policy, or be invalid or unenforceable, so long as the transaction is brought to the Audit Committee as promptly as reasonably practical after it is entered into or after it becomes reasonably apparent that the transaction is covered by this policy.

The Audit Committee shall consider all of the relevant facts and circumstances regarding the RPTs, and shall evaluate all options available to the Company, including ratification, revision or termination of the RPTs. In any case, where the Audit Committee determines not to ratify a RPTs that has been commenced without approval, the Audit Committee, as appropriate, may direct additional actions including, but not limited to, immediate discontinuation or rescission of the transaction. In connection with any review of a RPTs, the Committee has authority to modify or waive any procedural requirements of this Policy.

2.7. DISCLOSURE OF POLICY

This Policy will be communicated to all operational employees and other concerned persons of Novartis India and shall be placed on the website of Novartis India at www.novartis.in

Approved by Audit Committee on November 7, 2014

Effective date: October 1, 2014

ANNEXURE

ANNEXURE A

1) “Related Party”, with reference to Companies Act,2013 means—

- a) a director or his relative;
- b) a key managerial personnel or his relative;
- c) a firm, in which a director, manager or his relative is a partner;
- d) a private company in which a director or manager is a member or director;
- e) 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;
- f) 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;
- g) any person on whose advice, directions or instructions a director or manager is accustomed to act:
Provided that nothing in sub-clauses (f) and (g) shall apply to the advice, directions or instructions given in a professional capacity;
- h) any company which is—
 - a holding, subsidiary or an associate company of such company; or
 - a subsidiary of a holding company to which it is also a subsidiary;
- i) such other person as may be prescribed;

2) Indian Accounting Standard 18 (Related Party Disclosures) issued by the Institute of Chartered Accountants of India, defines “related parties” as

“Parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.”

Definitions:

Control:

- (a) Ownership, directly or indirectly, of more than one half of the voting power of an enterprise, or
- (b) Control of the composition of the board of directors in the case of a company or of the composition of the corresponding governing body in case of any other enterprise, or
- (c) A substantial interest in voting power and the power to direct, by statute or agreement, the financial and/or operating policies of the enterprise.

Significant influence:

Participation in the financial and/or operating policy decisions of an enterprise, but not control of those policies

3) Clause 49(VII)(B) of the revised Listed Agreement states that:

“For the purpose of Clause 49 (VII), an entity shall be considered as related to the company if:

- (i) such entity is a related party under Section 2(76) of the Companies Act, 2013; or
- (ii) such entity is a related party under the applicable accounting standards.”