

HINDUSTAN AERONAUTICS LIMITED – MATERIALITY POLICY

1. Introduction

This policy (“**Policy**”) has been formulated to define the materiality policy for identification of group companies, litigation and outstanding dues to creditors in respect of Hindustan Aeronautics Limited (“**Company**”) for the purposes of relevant disclosure in the Offer Document (defined hereinbelow) pursuant to the requirements under Schedule VIII of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009 (as amended from time to time) (“**SEBI ICDR Regulations**”).

2. Applicability

2.1 The board of directors of the Company (“**Board**”) has, at their meeting held on [●], discussed and approved this Policy. This Policy shall be effective from the date of approval of the Policy by the Board.

2.2 In this Policy, the term “**Offer Documents**” shall mean the Draft Red Herring Prospectus, the Red Herring Prospectus and the prospectus to be filed by the Company in connection with the proposed initial public offering of its Equity Shares with the Securities and Exchange Board of India, the Registrar of Companies, Karnataka, Bengaluru and/or Stock Exchanges where the equity shares of the Company are proposed to be listed, as applicable.

All other capitalised terms not specifically defined in this Policy shall have the same meanings ascribed to such terms in the Offer Documents.

3. Identification of ‘Material’ Group Companies

3.1 Requirement *under SEBI ICDR Regulations*

As per the requirements of the SEBI ICDR Regulations, the term “Group Companies”, wherever they occur, shall include such companies as covered under the applicable accounting standards (i.e. Accounting Standard 18/Indian Accounting Standard 24 issued by the Institute of Chartered Accountants of India (“**AS 18/Ind AS 24**”)) and also any other companies as considered material by the board of the Company. The policy on materiality, as below, shall be disclosed in the Offer Documents.

3.2 *Policy on materiality*

For the purpose of disclosures in the Offer Documents, as prescribed under the SEBI ICDR Regulations, all companies which are identified as related parties (in accordance with AS 18/Ind AS 24 issued by the Institute of Chartered Accountants of India) on the basis of the restated consolidated financial statements to be included in the Offer Documents shall be identified as ‘Group

Companies' in the Offer Documents. In addition to group companies determined as per AS 18/Ind AS 24, the companies that are considered material by the Board shall be disclosed as 'Group Companies' in the Offer Documents. A company shall be considered material and disclosed as 'Group Company' if a material adverse change in such company, can lead to a material adverse effect on the Company and its revenues and profitability.

For avoidance of doubt, it is clarified that Subsidiaries of the Company and joint ventures of the Company shall not be considered as 'Group Companies' for the purpose of disclosure in the Offer Documents.

4. Identification of 'Material' Litigation (excluding criminal proceedings, statutory/regulatory actions and taxation matters)

4.1 Requirement under SEBI ICDR Regulations

As per the requirements of the SEBI ICDR Regulations, the Company shall disclose the following types of pending litigations involving the Company/ its directors/ promoters/ group companies/ subsidiaries/ Joint Ventures:

- (i) All criminal proceedings;
- (ii) All actions by statutory / regulatory authorities;
- (iii) Taxation proceedings – Separate disclosures regarding claims related to direct and indirect taxes, in a consolidated manner giving details of number of cases and total amount; and
- (iv) Other pending litigations – As per the policy of materiality defined by the Board and disclosed in the Offer Documents.

4.2 Policy on materiality

In relation to the litigations mentioned in 4.1(iv) above, any other pending litigation involving the Company, group companies, subsidiaries and joint venture companies shall be considered "material" for the purpose of disclosure in the Offer Documents if:

- (i) any outstanding civil litigation involving the monetary amount of claim by or against the Company, group companies, subsidiaries and joint venture companies, in excess of 5.00% of the profit after taxes of the Company as per the last audited and restated consolidated financial statements of the Company for a full financial year included in the Offer Documents; and
- (ii) all other outstanding litigations which may not meet the specific threshold and parameters as set out in (i) above, but where an adverse outcome in such litigation would materially and adversely affect the business, operations, financial position or reputation of the Company or required to be disclosed as may be prescribed by any regulatory authority.

- (iii) notices received from third parties (excluding statutory/regulatory/tax authorities or notices threatening criminal action) shall, not be evaluated for materiality until such time that any of the Company, group companies and Subsidiaries are impleaded as defendants in litigation proceedings before any judicial forum.

For the purposes of determining outstanding material litigation involving the directors of the Company, all outstanding litigations where an adverse outcome would materially and adversely affect the business, operations, financial position or reputation of the Company, shall be identified as material litigation.

It is clarified that apart from as set forth in this paragraph 4, the sections on outstanding litigation in the Offer Documents will also include disclosures as specified in the Companies Act, 2013.

5. Identification of 'Material' Outstanding dues to Creditors

5.1 Requirement under SEBI ICDR Regulations

As per the requirements of SEBI ICDR Regulations, the Company shall make relevant disclosures in the Offer Documents for outstanding dues to creditors:

- (i) Based on the policy on materiality of the Board, and as disclosed in the Offer Document, disclosure for such creditors;
- (ii) Consolidated information on outstanding dues to small scale undertakings and other creditors, separately giving details of number of cases and amount involved; and
- (iii) Complete details about outstanding dues to creditors as per (i) and (ii) above shall be disclosed on the webpage of the Company with a web link thereto in the Offer Documents.

5.2 Policy on materiality

In accordance with the requirements set forth above, outstanding dues to creditors of the Company in excess of 5.00% of the total trade payables on a consolidated basis based on the restated financial statements disclosed in the Offer Documents for six months period ended on September 30, 2017 shall be considered to be material outstanding dues, for the purposes of disclosure in the Offer Documents and the website of the Company.

6. General

This Policy shall be subject to review/changes as may be deemed necessary and in accordance with regulatory amendments from time to time.
