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|  | The Hub Power Company Limited | Transactions or contracts with associated companies and related parties |
| | Approved by Board on 18 February 2014 | |

Background

Code of Corporate Governance issued by the Securities and Exchange Commission of Pakistan (SECP) requires that the Board of Directors (the “Board”) of a listed company shall define and adopt policy for review and reporting of related party transactions.

Purpose

This policy is intended to ensure the proper approval and reporting of transactions between the Company and its related parties, subsidiary, associated undertakings, directors, nominees for director, key management personnel, or Significant Stockholders or certain entities or persons related to them as required under the Companies Ordinance 1984, Listing regulations (Code of Corporate Governance) and International Accounting Standards / International Financial Reporting Standards.

Related party transactions are appropriate only if they reflect economic substance and are executed to conduct the normal course of business. These transactions should be at arm’s length, however, if in case the Company is required to enter into an agreement which is not at arm length, the Company must ensure that the terms are in the best interest of the Company. The Company is required to disclose the related party relationship and transactions in Company’s financial statements and publish an annual statement of compliance with Code of Corporate Governance (Code).

Policy

In accordance with the requirements set out by the Code under the Listing Regulations for the approval of Related Party Transactions, the Company has adopted the following policy:

Transactions at Arm’s Length

The details of all related party transactions shall be placed before the BAC and upon recommendations of the BAC the same shall be placed before the Board for review and approval / ratification.

Transactions not at Arm’s Length


The related party transactions which are not executed at arm's length shall also be placed separately at each BAC meeting along with necessary justification for consideration and approval of the Board on recommendation of the BAC.

Before placing to BAC, all the related party transactions must be reviewed and verified by the internal audit department to ensure accuracy and completeness.

The Board shall approve the pricing methods for related party transactions that were made on the terms equivalent to those prevailing in arm’s length transaction, only if such terms can be substantiated.

Maintenance of Records

In order to comply with requirement set out by the Code, the Company shall maintain a party wise record of transactions, in each financial year, entered into with related parties in that year along with all relevant documents and explanations. The record of related party transactions shall include the following particulars in respect of each transaction:

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- Name of related party;
- Nature of relationship with related party;
- Nature of transaction;
- Amount of transaction; and
- Terms and conditions of transaction, including the amount of consideration received or given.

Review and Approval of Related Party Transactions

Related Party Transactions involving a Significant Stockholder, director, nominee for director, or the key management personnel and/or their Close Family Members will be referred to the BAC for review and approval or ratification. Any Board member who has a potential interest in any Related Party Transaction will recuse himself or herself and abstain from voting on the approval or ratification of the Related Party Transaction, but may participate in all or a portion of the Board's discussions of the Related Party Transaction, if requested by the Chairman of the Board.

To review a Related Party Transaction, the Committee will be provided with all relevant material information of the Related Party Transaction, 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. In determining whether to approve or ratify a Related Party Transaction, the BAC will consider the following factors, among others, to the extent relevant to the Related Party Transaction:

- Whether the terms of the Related Party Transaction are fair to the Company and would apply on the same basis if the other party to the transaction did not involve a Related Party.
- Whether there are any compelling business reasons for the Company to enter into the Related Party Transaction and the nature of alternative transactions, if any.
- Whether the Related Party Transaction would impair the independence of an otherwise independent director or nominee for director.
- Whether the Related Party Transaction would present a conflict of interest for any director, nominee for director or Key management personnel of the Company, taking into account the size of the transaction, the overall financial position of the director, nominee for director, Key management personnel or other Related Party, the direct or indirect nature of the director's, nominee's, Key management personnel or other Related Party's interest in the transaction and the ongoing nature of any proposed relationship and any other factors the BAC deems relevant.

In any case where the BAC determines not to ratify a Related Party Transaction it may direct additional actions including, but not limited to, immediate discontinuation, or modification of the transaction to make it acceptable for ratification. In connection with any review of a Related Party Transaction, the BAC has authority to modify or waive any procedural requirements of this Policy.

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If the BAC or its Chair determines that a Related Party Transaction should be brought before the Board, or if the Board in any case elects to review any such matter, then the considerations set forth above shall apply to the Board's review and approval of the matter, with such modification as may be necessary or appropriate under the circumstances.