

De Nora India Limited

Note on the Arm's Length Price

March 2026

Private & confidential

1. Background

De Nora Group

De Nora is a global company and the largest provider of electrodes and coatings for electrochemical processes and processes for water and wastewater treatment. Industrie De Nora S.p.A. (IDN) is the ultimate holding company and hosts both the headquarters of the group and the regional sales and production offices.

De Nora India (“DNI” or “De Nora India”)

DNI is mainly engaged in the manufacturing and supply of electrodes and electro chlorination equipment's and recoating of electrodes to the customers across the Indian sub-continent.

DNI manufactures and recoats electrodes for various applications into areas like caustic soda plants, electro galvanizing industry, water treatment plants including municipal water system applications, electro chlorination plants and swimming pools and underground cathodic protection.

Summary of International transactions proposed to be undertaken by DNI with IDN

Based on the information provided to us, we have tabulated below the projected international transactions to be undertaken by De Nora India with its associated enterprise i.e., Industrie De Nora S.p.A during the financial year (FY) 2026-27:

Amount in INR Crores

S.no	Particulars	2026-27
1.	Royalty payment	2.00
2.	Business support services	7.20
3.	ICT Capex and Opex	0.80
4.	Corporate Guarantee	10.80*
	Total value	20.80

**10.80 Cr is the amount of overdraft/ cash credit facility for which corporate guarantee is proposed to be provided by IDN to DNI. However, no guarantee commission/ fees shall be paid by DNI in this regard.*

In this regard, the arm's length nature of each transaction expected to be undertaken with the associated enterprise is commented upon in the ensuing paragraphs.

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2. Executive Summary

Based on the information provided to us, we have captured below the projected international transactions to be undertaken by De Nora India with its associated enterprise i.e., Industrie De Nora S.p.A during the financial year (FY) 2026-27 along with the benchmarking analysis.

Summary of international transactions and economic analysis

S.no	Particulars	Values in Crores	Transfer Pricing Method	PLI	Tested Margin	Party	Result of Comparability Analysis
1	Royalty payment		CUP Method	N/A			
	(a) License of Trademarks	2.00			0.50%	35th Percentile – 0.50% Median – 1.13% 65th Percentile – 1.50%	
	(b) License of IP				9.50%	35th Percentile – 5.00% Median – 7.00% 65th Percentile – 9.75%	
2	Business support services		TNMM	MOTC			
	(a) Centralised support services	7.17			5%	35th percentile – 2.84% Median – 5.80% 65th percentile – 9.59%	
	(b) ICT services & consultancies	0.79			5%	35th percentile – 3.11% Median – 5.99% 65th percentile – 9.30%	
3	Corporate Guarantee	10.80	Other Method	N/A	N/A		Refer Note 2

Note 1: While transaction level benchmarking is undertaken, profitability of De Nora India is also tested, wherein DNI earns a margin of 11.67% during the year FY 2025-26 (*till December 2025*), while the margins of the comparable companies resulted a range between 10.60% to 11.79%. Hence, from Indian margin perspective, the transactions can be concluded to be at arm's length.

Note 2: The corporate guarantee is in the nature of shareholder activity and merely enables better credit access without generating income. Further, the new bank facility with Citibank is operative only for administrative and technological ease (leading to SAP integration), and the guarantee do not result in any service as such warranting a remuneration.

3. High-level Analysis

1. Royalty payment

Functions of DNI and use/ necessity for technology

De Nora Group leads in electrochemical processes and energy transition, particularly in electrode technologies and water treatment systems. IDN/Group acts as the strategic hub, managing R&D, procurement, operations, and IP control, while other group entities function mainly as licensed manufacturers.

DNI focuses on manufacturing and operational roles including raw material procurement, electrode *manufacturing using licensed IDN technology*, distribution in India, quality control, marketing, after-sales services (like electrode recoating), and local invoicing and collection.

DEMPE Analysis overview

- A. Development:** IDN leads the conceptualization, research, and design of new technologies and products, setting the global R&D and product portfolio strategy. In collaboration with certain affiliates, IDN organizes development activities and manages project adaptations.
- B. Enhancement:** IDN drives continuous improvements of intangible assets to meet market and customer needs. This includes regular upgrades to technology and manufacturing processes aligned with evolving specifications.
- C. Maintenance & Protection:** IDN maintains technological functionality to secure ongoing revenues and protects intellectual property by managing patents and know-how. It actively monitors and addresses infringements to safeguard the company's competitive edge.
- D. Exploitation:** As the legal IP owner, IDN licenses technology patents and know-how in chemical manufacturing and water technologies to Group and Associated companies through non-exclusive, geographically limited licenses, coordinating IP exploitation and monetization.

In summary, this DEMPE analysis underscores IDN's critical role within the Transfer Pricing framework of the De Nora Group, ensuring an equitable allocation of contributions among group entities. IDN's extensive portfolio of patents and trademarks evidences its achievements in the development, protection, and commercial exploitation of intellectual property.

Based on the foregoing analysis, it is concluded that the legal and economic ownership of the said intellectual property vests with IDN, and accordingly, IDN is entitled to retain all returns attributable to such intellectual property, in a manner consistent with the OECD Transfer Pricing Guidelines.

Rationale for royalty returns for IDN's technological IP

De Nora India Limited
Note on the Arm's Length Price

DNI relies heavily on the licensed, patented coating technology developed by IDN, which enhances electrode durability and commercial viability.

DNI manufactures electrodes using metal substrates like titanium or nickel, coated with specialized catalytic layers. These coatings, developed and patented by IDN, blend noble metals with other compounds to enhance durability and extend electrode lifespan—crucial for cost-effective industrial use.

DNI imports uncoated meshes and applies this advanced coating technology under license from IDN, paying royalties for its use.

The financial performance of DNI has improved drastically from EBIT 16% in FY 2018 to EBIT 35% in FY 2023. ***The improved financial results highlight the significant value that IDN's intellectual property has provided to DNI, enabling the company to achieve remarkable growth in sales and profitability.*** This achievement has been made possible by the advanced capabilities and innovative features of IDN's intellectual property, which have enabled DNI to enhance its product offerings, streamline its manufacturing processes, and improve operational efficiency.

Since the Original Agreement, IDN's licensed intellectual property has been significantly enhanced, giving DNI a competitive edge through improved product quality, streamlined manufacturing, and reduced costs. This has helped DNI grow market share, sales, and profitability. The royalty pay-out is necessary to support IDN's continued R&D investments, which are vital for maintaining and enhancing the value of De Nora Group's intellectual property for its licensees.

Given the background and business dynamics revolving around intellectual property of IDN licensed to DNI, the glimpse of royalty analysis undertaken is provided below:

DNI's royalty metrics

DNI shall pay the Licensor (IDN) an annual royalty composed of:

- **0.5% of Net Sales** for the *De Nora Marketing Intangibles*; and
- A **variable royalty up to 9.5% of Net Sales** for the *De Nora Trade Intangibles*, determined as follows:

The Variable Royalty mechanism for De Nora Trade Intangibles is designed to link royalty payments to the actual profitability of "DNI" before accounting for royalty expenses, thereby ensuring that payments reflect the economic value derived from the use of the intangibles while safeguarding the Licensee's ability to earn an arm's length routine return.

A. Scenario 1 – Low Profitability

- Where the pre-royalty operating margin is **less than or equal to the Licensee Routine Return of 12.3%** on net sales (representing the arm's length routine profit for DNI's functions, assets, and risks), DNI is obligated to pay **only the fixed royalty** of **0.5%** of net sales for the use of De Nora's trademarks.
- In this case, **no variable royalty** is payable by DNI to Industrie De Nora S.p.A. ("IDN") in respect of trade intangibles, thereby ensuring that routine returns are first preserved for the Licensee.

B. Scenario 2 – Moderate Profitability

De Nora India Limited
 Note on the Arm's Length Price

- Where the pre-royalty operating margin falls **between 12.3% and 21.8%** (i.e., 12.3% plus a maximum incremental variable royalty margin of 9.5%), DNI shall pay a **variable royalty** equal to the **difference between the actual pre-royalty operating margin and the routine return of 12.3%**.
- This variable royalty is **capped at 9.5% of net sales** and is payable **in addition to the fixed royalty** of 0.5% for the use of De Nora's trademarks.
- The design of this band ensures that any profits earned above the routine return, up to the agreed cap, are shared with the licensor in proportion to the incremental economic benefit derived from the licensed trade intangibles.

C. Scenario 3 – High Profitability

- Where the pre-royalty operating margin **equals or exceeds 21.8%** of net sales, DNI shall pay the **maximum variable royalty of 9.5%** in addition to the **fixed royalty of 0.5%** for the use of De Nora's trademarks.
- This ensures that the licensor's compensation is maximized where the Licensee generates returns significantly above the arm's length routine return, reflecting the substantial value contributed by the licensed trade intangibles in such circumstances.

In summary, this royalty structure is designed to:

- Guarantee that the Licensee retains its arm's length routine return before any variable royalty is paid.
- Ensure that the Licensor's remuneration is directly linked to the incremental profitability generated through the exploitation of the licensed trade intangibles.
- Maintain compliance with the arm's length principle as per OECD Transfer Pricing Guidelines and applicable Indian transfer pricing regulations.

Analysis of DNI's routine return of 12.3%

A benchmarking analysis of the payment of royalty has been undertaken in the transfer pricing document maintained by the company for the FY 2024-25.

TNMM analysis has been undertaken to determine the routine operating margin to be earned by DNI, in order to compensate IDN for IP by way of variable royalty as discussed above.

The summary of this analysis is provided below:

S.no	Company Name	3 yr Weighted Unadjusted Average*
1	Team Hiltec Eqpt Pvt Ltd.	3.94%
2	WEX Technologies Pvt Ltd.	6.40%
3	Lords Chloro Alkali Ltd.	10.28%
4	Ion Exchange (India) Ltd.	10.60%
5	TGV SRACC Ltd.	11.54%
6	DCM Shriram Ltd (Segmental)	11.79%
7	Chemfab Alkalis Ltd. (Segmental)	12.91%
8	Alkyl Amines Chemicals Ltd.	16.39%

De Nora India Limited
Note on the Arm's Length Price

S.no	Company Name	3 yr Weighted Unadjusted Average*
9	Epigral Ltd	23.26%
	35 Percentile	10.60%
	65 Percentile	11.79%
	Median	11.54%

*Operating Profit on Operating Revenue (OP/OR)

Analysis of Variable Royalty markup viz. 9.5% on Net Sales

A separate Comparable Uncontrolled Price (CUP) analysis was undertaken to benchmark the royalty markup of 9.5% by DNI.

The summary of analysis is captured below.

Particulars	Royalty (% on sales)
Count	8
Minimum	3%
25th Percentile	5%
35th Percentile	5%
Median	7%
65th Percentile	9.75%
75th Percentile	11.06%
Maximum	15%

The benchmarking analysis results indicate that the royalty rates charged between third-party licensors and licensees, comparable to the arrangement under review, yield a median royalty rate of 7.00% of sales/revenue. The interquartile range spans from the 35th percentile at 5.00% to the 65th percentile at 9.75% of sales/revenue.

It is further to be noted that there will not be any technology royalty pay-out if the entity wide TNMM earned margins of DNI falls below 12.30%. Further, the royalty payment is capped at 9.5% in case the margins are earned over and above 12.30%.

Scenario analysis of royalty amounts basis turnover

To summarize the above and ease of understanding, please find below table capturing scenario analysis of royalty pay-outs:

Particulars	Amount in INR Crores				
	Scenario A	Scenario B	Scenario C	Scenario D	Scenario E
Net Sales	30	30	50	70	90
Total expenses (excluding royalty)	27	25	40	54.6	67.5
Net profit before royalty	3	5	10	15.4	22.5
Pre-royalty return	10.00%	16.67%	20.00%	22.00%	25.00%
Routine Return required	12.30%	12.30%	12.30%	12.30%	12.30%
Variable Royalty pay-out	-	1.31	3.85	6.65	8.55
% of Royalty on Net sales	-	4.37%	7.70%	9.50%	9.50%

Further, the company relies on the benchmarking analysis for Trademark as under:

IDN's license of trademarks to DNI

The interquartile range for the weighted average royalty rates achieved by the selected comparable companies is shown below:

Particulars	Royalty %
Lower quartile	0.32%
35 th percentile	0.50%
Median	1.13%
65 th percentile	1.50%
Upper quartile	1.95%

Based on the above analysis, the 0.5% of royalty paid by DNI to IDN as falls within the interquartile range of free competition identified above.

2. Business Support services

The group recharges its associate entities based on the allocable cost drivers, the costs it incurs towards shared services in respect of - CEO & CEO office support services, CFO support services, Corporate treasury services, Tax services, Insurance services, Trade finance and Cash Management Services, Strategic Planning & Predictivity Services, Cyber security services, Legal services, compliance services, People Organization Social Communication Happiness (PORSCH) Services, Marketing services, Business development services, Regulatory Affairs Services, Product Management Services, Technology and Competitive Intelligence Services, Digital Manufacturing Services, Global Operation Services, Global and Central Procurement Services.

IDN acts as the coordination center for this project, bearing the centralized costs (e.g., licenses, consulting, dedicated personnel) and also managing any costs advanced by other participating companies.

These total costs are then allocated and charged back to the various subsidiaries using specific allocation keys based on operating parameters (such as the number of licenses or turnover).

IDN's remuneration for these services is based on a cost-plus methodology.

This transaction is formally governed by a Cost Sharing Agreement. However, for transfer pricing analysis purposes, its economic substance is that of a centralized IT service, remunerated according to a Cost-Plus methodology.

The governing agreement covers the following fundamental aspects:

- **Cost Base:** IDN aggregates a total cost base that includes direct and indirect costs (e.g., personnel, consulting, hardware), costs for software licenses (e.g., SAP), and (iii) pass-through costs, i.e., costs for related IT services, advanced by other Group companies and invoiced to IDN (already including a 5% mark-up applied by the original supplier).
- **Allocation:** the total cost base is allocated to DNI and other beneficiary subsidiaries using specific allocation keys: (i) number of licenses for costs relating to SAP software and hardware licenses and, (ii) turnover for all other costs (consultancy, personnel, materials, etc.).

- **Mark-up:** IDN applies a 5% mark-up to the costs allocated to each beneficiary, with the exception of costs relating to software licenses, which are recharged without any mark-up by IDN. Pass-through costs are included in the allocation base but are not subject to an additional mark-up by IDN.

Benchmarking analysis

The result of comparability analysis is as follows:

IDN's provision of centralised support services to DNI

The interquartile range for the weighted average Mark-up on Total Costs (MOTC) achieved in the three-year period 2021-2023 by the selected comparable companies is shown below:

Particulars	MOTC (Weighted average)
Lower quartile	1.69%
35 th percentile	2.84%
Median	5.80%
65 th percentile	9.59%
Upper quartile	13.88%

Based on the above analysis, the 5% mark-up applied by IDN as the remuneration for support services falls within the interquartile range of free competition identified above.

3. ICT services - Capex and Opex

The group recharges its associate entities the service cost incurred by it on contract with its vendors for SAP support & allied services; such costs cover group personnel cost, travelling and lodging cost, consultancy and maintenance services by vendors, SAP licenses, costs of consumables & materials, Costs of recurring lease fees of SAP Hardware and amortisation expenses.

These are allocated to each associate entity based on the licenses and other suitable cost allocation criteria.

IDN's provision of ICT services and consultancies to DNI

The interquartile range for the weighted average Mark-up on Total Costs (MOTC) achieved in the three-year period 2021-2023 by the selected comparable companies is shown below:

Particulars	MOTC (Weighted average)
Lower quartile	2.63%
35 th percentile	3.11%
Median	5.99%
65 th percentile	9.30%
Upper quartile	13.81%

Based on the above analysis, the 5% mark-up applied by IDN as the remuneration for support services falls within the interquartile range of free competition identified above.

Furthermore, it should be noted that the nature of the services provided is fully attributable to the category of low value-adding intra-group services (LVA), as defined in Chapter VII of the OECD Guidelines (par. 7.43 et seq.). These services are, in fact, support services, not core services, do not require or create unique intangibles, and do not involve the assumption of significant risks for IDN.

Therefore, the 5% mark-up applied is in line with the arm's length principle, both because it falls within the range derived from the external benchmark and because it coincides with the simplified approach suggested by the OECD Guidelines for LVAS services.

4. Corporate Guarantee

Background of the transaction

De Nora India ("DNI") has been sanctioned various credit facilities by Citibank for the purpose of meeting its working capital requirements and supporting its routine business operations. In order to secure and facilitate the arrangement of these banking facilities, Industrie De Nora S.p.A ("IDN"), the parent company, has extended a corporate guarantee.

Details of the credit facilities are tabulated below:

Nature of facility	Amount (in crores)	Repayment/ Tenure
Bank Guarantee	9.00	3 years
Cash Credit/ overdraft facility	1.80	1 year
Total	10.80	

For the FY 2026-27, IDN would be providing corporate guarantee and the outstanding guarantee value would aggregate to INR 10.80 crores. The primary purposes of these facilities are:

- Funding working capital requirements
- Supporting purchase payment obligations
- Facilitating smooth business operations

IDN, being the parent company, has stepped in to support DNI's credit facility requirements to ensure uninterrupted business functioning.

Nature of the transaction

Corporate guarantees are commonly provided within multinational groups to enable subsidiaries to access credit at favourable terms or to meet lender requirements in situations where the standalone creditworthiness of the subsidiary may not be adequate. Such guarantees help the subsidiary obtain credit at lower interest rates, higher limits, or under more flexible terms, thereby supporting the business operations of the group entity.

Flow of a corporate guarantee transaction, in general is as follows:

- Corporate Guarantee is provided by the Company either to the Customer or to the Bank for giving loans to the sister concerns/AEs of the said company.
- Since it is exposed to risk in case of default by subsidiary, it should hence be compensated by way of guarantee fee. Further, the subsidiary may derive benefits in the nature of lower interest rates on account of higher credit rating due to the guarantee.
- The guarantee allows the borrower to borrow on the terms that would be applicable if it had the credit rating of the guarantor rather than the terms it could obtain based on its own, non-guaranteed, rating.

The purpose of receiving the guarantee is to enable DNI to avail banking facilities and towards purchase payment obligations of the company.

- **Shareholder activity – As defined in OECD guidelines for transfer pricing**

An activity which is performed by a member of an MNE group (usually the parent company or a regional holding company) solely because of its ownership interest in one or more other group members, i.e. in its capacity as shareholder.

This type of activity would not be considered to be an intra-group service, and thus would not justify a charge to other group members. Instead, the costs associated with this type of activity should be borne and allocated at the level of the shareholder.

The following are examples of costs associated with shareholder activities, under the standard set forth in paragraph 7.6 of the OECD Guidelines:

- a) Costs relating to the juridical structure of the parent company itself
- b) Costs relating to reporting requirements (including financial reporting and audit) of the parent company
- c) Costs of raising funds for the acquisition of its participations and costs relating to the parent company's investor relations
- d) Costs relating to compliance of the parent company with the relevant tax laws;
- e) Costs which are ancillary to the corporate governance of the MNE as a whole.**

An associated enterprise should not be considered to receive an intra-group service when it obtains incidental **benefits attributable solely to its being part of a larger concern**, and not to any specific activity being performed.

In the present case, IDN has provided the corporate guarantee to enable DNI to access credit facilities. This support often reflects a parent's natural responsibility to ensure that key subsidiaries have adequate capital and access to funds required for business operations.

Given these considerations, the provision of the guarantee **partakes the character of a shareholder activity**, and hence there is no separate remuneration charged by IDN.

Benchmarking methodology

Application of "Other Method"

For benchmarking such transactions, the **Other Method** under Rule 10AB of the Income-tax Rules can be adopted. This allows the use of any method that reflects:

- The price a third party would pay in similar circumstances,
- The economic alignment of risks and benefits, and
- Comparable uncontrolled transactions.

Conclusion

It is pertinent to note that **no income arises** from the said transaction because:

- The guarantee is provided by the parent in its shareholder capacity,

De Nora India Limited
Note on the Arm's Length Price

- The institutional purpose of the guarantee is to strengthen group functioning rather than provide a chargeable intra-group service.

Accordingly, it is reasonable to conclude that there is **no requirement to determine an arm's length price** for this transaction.

Judicial Support and Reliance on Case Laws

Reliance can be placed on various judgements, as follows:

In the case of **Micro Ink Limited**, the ITAT held as follows:

*“the issuance of corporate guarantees were in the nature of shareholder activities- as was the uncontroverted claim of the assessee, and, as such, could not be included in the ‘provision for services’ under the definition of ‘international transaction’ under section 92 B of the Act. We have also held, taking note of the insertion of Explanation to Section 92B of the Act, that the issuance of corporate guarantees is covered by the residuary clause of the definition under section 92 B of the Act but since such issuance of corporate guarantees, on the facts of the present case, **did not have “bearing on profits, income, losses or assets”**, it did not constitute an international transaction, under section 92B, in respect of which an arm's length price adjustment can be made. In this view of the matter, and for both these independent reasons, we have to delete the impugned ALP adjustment.”*

In the case of **CCL Products (India) Limited**, the Vishakhapatnam ITAT confirmed CIT(A)'s deletion of TP adjustment qua corporate guarantee for AY 2011-12, 2012-13 and 2016-17. It held that **“corporate guarantee given by the assessee on behalf of the AE in the absence of any expenditure being incurred by the assessee, would not constitute an international transaction within the meaning of section 92B”**, relied on coordinate bench ruling in assessee's own case for AY 2013-14.

In the context of corporate guarantees, several tribunals have also held that:

- If the guarantee is in the nature of shareholder activity, no separate remuneration is warranted.
- Corporate guarantees that merely enable better credit access without generating income do not always require benchmarked fees.

Given this judicial support, it is reasonable to conclude that the corporate guarantee received is a shareholder activity and does not warrant any separate remuneration relying on the *‘other method’* of the Transfer Pricing regulations.

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Benchmarking from Indian operating margin perspective

Snippet of International Transactions with the AE

Following table captures the quantum of transactions over the past five years

<i>Amount in INR Crores</i>				
Particulars	2021-22	2022-23	2023-24	2024-25
Business support services	2.92	2.96	3.59	5.16
Royalty	1.63	2.09	2.23	1.45
ICT Software	0.48	0.64	0.99	0.19
Total	5.03	5.69	6.81	6.84

Financial metrics for the Current year

During the FY 2025-26, as of Dec'2025, the company has earned the following margins.

Amount in Crores	
Particulars	As of Dec'25
Income	
Revenue from operations	99.65
Other income	5.49
Total income	105.14
Expenses	
Cost of raw material consumed (net of change in Inventory)	52.90
Employee benefits expenses	5.09
Depreciation and amortization expenses	1.50
Warranty Expenses	13.63
Other expenses	19.10
Total expenses	92.21
Profit before tax	12.93
OP/OI	12.97%
OP/OC	14.02%

For the purposes of benchmarking, an aggregation approach has been adopted, applying TNMM method since these transactions are closely linked with or inter-related to a particular business activity of the company.

The comparable company's margins are summarised below:

Particulars	Results
Count	9
Median	11.54%
Mean	11.90%
35th percentile	10.60%
65th percentile	11.79%

De Nora India Limited
Note on the Arm's Length Price

As for the close of FY 2025-26, the company anticipates earning an operating profit margin of 11-12%, as represented by the management. As the margins earned by De Nora India is well within the range of 10.60% - 11.79% of the comparable companies, the international transactions are concluded to be at arm's length.

Based on the information provided by the Company, it is our understanding that the Company would be in a position to achieve and maintain an operating profit in similar lines in the subsequent year as well. The OP/OC ratio, as derived from the said information, reflects effective management and control over the company's operating costs, thereby indicates a reasonable level of operational efficiency. This understanding is subject to the accuracy, completeness, and reliability of the information and data made available to us by the Company.

Based on the foregoing analysis and subject to the accuracy, completeness, and reliability of the information made available for our review, it is concluded that the aforesaid international transactions are consistent with the arm's length principle, as the operating margin of De Nora India exceeds that of the identified comparable companies.

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