

CHEMO PHARAMA LABORATORIES LIMITED

Risk Management Policy

❖ **Introduction**

Risk management is attempting to identify and then manage threats that could severely impact or bring down the organization. Generally, this involves reviewing operations of the organization, identifying potential threats to the organization and the likelihood of their occurrence, and then taking appropriate actions to address the most likely threats.

❖ **Policy Objective:**

The objective of this policy is to ensure that the Board, its Audit Committee and its executive management should collectively identify the risks impacting the Company's business and document their process of risk identification, risk minimization, risk optimization as a part of a risk management policy or strategy.

❖ **Risk Mitigation Strategy**

The Company recognizes that risk is an integral and unavoidable component of business and is committed to managing the risk in a proactive and effective manner. The Company believes that the Risk cannot be eliminated. However, it can be

- a. Assigned to another party, who is willing to take risk, say by buying an insurance policy or entering into a forward contract;
- b. Reduced, by having good internal controls;
- c. Avoided, by not entering into risky businesses;
- d. Retained, to either avoid the cost of trying to reduce risk or in anticipation of higher profits by taking on more risk, and;
- e. Shared, by following a middle path between retaining and assigning risk.

In today's challenging and competitive environment, strategies for mitigating inherent risks in accomplishing the growth plans of the Company are imperative. The common risks inter alia are: Regulations, competition, Business risk, Technology obsolescence, Investments, retention of talent and expansion of facilities.

Business risk, inter-alia, further includes financial risk, political risk, legal risk, etc. For managing Risk more efficiently the Company would need to identify the risks that it faces in trying to achieve the objectives of the Company. Once these risks are identified, the risk manager would need to evaluate these risks to see which may have critical impact on the Company and which may not have significant impact to deserve further attention.

As a matter of policy, these risks are assessed and steps as appropriate are taken to mitigate the same.

❖ **Risk Management Framework:**

Objectives must exist before management can identify potential events affecting their achievement. It ensures that management has in place a process to set objectives and that the chosen objectives support and align with the Company's mission and are consistent with its risk appetite.

The Objectives of the Company can be classified into:

❖ **Strategic:**

- ✓ Organizational Growth;
- ✓ Comprehensive range of Products;
- ✓ Sustenance and Growth of Strong relationships with suppliers/contractors/sub-contractors/regulatory authorities/customers/employees;
- ✓ Expanding our presence in existing markets and penetrating new geographic markets;
- ✓ Continuing to enhance our industry expertise;
- ✓ Enhance our capabilities through technology alliances and acquisitions.
- ✓ Enhance our business growth through research, innovation and creating new innovative products.

❖ **Operations:**

- ✓ Consistent Revenue growth;
- ✓ Consistent profitability;
- ✓ Effective and timely execution of projects;
- ✓ Further develop Culture of Innovation;
- ✓ Effective and timely services/supplies to customers.

❖ **Compliance:**

- ✓ Ensure stricter adherence to policies, procedures and laws/ rules/ regulations/ standards.

The Company considers activities at all levels of the organization, viz., Enterprise level; Division level; Business Unit level; Subsidiary and Joint Venture level are considered in the risk management framework. All these components are interrelated and drive the Enterprise Wide Risk Management with focus on three key elements, viz.

- (1) Risk Assessment;
- (2) Risk Management;
- (3) Risk Monitoring

❖ **RISK ASSESSMENT**

Risks are analysed, considering likelihood and impact, as a basis for determining how they should be managed. Risk Assessment consists of a detailed study of threats and vulnerability and resultant exposure to various risks. To meet the stated objectives, effective strategies for exploiting opportunities are to be evolved and as a part of this, key risks are identified and plans for managing the same are laid out.

❖ **RISK MANAGEMENT AND RISK MONITORING**

In the management of Risk the probability of risk assumption is estimated with available data and information and appropriate risk treatments worked out in the following areas:

- (i) Economic Environment and Market conditions;
- (ii) Fluctuations in Foreign Exchange;
- (iii) Political Environment;
- (iv) Competition;
- (v) Revenue Concentration;
- (vi) Inflation and Cost Structure;
- (vii) Technological Obsolescence;
- (viii) Financial Reporting Risks;

- (ix) Legal Risk;
- (x) Compliance with Local Laws;
- (xi) Project Management;
- (xii) Environmental Risk Management;
- (xiii) Human Resource Management.

❖ **Risk Mitigation Measures Adopted by the Company:**

The Company has adopted the following measures to mitigate the risk arising out of Business Operation, Liquidity, Credit, Industry, Human Resource, Disaster, System, Legal, etc.

- ✓ The Company functions under a well-defined organization structure.
- ✓ Flow of information is well defined to avoid any conflict or communication gap between two or more Departments or Functions.
- ✓ Second level positions are created in each Department to continue the work without any interruption in case of non-availability of functional heads.
- ✓ Effective steps are being taken on a continuing basis taking various changing scenarios in the market.
- ✓ Proper financial planning is put in place with detailed Annual Business Plans discussed at appropriate levels within the organization.
- ✓ Annual and quarterly budgets are prepared and put up to management for detailed discussion and an analysis of the nature and quality of the assumptions, parameters etc.
- ✓ Cash management services are availed from Bank to avoid any loss of interest on collections;
- ✓ Systems put in place for assessment of creditworthiness of contractors/sub-contractors/dealers/vendors/customers.
- ✓ Provision for bad and doubtful debts made to arrive at correct financial position of the Company.
- ✓ Appropriate recovery management and follow up.
- ✓ Required materials are procured from different sources at competitive prices.
- ✓ Alternative sources are developed for uninterrupted supply of required materials.
- ✓ Company has proper recruitment policy for recruitment of personnel at various levels in the organization.
- ✓ Proper appraisal system for revision of compensation on a periodical basis has been evolved and followed regularly.
- ✓ Employees are trained at regular intervals to upgrade their skills.
- ✓ Labour problems are obviated by negotiations and conciliation.
- ✓ Activities relating to the Welfare of employees are undertaken.

- ✓ Employees are encouraged to make suggestions and discuss any problems with their Superiors.
- ✓ The properties of the company are insured against natural risks, like fire, flood, earthquakes, etc. with periodical review of adequacy, rates and risks covered under professional advice.
- ✓ Employees of the Company are covered under ESI, EPF, etc., to serve the welfare of the workmen.
- ✓ IT department maintains repairs and upgrades the systems on a continuous basis with personnel who are trained in software and hardware.
- ✓ Password protection is provided at different levels to ensure data integrity.
- ✓ Licensed software is being used in the systems.
- ✓ The Company ensures “Data Security”, by having access control/ restrictions.
- ✓ The Legal department vets all legal and contractual documents with legal advice from Legal retainers for different branches of legislation.
- ✓ Contracts are finalized as per the advice from legal professionals and Advocates.
- ✓ Insurance policies are audited to avoid any later disputes.
- ✓ Timely payment of insurance and full coverage of properties of the Company under insurance.
- ✓ Internal control systems for proper control on the operations of the Company and to detect any frauds.

❖ **Role of the Board and Delegated Responsibility**

The Board is responsible for the Company’s system of internal controls relating to the operational, administrative and financial aspects of the Company’s activities. The Board oversees the establishment, implementation and monitoring of the Company’s risk management system.

The Board is to be satisfied that management has developed and implemented a sound system of risk management and internal control.

Implementation of the risk management system and day-to-day management of risk is the responsibility of the Chief Executive Officer, with the assistance of senior management, as required.

❖ **Role of Chief Executive officer and Accountabilities**

The Chief Executive Officer has responsibility for identifying, assessing, monitoring and managing risks. The Chief Executive Officer is also responsible for identifying any material changes to the Company's risk profile and ensuring, with approval of the Board, the risk profile of the Company is updated to reflect any material change.

The Chief Executive Officer is required to report to the Board as to the effectiveness of the Company's management of its material business risks on a regular basis.

❖ **Authority of the Chief Executive Officer**

In fulfilling the duties of risk management, the Chief Executive Officer must have unrestricted access to Company employees, contractors and records and may obtain independent expert advice on any matter they believe appropriate.

❖ **Risk Profile.**

The Company considers that any risk that could have a material impact on its business should be included in its risk profile.

❖ **Additional Policies and Practices**

The Company maintains a number of policies and practices designed to manage specific business risks. These include:

- Audit Committee

The Company has formed a separate Audit Committee which has the role of, among other things, monitoring and reviewing the integrity of the financial reporting of the Company and any significant financial reporting judgements. It also reviews the Company's internal financial control system and, unless expressly addressed by the Board itself, risk management systems.

- Corporate Governance Committee

The Company has adopted a Corporate Governance Statement which contains policies and procedures and a Corporate Governance Committee to assist the Company establish and maintain its governance practices.

- Regular budgeting and financial reporting

The Company has regular budgeting in place. It is the role of the Audit Committee to review the integrity of the financial reporting of the Company. The Audit Committee's role is to ensure that the Board is fully aware of matters which may significantly impact the financial conditions or affairs of the business.

- Clear Limits and authorities for expenditure levels

A summary list of delegations and authorities is provided to all operating units and company locations via Chemo Pharma Laboratories Limited's business systems.

- Financial Risk Management Practices

The nature of the Company's business requires certainty in relation to specific cost elements, in particular, the cost of equipment and the cost of finance. The Company therefore has in place financial risk management practices.

- Insurance

The Company maintains a comprehensive asset and liability insurance program which is reviewed annually with the Company's insurance broker / (s).

❖ **Responsibility to Stakeholders**

The Company considers the reasonable expectations of stakeholders particularly with a view to preserving the Company's reputation and success of its business. Factors which affect the Company's continued good standing are included in the Company's risk profile.

❖ **Continuous Improvement**

The Company's risk management system is always evolving. It is an ongoing process and it is recognised that the level and extent of the risk management system will evolve commensurate with the development and growth of the Company's activities. The risk management system is a "living" system and the documentation that supports it will be regularly reviewed and updated in order to keep current with Company circumstances.

❖ **Disclaimer Clause**

The Management cautions readers that the risks outlined above are not exhaustive and are for information purposes only. Management is not an expert in assessment of risk factors, risk mitigation measures and management's perception of risks. Readers are therefore requested to exercise their own judgment in assessing various risks associated with the Company.