



IL&FS TAMIL NADU POWER COMPANY LIMITED

Document No.

Revision No.

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ITPCL / SOP

01

20-May-2023

20-May-2024

Title:

Internal Risk Management Policy

I BACKGROUND & PURPOSE

1. The IL&FS Tamil Nadu Power Company Limited (ITPCL) has been formed as a Special Purpose Vehicle for implementing the 3840 MW imported Coal based thermal power plant (Project) in Cuddalore, Tamil Nadu. The project is being implemented in Phases. Phase I of the project is for 1200 MW comprising of 2 units of 600 MW each
2. The Company recognizes the risks that it is exposed to, while doing business, are varied in nature, and go hand in hand with the business opportunities. Accordingly there is a need for judicious identification, measurement and management of the risks duly complemented with establishment of robust processes and development of enterprise wide capabilities to appreciate risk management in everyday business
3. The purpose of this memorandum is to document the Risk Management Policy of the Company
4. The “**Risk**” may be defined as the effect of uncertainty on the objectives and is measured in its consequence and likelihood. The same is inherent to all administrative, operational and business activities, both internal and external. As a good management practice this is measured by every department through a formal systematic approach and is evolved into a good management practice to monitor and mitigate through a proper Risk Management Framework.
5. “**Risk Management**” is an attempt to identify and manage the threats and uncertainties that could severely impact and impair the progress of an Organization. It is an organized process of assessing the risk, listed by priorities and addressing the same through a collective approach using the administration of economical application of resources and to control or minimize its impact on Organizational goals and objectives and or maximizing the realization of available opportunities. This includes a simple approach with a forward thinking in striking a balance between the cost of managing the risk against the expected likely benefits and development of contingency plans in the event any imminent threats posed on the organization.

Approach towards Risk Management

It is essential to identify the heads of risk. Heads of risks include:

- Legal Risk (including change in law risk)
- Strategic and Operational Risk
- Financial Risk
- Competition Risk

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- Political Risk
- Cyber Security Risk
- Disruptive Technology Risk

II OBJECTIVES

The main objective of this policy is to ensure sustainable business growth with stability and to promote a pro- active approach in identifying, evaluating, reporting and managing risks associated with the business. In order to achieve the key business objectives, the policy establishes a structured and disciplined approach to Risk Management, including the development of the Risk Register, in order to guide decisions on risk related issues.

The objectives of the Risk Management Policy are:

- To ensure that all the current and future material risk exposures of the Company are identified, assessed, quantified, appropriately mitigated, minimized and managed i.e. to ensure adequate systems for Risk management.
- To establish a framework for the company's risk management process to align with Business Objectives and Strategy and to ensure its implementation.
- To facilitate compliance with appropriate extant regulations, wherever applicable, through the adoption of best practices.
- To assure business growth with financial stability.
- To maintain and maximize the stakeholders value in line with the Company's objective.

Risk management, by and large, involves:

- Review of the organisation's operations
- Identification of potential threats to the organisation and the likelihood of their occurrence. Certain threats would be specific to the industry, while others may be specific to the organisation. For example, an organisation which undertakes an activity for vertical or horizontal integration with its core business would benchmark its risk differently. Possibly, the integration may itself be a mechanism to mitigate risk.
- Take appropriate actions to address the most likely threats.
- Periodic review of the effectiveness of measures adopted to address the risks and, where

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required, take appropriate corrective action.

- (5) To assess, measure and monitor the value at risk (VAR) through a report wherever applicable
- (6) To summarise, risk identification, risk assessment and prioritisation, and risk monitoring and control constitute risk management.

III ROLE OF RISK MANAGEMENT COMMITTEE (RMC):

Constitution of Risk Management Committee:

The Committee will comprise of senior executives of the company, chaired by the MD, responsible for defining, implementing and review of risk management processes within ITPCL. The RMC will provide updates to the Management from time to time on key risks faced by the company and the relevant mitigation actions.

The composition of the committee would be as given below:

Members

1. Managing Director
2. CEO/COO/Business Head
3. CFO/ Finance Head
4. Station Head

Mr. Bhavani Prasad Rao - Head Business Commercial	Convener @ Corporate for the Meeting of RMC
Mr. Pothala Koteswara Rao - Station Head	Convener @ Plant for the Meeting of RMC
Ms. Angelenaa - MDO	Coordinator & Controller of the Meeting of RMC
Mr. Raghuraman K	Facilitator of the Meeting of RMC

Permanent Invitees (Head of Departments)

1. Power Sales
2. Procurement
3. HR /Admin
4. Operations (Plant / HO)
5. TSD (Technical Service/Support Division)

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6. Information Technology
7. Legal
8. Coal & Logistics
9. Finance
10. Company Secretary
11. Subsidiary Company

Role and Responsibility of the Committee for the evaluating the effectiveness of the Risk Management Framework:

The Risk Management Committee shall have the key role of identifying the key risks, suggest mitigation measures, monitoring and supervising the implementation of the Risk Management Policy and maintain enterprise wide view of the key risks faced by the organization.

1. The Risk Management Committee (RMC) is mandated to :
 - (a) Review the adequacy of the risk management framework and operational procedures developed for businesses and products from time to time.
 - (b) Provide guidance on strengthening of risk management practices to respond to emerging global and national market and regulatory developments
2. The RMC will provide supervisory oversight to risk management concerns of the Company. It will, inter alia :
 - (a) Set the tone and influence the culture of risk management within the Company/Group. This includes :
 - (i) communicating approach to risk
 - (ii) determining acceptable and non-acceptable risks
 - (iii) setting the standards and expectations of staff with respect to conduct and probity
 - (b) Define the risk appetite or level of exposure for the Company/Group and to review Company's risk philosophy and the quantum of risk that the Company is willing to take at the Board level in pursuit of stakeholder's value.
 - (c) Approve major policy development affecting the Company's risk profile or exposure
 - (d) Monitor the management of fundamental risks to reduce the likelihood of unwelcome

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surprises

- (e) Receive assurance that the preventable risks are being actively managed, with the appropriate controls in place and working effectively
 - (f) Periodically review key elements of risk management practices and procedures and approve changes or improvements
3. The RMC will also be responsible for review of the risk management policy of the Company and recommend appropriate amendments for the consideration of the Board

IV ROLE OF SENIOR MANAGEMENT

Role of the Senior Management is to:




- (1) Implement policies on risk management and internal control
- (2) Identify and evaluate the fundamental risks faced by the Company/Group
- (3) Undertake periodic review of effectiveness of the system of internal control
- (4) Report on the above and provide adequate information in a timely manner to the Board and RMC on the status of risks and controls

V IDENTIFICATION OF MAJOR RISKS IN EACH CATEGORY

In the challenging and competitive environment, strategies for mitigating inherent risks in accomplishing the growth plans of the Company are imperative. The Management has identified following major risks specific to ITPCL that have impact on the business & profitability:

1. OPERATIONAL RISKS:

Risks inherent to Business Operations including those relating to incorrect practices in O&M, Projects, incorrect estimation, unfavourable and ambiguous contract terms, project related delays, delay in collections, deficiency in designed parts, time extensions, labour unrest, disputes and technology obsolescence etc.

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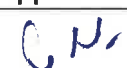
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2. FINANCIAL RISKS:

The company has identified Financial Risk and categorized them in three parts viz (i) Credit Risk, (ii) Liquidity Risk & (iii) Market Risk. The details regarding sources of risk in each such category and how company manages the risk is explained as under:

- (i) **Credit Risk-** Credit risk is the risk of financial loss to the company if a customer or counter party to a financial instrument fails to meet its contractual obligations and arises principally from the company's receivables from customers and investment securities.
- (ii) **Liquidity Risk-** Liquidity Risk is the risk that the company will not be able to meet its financial obligations as they become due. The Company has a strong focus on effective management of its liquidity to ensure that all business and financial commitments are met in time. Company sources of liquidity includes operating cash flows , cash and cash equivalents and fund and non-fund based lines from banks. Cash and fund flow management is monitored daily in order to have smooth and continuous business operations.
- (iii) **Financial Reporting Risk:** Changing Laws, regulation and standards relating to accounting and reporting, corporate governance and public disclosure wherever applicable. To ensure that the financial statements are in conformity with Indian Accounting standards issued by ICCAI in making the estimates and assumptions that affect the amount reported in the assets and liabilities and the disclosure of contingent liabilities on the date of financial statements reported.
- (iv) **Market Risk-** Market Risk is further categorized in
- (a) **Currency Risk-** As the company operates in regulatory environment any variation in foreign exchange rate is allowed to be recovered from consumers at actual. In cases of other imports through FOB/CIF and where bank limits are available, by taking proper forex cover as hedging mechanism.
- (b) **Interest rate Risk-** The Company is exposed to interest rate risk depending upon conditions of money market and RBI regulations.
- (c) **Commodity Risk-** The primary fuel of the Company is Coal. These are mostly Government controlled sectors. Any changes in pricing rules of these commodities by the Government of India or international regulations affects the working of the company. The Company also takes commodity hedging (coal) depending on the coal price movements and basis the availability of bank lines.

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3. RESOURCES RISKS:

Risks arising from inappropriate sourcing or sub-optimal utilization of key organizational resources such as talent, capital and infrastructure, erosion of talent/skills and ineffective HR Policies will have significant bearing on the bottom line of our business. The Company has adopted mitigation measures to minimize the effects of these risks.

4. PURCHASE AND INVENTORY RISKS:

The Company is dependent upon vendors and suppliers for procurement of specialized equipment, materials, consumables and services like fabrication, erection and civil works. The selection, quality, efficiency and effectiveness of these agencies and the prices will have direct bearing on the quality and successful execution of O&M and the profitability of the business. In addition, unplanned procurement and building up of excessive inventory will block the funds and lead to strained finance management and expose the company to financial risk. Besides, the Company revisits its procurement policy where there exists geographical dependency posed with threats and uncertainties, from time to time.

5. REGULATORY & COMPLIANCE RISKS:




The complexity of the business and regulatory landscape is increasing. The Company may be exposed to risks arising from inadequate compliance to regulations, sudden burst of new regulations, contractual obligations and, Change in Law, etc. The Company submits the annual revenue requirement, based on these approved tariffs the Company raises monthly energy bills to Customers. These tariffs are determined based on normative parameters as set out in the said regulations. Any changes in the normative parameters or guiding regulatory provisions have impact on the income from sale of power of the company.

6. REPORTING RISKS:

Risks arising out of wrong information provided in tender documents, improper valuation of inventory, over certification of contractor bills, improper planning and progress reports, etc. are some of the risks specific to our Business.

7. PREVENTION OF RISKS:

The Company has a proper IFC manual and internal controls and audits in place to review periodically and valuation of inventory/assets through outside agencies, professionally, wherever possible.

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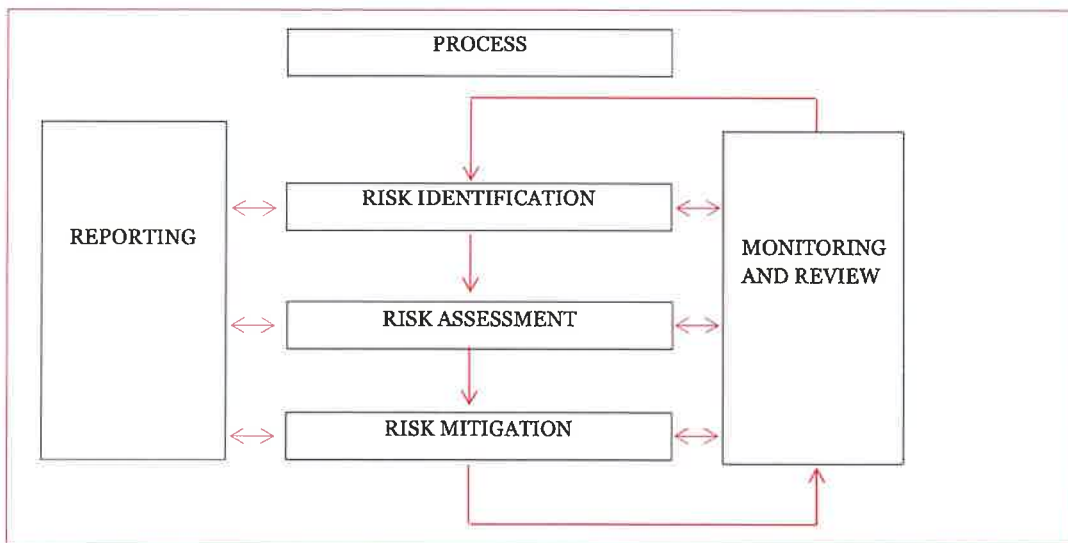
VI RISK MANAGEMENT POLICY

- (1) No entrepreneurial activity should be undertaken without assessment and assumption of risks and associated revenue opportunities. The Company has accordingly established a Risk Management Process/Framework aimed at minimization of identified risks after evaluation so as to enable management to take informed decisions

The primary objective(s) of establishing a Risk Management Process is to ensure that:




- Risks faced by the organization shall be identified and collected in a central repository, enabling the top management to take a comprehensive view of the same
- Risks identified shall be assessed, mitigated, monitored and reviewed on an ongoing basis.

The Risk Management Process is depicted below:



- (2) Principal elements of the framework are as follows :

- (a) Risk Identification: Management identifies potential events that may positively or negatively affect a company’s ability to implement its strategy and achieve its objectives and performance goals. Potentially, negative events represent risks and

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are assigned a unique identifier. The identification process is based on a collegium approach to bring broader perspective to risk identification covering operations as well as supportfunctions

- (b) Root Cause Analysis: Root Cause Analysis, undertaken on a consultative basis, enables tracing the reasons and drivers for a risk element and helps develop appropriate mitigation action.

The Company has adopted Analytical Analysis Method and also relies on Expert Judgment for assessment of risks and their impacts and devises strategy to tackle the risk at appropriate level. In both the cases, following matrix is followed in identifying and initiating actions:

Probability	Impact	Action
High	High	Immediate
High	Low	Consider the steps to take
Low	High	Consider the steps to take and produce a contingency plan
Low	Low	Keep under review



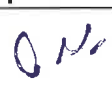
- (c) Risk Management/Mitigation Plan (RMP): Management develops appropriate responsive action to review various alternatives, costs and benefits, with a view to managing/mitigating identified risks and limiting the impact within tolerance level. The RMP will, inter alia, bring clarity on risk ownership, control environment timelines, standard operating procedures (SOP) etc.,



RMP constitutes the core of effective risk management. The mitigation plan covers:

- (i) Required Action
- (ii) Required Resources
- (iii) Responsibilities
- (iv) Timing
- (v) Performance Measures and
- (vi) Reporting and Monitoring requirements




The RMP requires adequate precision and specificity to manage/mitigate

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identified risks in terms of documented approach (accept, avoid, reduce, share) towards the risks with specific responsibility assigned for management of the risks. It will be an auditable document and an inter temporal comparison of the mitigation plan is expected to signal improving direction

- (d) **Risk Scoring:** Management considers qualitative and quantitative methods to evaluate the likelihood and impact of identified risk elements. Likelihood of occurrence of a risk element within a defined time horizon is scored based on polled opinion or from analysis of event logs drawn from the past. Impact is measured based on a risk element's potential impact on cost, revenue, profit etc. should the risk element materialize. The composite score of impact and likelihood are tabulated in an orderly fashion in the Risk Register (RR)
- (e) **Risk Categorization:** Risks identified in RR are grouped in to (i) External (ii) Strategic and (iii) Preventable categories:
- (i) Preventable Risks are largely internal to organization and are generally operational in nature. The endeavor is to reduce/eliminate incidence in this category as they are controllable. SOPs and Audit Plans are relied upon to monitor and control such internal operational risks
 - (ii) Strategy Risks are voluntarily assumed risks in order to generate superior returns/market share from its strategy. Approaches to strategy risk is 'Accept'/'Share', backed by a risk management system designed to reduce the probability of potential downside of the assumed risks and to improve the company's ability to manage or contain the risk events should they occur
 - (iii) External risks arise from events beyond organization's influence or control. They may arise from natural and political disasters and major macro-economic shifts. Management regularly endeavors to focus on identification and mitigation of impact through 'avoid'/'reduce' approach that includes measures like Business Continuity Plan/Disaster Recovery Management Plan/Specific Loss Insurance/policy advocacy etc.,
- (f) **Risk Prioritization:** Based on the composite scores, risks are prioritized for mitigation actions and reporting
- (g) **Risk Monitoring:** Designed to assess on an ongoing basis the functioning of risk management components, effectiveness of RMP, consequent impact on residual

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risk, as well as scan for emerging risks indicated by risk events

- (h) **Risk Reporting:** Periodically key risks are reported to Board in the form of Heat Maps and Bubble Maps, root cause, and action taken or proposed. Preventable Risks will be reviewed in the context of operationalization of SOPs and monitoring of exceptions. External Risks will be taken note of and analysis of the direction of the risks provided. Reporting on status of and movement in Strategic Risks will require analysis of management initiatives and prevalent competitive scenario
- (i) Threshold of tolerance are defined to distinguish 'acceptable' risks from those which need to be actively managed and closely monitored, and, in particular, highlight ones which are assessed at unacceptable levels. Risk reporting, inter alia, sets down mitigation plans for scaling down every such risk with clearly defined time schedule and accountability or, in the alternative, defines an exit strategy for the relative initiative. Such risk limits are refined in an iterative process with the participation of the RMC and will represent the Company's risk appetite.

VII PERIODICAL REVIEW OF EFFECTIVENESS

Effectiveness of Risk Management Framework is ensured through periodic audit. The Risk Management Committee is the key group which shall work on an ongoing basis within the risk management framework outlined in this policy to mitigate the risks to the Organization's business as it may evolve over time.




1. Risk Monitoring

As the risk exposure of any business may undergo change from time to time due to continuously changing environment, the risks with their mitigation measures shall be updated on a regular basis.

The following process shall be followed:

Quarterly

1. The departments/ project sites/ power stations head shall review the status of risks and treatment actions.

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2. Any new or changed risks shall be identified and escalated, if deemed necessary to the Chief Risk Officer (CRO) / Chief Financial Officer (CFO).

Bi - Annually

1. The CRO/CFO along with the other members of the Risk Management Committee shall identify the key risks to be put up in the Risk Review Committee meet.
2. The Risk Management Committee shall monitor and supervise the development and implementation of the Risk Management Policy and maintain enterprise wide view of the key risks and their mitigation measures faced by the organization.
3. The Risk Management Committee shall report the key risks and their mitigation plans to the Risk Review Committee on bi-annual basis.

Annually

1. The Risk Review Committee shall annually apprise the Audit Committee on the key risks faced by the Organization and the mitigation measures taken. The Audit Committee will present the relevant findings to the Board of Directors for approval /actions.

2. Risk Review

Effective Risk management requires a reporting and review structure to ensure that risks are effectively identified and assessed and that appropriate controls and responses are in place. Regular audits of policy and standards compliance shall be carried out and standards performance reviewed to identify opportunities for improvement. It shall be remembered that organization is dynamic and operate in dynamic environment. Changes in the organization and the environment in which it operates must be identified and appropriate modifications made to risk management practices. The monitoring process shall provide assurance that there are appropriate controls in place for the organization's activities and that the procedures are properly understood and followed.

Any monitoring and review process shall also determine whether:

1. The measures adopted resulted in what was intended.
2. The procedures adopted and information gathered for undertaking the assessment was appropriate.

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3. The acceptability of each identified risk and their mitigation plan shall be assessed and risks shall then be ranked to identify key risks for the organization.
4. Proposed actions to eliminate, reduce or manage each material risk shall be considered and agreed.
5. Responsibilities for the mitigation measures for key risks management of each risk shall be assigned to appropriate department/power station/project site heads.
6. Periodically review new potential risk arising out of change in market dynamics and, environmental scenarios, assess and validate and include the same in risk monitoring list basis the impact and likelihood.

The head of departments/head of projects shall review progress on the actions agreed to mitigate the risk and make an assessment of the current level of risk including:

- (1) Establishing whether actions have been completed or are on target for completion.
- (2) Report the status of implementation of mitigation plans to the Risk Management Committee.

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