

# K.P. ENERGY LIMITED

## RISK MANAGEMENT POLICY

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## 1. PREAMBLE

The growth and success of any business depends on the ability to identify, understand and respond to the challenges of a dynamic market. In recent times all sectors of the economy have shifted their focus towards risk management as the key to making organizations successful in achieving their objectives while protecting stakeholder interests.

Risk can be defined as events or conditions that may occur, and whose occurrence, if it does take place, have a harmful or negative impact on the achievement of the organization's business objectives. The exposure to the consequences of uncertainty constitutes a risk. By understanding and managing risk, we provide greater certainty and confidence for all our stakeholders.

Risk management is a holistic, integrated, structured and disciplined approach to managing risks with the objective of maximizing stakeholders' value. It aligns strategy, processes, people & culture, technology and governance with the purpose of evaluating and managing the uncertainties faced by the organization while creating value.

The risk(s) inherent in our operating environment creates the need to think about, take and manage risk in an informed way. Explicit and effective risk management is a source of insight and competitive advantage. As such, forward-looking risk management must be a cornerstone of our decision making. To this end, the Company is committed to the ongoing development of a strategic and consistent enterprise-wide approach to risk management, underpinned by a risk aware culture.

Everyone in the Company has a role in managing risk by enhancing opportunities and minimizing threats, so that together we achieve our Common goals – growing our business sustainably, enhancing value for customers and shareholders and contributing to the society at large.

## 2. PURPOSE

The primary purpose of this Policy is to ensure sustainable business growth with stability and to establish a structured and intelligent approach to Risk Management. This would include the process for development and periodic review of department-specific databases to guide decisions on business risk issues. This would promote a proactive approach in analysis,

reporting and mitigation of key risks associated with the business in order to ensure sustainable business growth.

The purpose of the policy is to ensure that:

- a. appropriate systems are in place to identify the material risks facing the Company.
- b. the potential financial impact of identified risks is ascertained.
- c. appropriate controls and strategies are adopted to manage exposure to those risks.
- d. appropriate responsibilities are delegated to control identified risks effectively.
- e. the achievement of strategic objectives while appropriately managing risks.
- f. any material changes to the Company's risk profile are disclosed in accordance with the Company's continuous disclosure policy.
- g. the strengthening of the Risk Management System through continuous learning and improvement.

### 3. SCOPE

This policy is applicable to all factories/units and branch offices of the Company throughout India and abroad. The policy is supported by the Risk Management Framework.

### 4. RISK MANAGEMENT FRAMEWORK

Risk management will protect and add value to the organization and its stakeholders through supporting the organization's objectives by improving decision making, planning and prioritization by comprehensive and structured understanding of business activity, volatility and project opportunity/threat.

It will provide a framework that enables future activity to take place in a consistent and controlled manner. The framework will help in creating an environment in which risk management is consistently practiced across the Company and where Management can take informed decisions to reduce the possibility of surprises.

The components of risk management are defined by the Company's business model and strategies, organizational structure, culture, risk category and dedicated resources. An effective risk management framework requires consistent processes for assessment,

mitigation, monitoring and communication of risk issues across the organization. Essential to this process is its alignment with corporate direction and objectives, specifically strategic planning and annual business planning processes. Risk management is a continuous and evolving process, which integrates with the culture of the Company.

## 5. RESPONSIBILITY AND ACCOUNTABILITY

Board	The Board, through Audit Committee and Risk Management Committee, shall oversee the establishment and implementation of an adequate system of risk management across the Company. Board shall comprehensively review the effectiveness of the company's risk management system on an annual basis.
Audit Committee	The Audit Committee would review on Bi-Annually, the risk assessment & minimization procedures across the Company after review of the same by the Risk Management Committee and shall provide the assistance to the Board in fulfilling its Risk management responsibilities.
Risk Management Committee	Risk Management Committee are accountable to the Board for: i) the development, implementation, maintenance and review of appropriate controls and strategies to manage allocated risks. ii) reporting to the Board on control and strategies.
Employees	All employees are responsible for taking reasonable and practical steps to perform their responsibilities delegated under this policy and related procedures.

## 6. RISK MANAGEMENT PROCESS

Effective risk management process requires continuous & consistent assessment, mitigation, monitoring and reporting of risk issues across the full breadth of the enterprise. Essential to this process is a well-defined methodology for determining corporate direction and objectives. Broadly categorizing, the process consists of the following stages/steps:

- i) **Establishing the Context:** Articulate the objectives and define the factors to consider in risk management. Also, sets the scope and risk criteria for the rest of the process.
- ii) **Risk Identification:** Process to identify, describe, and document potential risks that could affect the organization.

- iii) **Risk Assessment:** Evaluating identified risks in terms of their likelihood and potential impact on the organization's objectives.
- iv) **Risk analysis:** Factors that affect consequences and likelihood should be identified.
- v) **Risk Evaluation:** Relevant internal controls are considered and evaluated, and a decision is made as to whether these controls are adequate and appropriate to mitigate the level of risk and whether further controls are warranted to reduce the risk to an acceptable level.
- vi) **Risk Mitigation:** Risk mitigation strategies are evaluated and selected, and risk is re-rated factoring in the proposed treatment strategies.

## 7. COMPANY SPECIFIC RISKS AND MITIGATION MEASURES

- i) **Project Development Risk:** The process of project development entails various risks, ranging from obtaining building permits and acquiring suitable land to managing logistics and Right-of-Way (RoW) challenges. These uncertainties expose our business to potential project delays, cancellations, or writeoffs, which can significantly impact profitability. Furthermore, project delays often lead to cost overruns, further exacerbating the potential impact on our financial performance.

### **Mitigation Measures:**

The Company is committed to diligently addressing project development risks and implementing robust strategies to minimise their potential consequences by adopting following measures:

- Proactive identification and mitigation of potential challenges related to building permits, land acquisitions, logistics, and Right-of-Way (RoW) to minimise the likelihood of project delays, cancellations, or write-offs.
- Strengthening project planning and execution capabilities to ensure efficient and timely delivery by conducting comprehensive feasibility studies, optimising project timelines, and establishing effective project management processes.
- Actively collaborating, fostering strong partnerships, and maintaining open communication channels with relevant stakeholders, including local authorities, to address project development uncertainties more effectively and minimize potential roadblocks.

ii) **Regulatory risk:** As a part of the dynamic renewable energy industry, the Company operates within a regulated space that is subject to government and regulatory policies. Changes or amendments in wind energy policies or power evacuation facilities can potentially impact industry's performance, including Company's operations. Adverse alterations to the regulatory framework may disrupt the stability and predictability of business, necessitating agile adaptability to mitigate potential challenges.

**Mitigation Measures:**

- Constantly monitoring government and regulatory & policy developments to enable us to anticipate and adapt potential changes in the renewable energy policy landscape.
- Actively engaging with stakeholders, participating in industry associations, and providing constructive feedback to help shape favourable regulatory frameworks.

iii) **Business vulnerability:** Company's revenue streams are closely tied to capital expenditures in the wind energy sector, primarily driven by Independent Power Producers (IPP) and Captive Power Producers (CPP). Therefore, fluctuations in the capital expenditure scenario and cycle, such as reduced investments by either IPPs or CPPs, have the potential to adversely affect our financial performance.

**Mitigation Measures:**

- By Strengthening customer relationships, building strong partnerships and delivering value-added services, we aim to foster customer loyalty and retain a stable base of customers who are committed to ongoing capital expenditures.
- Exploring opportunities to diversify our revenue streams within the renewable energy sector.

## 8. OTHER RISKS AND MITIGATION APPROACH

i) **Liquidity Risks:** this involves risk relating to financial solvency, Increase in borrowing costs, Cash management risks, etc.

**Mitigation Measure:**

- Preparation of Annual and quarterly budgets along with along with Variance Analysis and presentation of same to management for in-depth discussions, including analysis of assumptions and parameters.

- Continuously monitor cash flow statements and liquidity ratios to identify potential issues early.
- Regularly review and adjust the level of cash reserves based on current and projected financial needs.
- Build investor confidence through consistent financial performance and adherence to sound financial practices.

**ii) Human Resource Risks:** difficulty in attracting and retaining skilled workers, Low employee engagement and morale, workplace accidents, injuries, and illnesses, etc.

**Mitigation Measures:**

- Foster a positive company culture that promotes work-life balance and career growth opportunities. Implementation of employee recognition and reward programs.
- Provide regular training sessions and workshops to update employees' skills. Encourage participation in industry conferences and external training courses.
- Conduct regular employee engagement surveys to gather feedback and address concerns. Organize team-building activities and social events to foster a sense of community.
- Create a structured succession planning process with clear criteria and timelines.

**iii) Cybersecurity and IT Threat:** Unauthorized access, data breaches, and cyber-attacks, unexpected system failures or downtime, loss of critical data due to hardware failure, accidental deletion, Non-compliance with data protection laws and regulations.

**Mitigation Measures:**

- Implementation of robust cybersecurity measures, including firewalls, antivirus software, and intrusion detection systems. Regularly update and patch software and systems to address vulnerabilities, etc.
- Implement regular system maintenance and monitoring to detect issues before they cause downtime. Using cloud-based solutions with high availability and disaster recovery features.
- Using automated backup solutions to reduce the risk of human error. Regularly test backup recovery processes to ensure data can be restored quickly and accurately.



- Developing and implementing data protection policies and procedures and to ensure proper data encryption and access controls are in place.

## 9. REVIEW

This policy will be reviewed as and when required by changes in circumstances affecting the risk portfolio of the Company.

The Policy shall be reviewed once in every two years by the Risk Management Committee. Any changes or modification to the Policy shall be recommended by the Committee and be placed before the Board of Directors for approval.

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