1. Overview

1.1 Background

Visakhapatnam Port Logistics Park Ltd. ('the Company' herein) being an unlisted CPSE, has to comply with the Corporate Governance Guidelines 2010 of the Department of Public Enterprises. Pursuant to the said Guidelines, the Company shall lay down procedures on risk assessment and its mitigation. Moreover, under the Companies Act 2013, there is a specific requirement for development and implementation of Risk Management Policy, which needs to be reported by the Board of Directors in the Annual Report of the Company.

Risk Management is an integral part of an effective management practice. There is a strong correlation between risk and opportunity in all business activities and it is very important that a company identifies, measures and manages the risks so as to minimize threats and capitalize on the opportunities to achieve the organization's strategic objectives. Rapid and continuous changes in the business environment have made it necessary for management to increasingly become more risk- focused.

1.2 Objective

Since no business is risk-free, the Company is committed to ongoing and proactive recognition of risks, assessing their possible impact and initiating action to mitigate such impact.

With this objective in view, the Board of the Company at its Meeting held on 2nd February 2023, had approved a broad Enterprise Risk Management Policy.

This document lays down the frame work of Enterprise Risk Management (ERM). The objective of the ERM is to create and protect stakeholders' value by minimizing the threat and identifying & maximizing the opportunities.

2. Risk Management Framework

2.1 Risk Assessment

Risk assessment consists of the following steps:

2.1.1 Risk Identification

Risk identification consists of determining which risks are likely to affect the Company and documenting the characteristics of those risks. Risk identification is an iterative process (it is not a one- off event, but must be repeated on a periodic basis) and should address both internal and external risks to the Company. A well-structured systematic process is critical as a risk not identified at the initial stage may be excluded from further analysis. The aim is to develop a comprehensive list of sources of risk and events that might have an impact on company's objectives or outcomes. It is important to describe the risk clearly.

Risk Identification Reporting System is a **4-tier model:**

a) First stage - The Business Head in consultation with his Team would prepare a Risk Identification Report for each of the business category.
b) Second stage - The Risk identification Report prepared under (a) above be forwarded to the Head of Finance or CFO.
c) Third stage - The Head of Finance or the CFO would then assess and evaluate the findings in the Risk Identification Report received at (b) above, add his comments and observations and forward the same to the Chief Executive Officer or to any Director, who is in charge of the business of the Company.
d) Fourth and the final stage - Based on the assessment of the Reports received as per (c) above, the overall Risk Identification Report for the entire Company would be compiled by the Chief Executive Officer or any Director, who is in charge of the business of the Company.

The report at stage (a) shall be prepared by the Business Head and shall be forwarded to the Head of Finance or CFO within 30 days from the end of each quarter. The Head of Finance or CFO shall on a half yearly basis give his report (mentioned in clause c) to the Chief Executive Officer or Director in charge of business within 60 days from the end of each half-year. The Chief Executive Officer or Director in charge of business shall then on an annual basis give his report (mentioned in Clause d) to the Board of Directors within 90 days from the end of each financial year.

2.1.2. Risk Categorization

Risks are classified according to the source of their primary root cause. Classifying risks according to source enables the management to understand the aggregate impact of each risk and prioritize response strategies. The Company will classify risks using the following criteria: Financial, Operations, Reputational, Market and Compliance:

a) Financial Risks

Events which on materializing will create financial obligation on the company or will impact the profitability of the company leading to financial risk.

b) Operations Risks

Operations risks may arise due to difficulty in meeting the targets due to improper sales planning, improper equipment planning, non-availability of spares on time, breakdown of machinery etc. Also, Safety risks forming part of operational risks are those which arises due to non-compliance to safety standards of the company which may result in loss of human life/property.

c) Reputational Risks

Events which on materializing will impact the reputation of the company leads to reputational risk.

d) Market Risks

Adverse reports about the Company and its Management resulting in a fall in its market share leading to loss of revenue and dip in the shareholders' shareholding value.

e) Compliance Risks

Risk which arises due to non-compliances under different Acts, Regulations and Statutes is called Compliance risk.

2.1.3. Risk Analysis and Prioritization

Risk rating/rating criteria indicates the range for measuring consequence of occurrence of a risk event, probability of occurrence and mitigation plan effectiveness. Risks are rated on the basis of financial consequence (quantitative) as well as operational effectiveness (qualitative).

- Quantitative: Risks are rated purely on the basis of financial consequence
- Qualitative: Risks are rated on the basis of impact on factors affecting operational effectiveness/reputation

Risk rating criteria will be proposed to the Audit Committee for further inputs. The approval will be given by Board of Directors.

2.1.4. Risk Response

Risk response consists of determining the appropriate action to manage risks categorized within the levels defined by the Company. Appropriately responding to risks involves identifying existing response strategies and the need for any additional response. Accordingly, ownership and responsibilities for the risk response plans are articulated and approved.

2.1.5. Risk Management Structure

Level	Key roles & responsibilities
Board of Directors	Development and implementation of a risk management policy for managing risks and ensure that it is operating efficiently
Audit Committee (AC)	(a) Provide direction and evaluate the operation of the Risk management program; and (b) Review risk assessments prepared by the Business Head and reviewed by the Finance Head. (c) Oversee risk assessment and prioritize key risks which can act as hindrance in achievement of organization's strategic business objectives
Business Head	(a) Understanding the issues and its impact. (b) Performance assessment of mitigating controls. (c) Evaluating the compliance in relation to control mitigation plan and timelines and reporting to the Audit Committee on efficacy of Risk Management Framework. (d) initiating and coordinating activities (e) Periodically review the process for systematic identification and assessment of the business risks.

2.1.6. Risk Monitoring

Risk monitoring and reporting consists of providing the Audit Committee, and Board of Directors with information on the risk profile and the status of risk response plans.

2.1.7. Communicate and Consult

Communication facilitates a holistic approach to identify assess, and manage risk and facilitates the development of a culture where the positive and negative dimensions of risk are openly discussed. Involving stakeholders in the risk management process across management hierarchies of the Company, would create an environment where the discussion of risks and the associated response strategies are viewed as an integral part of decision making. Effective risk management also incorporates the input of different perspectives to balance intrinsic human biases in the understanding of risk.

2.1.8. Training and Awareness

The Board of Directors aims to ensure that:

- Emphasis is given on training on risk management to improve process controls.
- All staffs are aware of and understands the organization's approach to risk management.
- All staffs in the organization understand the basic concepts and benefits of risk management in their respective areas and applies the risk management principles in day to day operations.

For this purpose, the Business Head in association with the Finance Head will conduct training programmes on risk management for the employees so that each employee proactively contributes to the risk management process. Professional help shall also be taken if necessary.

3. Review of Risk Management Policy

Review of the Risk Management Policy, including compliance with internal controls under various functional areas, is to be undertaken by the CEO/Managing Director/Director-in-charge of Business with the views of the Board of Directors, from time to time so as to ensure effectiveness of the policy. Such review would be made at the time of presentation of the Risk Identification Report and Risk Assessment & Minimization Report, unless a more frequent review is deemed necessary.

The recommendations arising out of the review are to be placed before the Board of Directors for effecting/implementing changes.

The essential parts of the review mechanism would be:-

- Submission of Risk Reports to the Board on an annual basis to highlight fresh risks as well as Action-taken Reports on previously identified risks.
- Monitoring the implementation of Risk-mitigation Action Plan(s) to ensure sensitivity to detection of risks, flexibility in response.
- Evaluating success of the Risk-mitigation Action Plan(s)
- Overall *Review of the Risk* Management Policy and *modification of* policy *from time to* time arising out of the review.

The ERM Framework will be effective from 1st April 2023.