CADILA PHARMACEUTICALS LIMITED

The Care Continues...

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RISK MANAGEMENT POLICY

Objective:

The objective of the risk management policy document is to ensure that the company has proper and continuous risk identification and management process. This process will generally involve the following steps.

- Identifying, ranking risks inherent in the Organisation's strategy (including its overall goals and appetite for risk);
- Selecting the appropriate risk management approaches and transferring or avoiding those risks that the business is not willing or competent to manage;
- Implementing controls to manage the remaining risks;
- Monitoring the effectiveness of risk management approaches and controls;
- Learning from experiences and making improvements.

Management has identified certain areas of risk where the Organisation is vulnerable, listing them below along with actions to deal with the same and thereby mitigate, if not eliminate such risks. Management strives to ensure a policy of strong corporate ethics that are more about the culture of the organization rather than an outcome of legal provisions. Thus, it maintains healthy internal systems and practices rather than being bound by legal limitations.

1. Business Risks:

a) Concentration risk:

We derive revenues from multiple products, multiple customers across geographic regions. Thus we will endeavor to remain diversified and mitigate concentration risk.

b) Competition risk:

We operate in a competitive market and expect competition to increase further in the future. We always strive to meet the challenges by delighting our customers with product quality, timely supplies, best industrial practices in providing better services.

c) Price risk:

We produce and sell some products competing with numbers of players in India and abroad. Increasing competition puts pressure on our realizations. We regularly work on cost control, improved yields etc., to maintain our margins.

d) International operations risk:

The inherent risks in conducting business internationally include:

- Country risk or risk of the region that we operate in, changes in political-economic conditions, laws or regulatory requirements.
- Country specific tax obligations

- Trade barriers and import/export licensing requirements

- Burden of complying with various foreign laws
- Difficulties in managing and staffing international operations

To mitigate the above risks, we shall avoid high-risk countries and even if we do business with such countries, we shall minimize/hedge our risk by routing the transactions through a third party/ by taking appropriate insurance etc.

e) IP risk:

We manufacture some products for which valid patents may be in force in some countries. If we commercialize any such products during the validity of patent, we may run the risk of huge financial liability. To mitigate this risk, our R&D and production departments search for any valid patents before taking up the product for development or production. However, we may also develop new processes for the patented products at the request of innovator companies.

f) Employee turnover risk:

We are dependent on principal members of our management team and scientific staff. Loss of services these employees may adversely affect our business. Competition among the pharmaceutical companies for qualified employees is intense and the ability to retain and attract new talent is critical to our success.

To attract new talent and retain talent, the company not only offers attractive compensation package but also growth opportunities to its critical employees.

g) Insurance:

In order to reduce and mitigate identifiable risks, we shall have various insurance covers from reputed insurance companies and shall keep the company's properties and insurable interests insured.

We shall also cover our human resources by taking appropriate medical and accidental insurance cover.

2. Financial Risk:

a) Credit risk:

We shall have laid down extensive norms and SOP related to credit period and payment terms and device a credit approval process.

b) Treasury/Foreign exchange risk:

We continue to expand our business globally. Some of our revenues and payments are in foreign exchange, which makes it crucial to monitor movements in the forex market.

Managing the risks from foreign currency rate fluctuations, interest rate fluctuations is the prime function of our finance and treasury department. We shall always keep a close watch on forex market and its trend and do review the movements regularly and hedge the risk with appropriate instruments.

c) Legal risk:

We enter into many contracts with our customers, lenders suppliers and others. Legal risk is the risk that the organization may suffer financial loss either because contracts or individual provisions thereof are unenforceable or inadequately documented or because the precise relationship with the counter party is unclear. To mitigate this risk, we engage legal counsel to go through the contracts and advise the company before they are signed.

3. System of risk management and internal control:

We have appointed an independent Chartered Accountants firm to review the internal controls and systems periodically and report their observations and suggestions for improvement. Audit Committee of the Board reviews the observations of internal auditors and gives suitable advice to the management.

4. Risk Management:

A first step in the process of managing risk is to identify potential risks. The risks must then be assessed as to their potential severity of loss and to the probability of occurrence.

Possible actions:

Once risks have been identified and assessed, all techniques to manage the risk fall into one or more of the following categories.

- **Risk avoidance:**

  This includes not performing an activity that could carry risk, e.g. decision not to buy a disputed property.

- **Risk reduction:**

  This involves steps to reduce the severity of the loss by taking some steps, e.g. installation of fire hydrant system to minimize loss due to fire.

- **Risk retention:**

  Involves accepting the loss when it occurs. In other words, this falls under category of self-insurance. Risk retention is a viable strategy for small risks where the cost of insuring would be greater over time than the total losses sustained. All risks that are not avoided or transferred are retained by default. This includes risks that are large or catastrophic that they either cannot be insured against or the premiums would be infeasible, e.g. war risk.

- **Risk transfer:**

Means transfer of risk to another party by entering into a contract, e.g. insurance cover, hedging instruments etc.

Depending on the risk assessment, severity and probability of occurrence, company may adopt one or more of the methods to minimize or mitigate the risk.