



**DEN Networks Limited**  
**Risk Management Policy**

## 1. Introduction

### 1.1. Preamble

Section 134(3)(n) of the Companies Act, 2013 requires that the report by the Board of Directors laid at the general meeting shall include a statement on the development and implementation of a risk management policy for the company.

Section 177(4)(vii) of the Companies Act, 2013 provides that Audit Committee shall evaluate the internal financial controls and risk management systems of the company.

SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015, inter alia, mandates laying down the procedures for risk assessment and minimization.

Against this backdrop, DEN Networks (“DEN” or the “Company”) has established this Risk Management Policy. This Policy lays down the principles and practices of the risk management system in DEN. The main principles of DEN’s Risk Management are as follows:

- ▶ Develop risk awareness
- ▶ Focus on material risks and sources that threaten business objectives
- ▶ Pro-active risk behaviour
- ▶ Dynamic, continuous risk assessment and responsiveness to changes
- ▶ Continuous ongoing process based on self-assessment

The main objectives of the Risk Management Policy are as follows:

- ▶ To ensure that all the current and future material risk exposures of the company are identified, assessed, quantified, appropriately mitigated and managed.
- ▶ To establish a framework for the company’s risk management process and to ensure companywide implementation.
- ▶ To enable compliance with appropriate regulations, wherever applicable, through the adoption of best practices.
- ▶ To assure business growth with financial stability.

### 1.2. Definitions

**“Risk”** means a negative effect of uncertainty on the achievement of business objectives.

Material risks arise when earning capacity is threatened or other important business objectives are prevented from being achieved. The framework of the Risk Management System is to ensure that the focus of the Company’s business dealings is on optimizing the critical success factors for achieving the business objectives as defined in DEN’s Operating Plan.

Risk is characterized and rated by two factors:

- ▶ Impact
- ▶ Likelihood (L)

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**“Impact”** is the potential damage/loss likely to be caused by a risk. The possible impacts can be subdivided into classes according to their severity.

**“Likelihood”** is the chance of something happening measured or determined quantitatively or qualitatively.

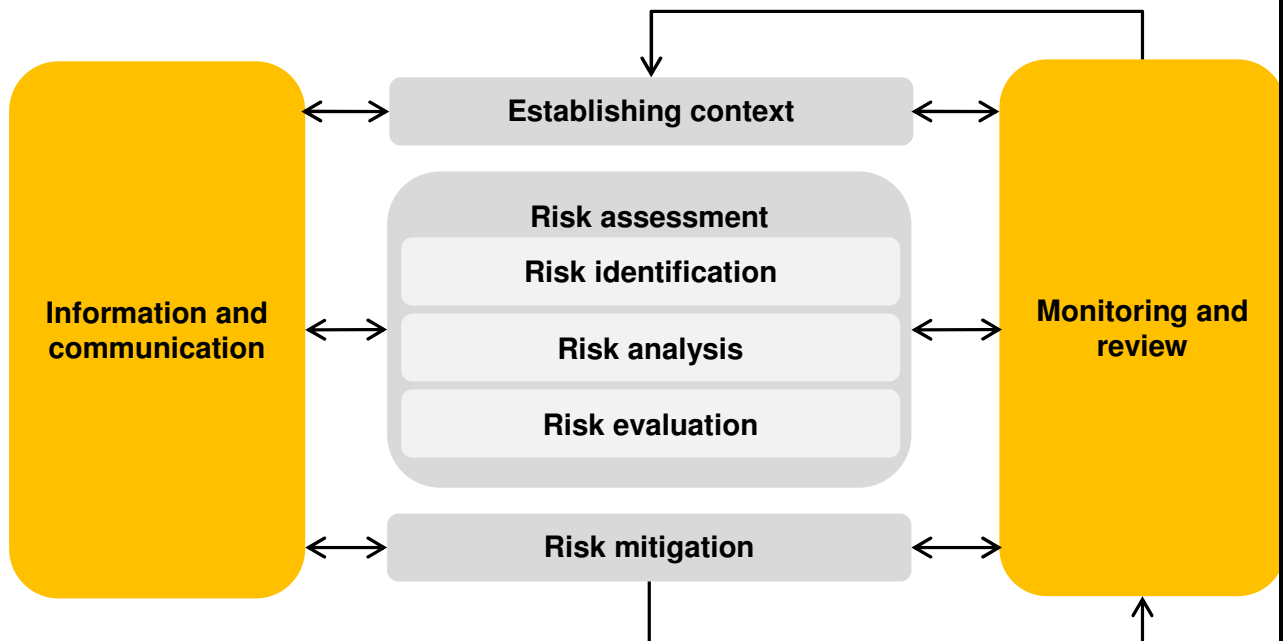
**“Risk owner”** is a person with the accountability and authority to manage an identified risk. All the Functional Heads shall be risk owners with regard to their respective areas of operation and the unit heads shall be the risk owners of units.

**“Corporate Risk Coordinator (CRC)”** is the person nominated by the management at the corporate office with such responsibilities as mentioned in this policy. Presently, Group CFO has been nominated as CRC by the management.

## 2. Overview of the Risk Management System at DEN

The basic principle for an effective risk management is the establishment and continuing evolution of appropriate risk awareness at all hierarchic levels of the organization. The early detection and cognizant handling of risk is the main objective of risk management. Explicit and effective risk management is a competitive advantage.

DEN has adopted the risk management process, comprising of five key activities as under:



### 2.1. Roles and responsibilities in context of Risk Management (RM)

#### 2.1.1. General roles and responsibilities within the Risk Management System

##### Board of Directors

The Board shall be responsible for framing, implementing and monitoring the risk management plan for the company.

### **Audit Committee**

The Audit Committee should ensure that adequate risk management systems exist. The Committee shall conduct thorough review of risk exposures on an annual basis.

### **Reporting, Controlling & Consolidation**

The functional heads shall formally report to the CRC on risk management within their areas of operation. The purpose of this reporting is to assess how well “Key Risks” are managed and if any additional risk has emerged that can affect business operations. The risk report includes:

- ▶ Performance of functions in managing key risks in light of the mitigation strategies
- ▶ Identification of additions key risks that may have emerged including their mitigation strategies.

The results of this exercise shall be compiled by CRC and made available for review to the Audit Committee annually.

### **2.1.2. Specific Roles and Responsibilities of the Management within the Risk Management System**

#### **Corporate Risk Coordinator (CRC)**

The CRC is responsible for the risk assessment process throughout the functions, various units and market. CRC is also responsible to proactively ensure proper reporting, completeness and timely delivery of quantitative and qualitative information related to risk and its status.

#### **Risk Owner**

The Risk Owner(s) shall be responsible for the identification and assessment of risks. The risk owner(s) shall also be responsible for the realization of actions to manage the risks (avoid, minimize, transfer of risk to a third party, etc.).

## **3. Risk Management Process**

The Risk Management process is an ongoing activity. The risk assessment has to be performed on a continuous basis in order to manage efficiently the exposures. The results of the assessment and measurement shall be documented annually. It consists of a bottom up approach.

The Risk Management process involves the following phases:

- ▶ Risk identification and analysis
- ▶ Risk evaluation
- ▶ Risk mitigation
- ▶ Monitoring and reporting

#### **Key questions that a risk owner must ask:**

- ▶ What could happen (threat event)?
- ▶ If it happens, how bad could it be (threat impact – risk exposure)?
- ▶ How often could it happen (threat frequency / probability analysed)?

Analyzing and assessing risks will answer these questions. The need for action depends primarily on the above assessment.

**3.1. Risk Identification and Analysis**

Risk is defined as the effect of uncertainty on business objectives. The purpose of risk management is to identify potential threats that may affect realization of the business objectives or priorities. An annual risk assessment exercise is conducted by the CRC to identify the applicable risks and update the risk profile of the company. This risk profile/library is revisited by the CRC to identify any new risk event that can adversely impact business objectives.

**3.2. Risk Evaluation**

The purpose of risk evaluation exercise is to identify and prioritize key risks which can adversely impact business operations of the company. Prior to initiating the annual risk prioritisation exercise, the CRC seeks feedback from the Audit Committee. The CRC also facilitates prioritization of risks using the risk prioritization criteria

The company performs an inherent risk evaluation i.e. the impact and likelihood of occurrence is evaluated on the assumption that controls are not in existence. The tables below highlight the parameters to be used for risk evaluation:

<b>Impact/Consequence – Quantitative</b>			
<b>Score</b>	<b>Description</b>	<b>Decrease in turnover*</b>	<b>Decrease in EBITDA*</b>
<b>5</b>	<b>Critical</b>	▶ Decrease in turnover of greater than 15%	▶ Decrease in EBITDA of more than 15%
<b>4</b>	<b>Material</b>	▶ Decrease in turnover up to 15%	▶ Decrease in EBITDA up to 15%
<b>3</b>	<b>Important</b>	▶ Decrease in turnover up to 10 %	▶ Decrease in EBITDA up to 10 %
<b>2</b>	<b>Moderate</b>	▶ Decrease in turnover up to 5%	▶ Decrease in EBITDA up to 5%
<b>1</b>	<b>Minor</b>	▶ Decrease in turnover up to 1%	▶ Decrease in EBITDA up to 1%

*\*Turnover is defined as gross turnover*

*\*EBITDA is defined as earnings before interest, taxes, depreciation and amortization*

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Impact/Consequence – Qualitative		
Score	Description	Qualitative factors (examples)
5	<b>Critical</b>	<ul style="list-style-type: none"> <li>▶ Catastrophic impact on brand and reputation or sustained negative attention in social media.</li> <li>▶ Liabilities of directors due to non-compliances with laws and regulations leading to major penalties and imprisonment etc.</li> <li>▶ Significant decline in market position in comparison to the competitors in major markets.</li> </ul>
4	<b>Material</b>	<ul style="list-style-type: none"> <li>▶ Non-compliances with laws and regulations leading to minor penalties.</li> <li>▶ Sustained impact on business operations for a short time (few months) in terms of continuity of operations, business capabilities and/ or impact on personnel, systems break down etc.</li> <li>▶ Increase in employee dissatisfaction and/ or significant increase in employee attrition rates in comparison to previous period and industry standards.</li> </ul>
3	<b>Important</b>	<ul style="list-style-type: none"> <li>▶ Short term impact on business operations (i.e. impact to key business functions or key units is limited to a few days)</li> <li>▶ Increase in employee dissatisfaction and/ or moderate increase in employee attrition rates in comparison to previous period.</li> </ul>
2	<b>Moderate</b>	<ul style="list-style-type: none"> <li>▶ Existence of operating inefficiencies leading to duplication of activities or extra time being spent on business processes.</li> </ul>
1	<b>Minor</b>	<ul style="list-style-type: none"> <li>▶ Insignificant impact on company's operations.</li> </ul>

Probability/Likelihood of occurrence		
Score	Rating	Probability/Likelihood of occurrence
5	<b>Expected/ Almost Certain</b>	Very high, will be almost a routine feature every month/quarter within the immediate next 12 months
4	<b>Likely</b>	High, may arise several times within the next 12 months
3	<b>Possible</b>	Possible, may arise once or twice within the 12 months
2	<b>Unlikely</b>	May occur once or twice between year 2 (from now) to 3 years
1	<b>Rare</b>	Not likely, almost impossible to occur between year 2 (from now) to 3 years

The 'CRC' facilitates prioritization of risks using the above risk evaluation criteria annually. The results of the annual risk evaluation are subject to review, change and approval by the company's CEO.

### 3.3. Risk Mitigation

Risk mitigation involves one or more options for the modification of the risk impact or the likelihood of the occurrence. When selecting the most appropriate risk treatment alternative, all costs and efforts of implementation should be balanced against the benefits derived.

Following steps are followed in identification and documentation of mitigation plans:

- ▶ The functional heads have the responsibility for the quality and completeness of the mitigation plans.
- ▶ CRC facilitates documentation of the mitigation plans and mapping the risk owners against key risks.
- ▶ All risk mitigation plans are submitted to CRC for review and approval and subsequently to Audit Committee for consideration.

### 3.4. Risk Monitoring

Risk monitoring involves monitoring the implementation and progress of agreed actions, re-evaluation, and compliance with decisions. The cost of controlling a risk may be taken into account in determining what is reasonably practicable and should not be used as a reason for not implementing the mitigating control.

In order to ensure that the implemented control measures remain effective, the following points should be considered:

- ▶ Clear accountability of responsibilities
- ▶ Effective communication of risk controls
- ▶ Regular review of proposed procedures
- ▶ Up to date training
- ▶ Up to date risk information and follow-up of changes in operating conditions

The Company acknowledges that despite best efforts by all concerned to manage risks there may be situations which need to be managed as a crisis by the top management.

## 4. Risk Reporting and Timetable

The risk reporting to be presented shall comprise of the following:

- ▶ **Annually:** The CRC shall, on annual basis, follow-up the major risks and accordingly prepare and action for the same.
- ▶ **Incidental-Ad hoc risk reporting:** Functional Heads and Unit Heads are required to report ad hoc newly recognized, sudden and unexpected major risks (quantitative and qualitative) to the CRC. Ad hoc risk reporting is an important tool to avoid surprise losses and escalation of risk exposures.

All risks related to fraud, corruption and anti-competition shall be reported ad-hoc, independently of the amount and the probability of occurrence.

The CRC shall prepare and present to the Audit Committee and the Board of Directors at year end meeting a Risk Management Report covering the key risks and action plan to mitigate the same.