

# TIMELY AND COMPREHENSIVE ASSESSMENT AND MANAGEMENT OF RISK

## Embedding Strategic Risk Management Capabilities

Over the years, market conditions have become more volatile and complex, and are changing at an ever-accelerating pace. In such an environment, our long-term success depends on how early we are able to identify the risks and respond to them proactively. To safeguard the Company against the rising risks, JSW Energy has set up a robust risk management structure that enables regular and active checking of business activities for identification, evaluation and mitigation of potential internal or external risks.

Through better risk management, we aim to continue creating value for all our stakeholders, while being resilient to the varied risks. We strongly believe that a major step towards strategic risk management is strict adherence to regulations and standards. We have also established processes and guidelines, along with a strong overview and monitoring system at the Board and senior management levels. We have laid down procedures to inform Board members about the risk assessment and risk minimisation measures.

As an organisation, we encourage strong ethical values and high levels of integrity in all our activities, which by itself, considerably mitigates risks. Different organisational bodies are vested with specific responsibilities to identify, assess and mitigate risks.

## How We Oversee Risk

|   |             | Responsibility                            | Function                                    | Key Activities                      |
|---|-------------|---|---|-------------------------------------|
| Board   | Apex Body   | Strategy, Performance and Risk Management | Business Units, Countries and Support Units | Oversee Risk Strategy               |
| Senior Management   | Centre      | Policy and Monitoring                     | Corporate Oversight and Control Functions   | Mitigation and Contingency Planning |
|  Risk Management Committee<br>Facilitate Discussions and Conception of Solution<br>Status Monitoring  |             |   |   |                                     |
| Departmental Heads  | Risk Owners | Independent Assurance                     | Department Audit                            | Risk Identification                 |

All these activities are coordinated by the Chief Risk Officer

Our robust risk management framework assists us in identifying risks proactively and managing them through:

- Timely identification, communication and assessment of risks and opportunities
- Risk ownership aimed at comprehensive coverage, impact assessment, proactive action and regular tracking
- Training of all risk owners with a view to embedding risk intelligence in:
  - a. Decision making – To ensure prudence
  - b. Performance – To ensure competence and accountability

- Timely escalation to the Directors' Committee for risk oversight to ensure prioritisation of initiatives and allocation of resources in line with enterprise objectives
- Independent review through risk-based audit

We recognise that the merging and identified risks need to be managed and mitigated to create sustainable value for all our stakeholders and achieve business objectives.

The key risks identified during the year by JSW Energy and the strategies adopted to mitigate them, along with the capitals being affected by them, are summarised below:

| Key Risks            | Material Issues  | Mitigation Plan   | Capital Linkage  |
|----------------------|--|---|--|
| Coronavirus pandemic | Threat to employees life   | Strict adherence to guidelines issued by various Government authorities; Scaling down of staff at plants and providing work from home facility; Travel restrictions to affected countries; body temperature scanning of employees before entering plants; creating awareness amongst employees about hygiene. |   |
|                      | Low power demand due to national lockdown                                | The Drop in power demand was a short term scenario. The demand is normalising with the relaxation in lockdown and resumption of economic activities.  |   |
|                      | Disruption of supply chain due to national lockdown                      | Ensuring adequate availability and storage of raw material like coal / lignite, oil and critical items with proper planning and co-ordination with suppliers.   |    |
| Market Fluctuations  | Changes in fuel prices and availability                                  | Offset the uncertainty via diversification of fuel and purchase/sale agreements   |     |
|                      | Demand Fluctuations  | Higher or lower growth in annual demand has a moderate short-term impact on the Company's results, given the characteristics of the generation facilities and the structure of the long-term PPAs   |    |
|                      | Changes in price of electricity  | We sell energy through secured long-term PPAs at:<br>i) Regulated tariff<br>ii) Fixed price   |    |
| Financial Risks      | Foreign exchange fluctuations  | Prudent hedging strategies to mitigate the risk of foreign exchange fluctuations  |   |
|                      | Changes in interest rate   | Continuous change in financing mix, including by refinancing and appropriate fixed rate instruments such as Non-convertible Debentures (NCDs)   |   |
|                      | Changes in interest rate<br>Recovery of dues from Distribution Companies | <ul style="list-style-type: none"> <li>Regular follow-up for the overdue payments.</li> <li>Government of India recently announced a mechanism of PFC/REC funding to DISCOMs for payment of dues to Generating companies'/ Transmission companies'.</li> </ul>  |   |
| Regulatory Changes   | Occupational Health and Safety (OHS)                                     | <ul style="list-style-type: none"> <li>Focus on Total Quality Management (TQM)</li> <li>Regular safety trainings for both permanent and contractual employees</li> <li>Medical facilities and health insurance benefits</li> </ul>  |     |
|                      | Environmental norms  | <ul style="list-style-type: none"> <li>Comply to Environmental, Occupational Health and Safety, Energy and Quality Management Systems</li> <li>Adopt energy-efficient and cleaner technologies</li> <li>Promote environmental stewardship</li> </ul>  |   <br>  |
| Operational Risks    | Multi-location manufacturing facilities                                  | <ul style="list-style-type: none"> <li>Make necessary investments</li> <li>Apply essential quality systems</li> <li>Plan and monitor day-to-day functioning</li> <li>Train staff</li> <li>Obtain appropriate casualty and civil liability insurance</li> </ul>  |     |
| Social Risks         | Stakeholder grievances   | <ul style="list-style-type: none"> <li>Regular stakeholder engagement</li> <li>Engagement with local communities through Corporate Social Responsibility initiatives</li> <li>Grievance redressal system</li> </ul>   |      |