

Hexagon Capability Center India Private Limited (HCCI)

Risk Assessment and Management Policy

1. INTRODUCTION

There is risk and opportunity in everything we do. As the environment in which we operate changes, risks and opportunities change. Effective risk management is a means of monitoring those changes.

This document outlines the process involved in conducting a risk assessment and has been designed to better assist HCCI achieve its objectives and contribute to the continuous improvement of its performance.

‘Risk Management’ is the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of uncertain events or to maximize the realisation of opportunities. Risk management also provides a system for the setting of priorities when there are competing demands on limited resources.

Effective risk management requires:

- A strategic focus,
- Forward thinking and active approaches to management,
- Balance between the cost of managing risk and the anticipated benefits and
- Contingency planning in the event that critical threats are realised.

2. RISK MANAGEMENT POLICY STATEMENT

HCCI’s objective is to manage risks to minimise the exposure of itself and its stakeholders to any event, or set of occurrences able to cause adverse effects, while concurrently maximising the efficiency and effectiveness of its operations in accordance with best practice.

HCCI is committed to the management of risk to ensure the protection of its:

- Clients and stakeholders
- Employees
- Business objectives
- Environment
- Quality of service
- Assets and intellectual property

- Contractual and statutory obligations
- Image and reputation

Risk management is regarded as an integral part of sound management practices and must be fully integrated into HCCI's policies, procedures and business plans. It should not be seen, or practiced, as a separate program.

This approach is directed to achieving best practice in balancing the control of risks and maximisation of opportunities to which the HCCI may be exposed.

3. PURPOSE AND SCOPE OF THE POLICY

The main objective of this Policy is to ensure sustainable business growth with stability and to promote a pro-active approach in reporting, evaluating and resolving risks associated with HCCI's business. In order to achieve the key objective, this Policy establishes a structured and disciplined approach to Risk Management, in order to guide decisions on risk related issues.

The specific objectives of this Policy are:

- To ensure that all the current and future material risk exposures of HCCI are identified, assessed, quantified, appropriately mitigated, minimized and managed i.e. to ensure adequate systems for risk management.
- To establish a framework for HCCI's risk management process and to ensure its implementation.
- To enable compliance with appropriate regulations, wherever applicable, through the adoption of best practices.
- To assure business growth with financial stability.

4. APPLICABILITY

This Policy applies to all areas of HCCI's operations.

5. RISK FACTORS

The key risks assumed by HCCI and its Associated Enterprises (AE) in relation to the functions performed are explained below:

Market risk

Market risk arises when a firm is subject to adverse conditions due to either increased competition in the market place, adverse demand conditions within the market or the inability to develop new markets. Market risk also concerns risks such as economic trends, competition and risks related to acquisitions and integrations.



The AE is responsible for approaching and marketing the products/solutions and therefore bears the market risk. The AE's ability to compete in the market environment by introducing new and successful products with enhanced functionality while simultaneously cutting costs on new and existing products is of the utmost importance to grow in the market. Hence, the AE's bear the market risk.

HCCI does not undertake any other entrepreneurial function such as marketing strategy etc. It renders R&D and customer implementation services primarily to its AEs. Hence, it bears limited market risks.

Product development risk

R&D efforts are costly and new product development always entails a risk of unsuccessful product launches or commercialisation, which could have material consequences.

The AEs have invested and continue to invest in new business strategies, products, services, and technologies. Such endeavours involve significant risks and uncertainties, including distraction of management from current operations, insufficient revenues to offset liabilities assumed and expenses associated with these new investments, inadequate return of capital on investments, and unidentified issues not discovered in the due diligence of such strategies and offerings. Hence, all risks associated with the product development are borne by the AE.

Since HCCI renders services on Time &Material basis and is compensated irrespective of the outcome of the R&D carried out, it does not bear any product development risk.

IPR risk

Technology companies own large numbers of patents, copyrights, and trade secrets (referred to as IPRs) and frequently enter into litigation based on allegations of infringement or other violations of IPRs. Infringement disputes can, like disputes in general, be costly and time consuming and may therefore adversely affect HCCI's business.

The AE owns all the IPRs in the products developed by it and is responsible for managing them. Hence it bears and manages IPR risks.

HCCI is only responsible to ensure that the deliverables or services furnished by it do not infringe any patents, copyrights, trade secrets, or other property right of any third party and we do not communicate our IPRs to any unauthorized external sources.

Technology risk

Technology risk arises if the market in which the Company operates in is sensitive to introduction of new products and technologies. Hence, in that case, business units may face loss of potential revenues due to inefficiencies arising from success and failure of R&D activities being carried out.

The AE having invested and being the decision maker in development of products, services and technology, solely bears the risk of technological obsolescence.

HCCI provides service based on the functional specification & requirements provided by AE's. Any project specific technology training is to be provided or enabled by the AE's. Hence, it does not bear the technology risk.

Utilisation risk

Utilisation risk relates to the possibility of non-recovery of fixed costs being incurred. This may happen due to circumstances such as, lack of production, lack of demand, inability to recover prices, etc.

HCCI recruits and plans its resources based on the commitment/requirements/projections provided by AEs. Hence, HCCI bears minimal utilisation risk.

Service liability risk

Service liability risk arises when a company fails to perform accepted standards of services or is negligent in performing the same.

HCCI provides services in accordance with the specifications approved by AEs and is monitored on a regular basis. While the responsibility of meeting delivery, schedule and quality acceptance criteria within a reasonable limit shall rest with HCCI, it bears limited risk for negligence or failure to meet the minimum service levels, as the transactions are between AE's.

Credit and collection risk

Credit and collection risk arises when a customer is unable to fulfil their payment obligations. The credit risk in relation to the services to AE's would be minimal for HCCI. The AE's markets and makes sale to third party customer and bear the credit and collection risk.

Human Capital Risk

The resignation of key employees or failure to attract skilled personnel may have an adverse impact on the Group's operations. Since future success is largely dependent



on the capacity to retain, recruit and develop skilled staff, being an attractive employer is an important success factor for Hexagon Group.

Hence, both HCCI and the AE's bear the risk associated with human capital. However, HCCI continues to offer challenging work environment, competitive compensation, relevant rewards & recognition for high performers, immense learning opportunities in engineering landscape etc. which facilitates in management of human capital.

Regulatory Risk

Hexagon's main markets are subject to extensive regulation. Hexagon's operations may be affected by regulatory changes, changes to customs duties and other trading obstacles, pricing and currency controls, as well as other government legislation and restrictions in the countries where Hexagon is active.

The AE's being market facing entities, accordingly bear the regulatory risk. The Group legal function supports the subsidiaries to manage certain regulatory risks.

HCCI bears the regulatory risk relating to compliance with the applicable Indian laws and regulations – which is continually monitored and complied with by engaging relevant experts at regular intervals to ensure that no risk emerges due to failure to abide by statutes.

Liquidity Risk

Liquidity risk is the risk of not being able to meet payment obligations in full as they become due or only being able to do so at materially disadvantageous terms due to lack of cash resources.

The AE's are responsible for arranging the financial resources to meet all obligations.

Since HCCI is remunerated on Time and Material basis and is fully funded by its AEs it does not bear the liquidity risks.

Financial risk

Financial risks are managed at Group level. The Group Treasury Policy, which is updated and approved annually by the Board of Directors, stipulates the rules and limitations for the management of financial risks throughout the Group. The AE's internal bank coordinates the management of financial risks and is also responsible for the Group's external borrowing and its internal financing.

HCCI's does not bear any financial risk, as the AE's control and manage the financial risks.

Foreign exchange risk

Foreign exchange risk relates to the potential variability in earnings that can arise because of fluctuations in foreign exchange rates. Currency risk is the risk that currency exchange rate fluctuation will have adverse effect on income statement, balance sheet or cash flow.

HCCI raises invoices in US dollars while its functional currency is Indian Rupee. Thus, HCCI bears the risk of foreign exchange fluctuation between the Indian Rupee and the US Dollar – which is monitored continually to minimize the impact of variations.

6. RESPONSIBILITY FOR RISK MANAGEMENT

Generally, every staff member of the Organisation is responsible for the effective management of risk including the identification of potential risks. Management is responsible for the development of risk mitigation plans and the implementation of risk reduction strategies. Risk management processes should be integrated with other planning processes and management activities.

7. COMPLIANCE AND CONTROL

All the Senior Executives under the guidance of the Chairman and Board of Directors has the responsibility for over viewing management's processes and results in identifying, assessing and monitoring risk associated with Organisation's business operations and the implementation and maintenance of policies and control procedures to give adequate protection against key risk. In doing so, the Senior Executive considers and assesses the appropriateness and effectiveness of management information and other systems of internal control, encompassing review of any external agency in this regards and action taken or proposed resulting from those reports.

8. REVIEW

This Policy shall be reviewed as and when required to ensure it meets the requirements of legislation and the needs of organization.