Dolphin Offshore Enterprises (India) Limited

Risk Management Policy

Introduction

Oxford Dictionary defines the term "**risk**" *as a chance or possibility of danger, loss, injury or other adverse consequences*

Risk management is attempting to identify and then manage threats that could severely impact or bring down the organization. Generally, this involves reviewing operations of the organization, identifying potential threats to the organization and the likelihood of their occurrence, and then taking appropriate actions to address the most likely threats.

Paragraph (A) of sub-clause IV of Clause 49 of the Listing Agreement states as under:

"The company shall lay down procedures to inform Board members about the risk assessment and minimization procedures. These procedures shall be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework"

The Ministry of Corporate Affairs, Government of India has also accepted the concept of Risk Management and its relevance to the smooth functioning of the Corporate sector in India and has therefore introduced a specific provision on Risk Management under paragraph (II) (C) of Corporate Governance voluntary guidelines, 2009

(II) (C) Risk Management

i). The Board, its Audit Committee and its executive management should collectively identify the risks impacting the company's business and document their process of risk identification, risk minimization, risk optimization as a part of a risk management policy or strategy.

ii). The Board should also affirm and disclose in its report to members that it has put in place critical risk management framework across the company, which is overseen once every six months by the Board. The disclosure should also include a statement of those elements of risk, that the Board feels, may threaten the existence of the company.

It has therefore become mandatory for the listed Companies to prepare a comprehensive framework of risk management for assessment of risks and determine the responses to these risks so as to minimise their adverse impact on the organisation.

The DOEIL is a Company committed to excellence.

In today's challenging and competitive environment, strategies for mitigating inherent risks in accomplishing the growth plans of the Company are imperative. The common risks of the Company inter alia includes dependence of single customer , competition, contractual nature of business, Monsoon period, Execution and Environmental Risk, financial risk, retention of talent and legal risk.

For managing Risk more efficiently the company would need to identify the risks that it faces in trying to achieve the objectives of the firm. Once these risks are identified, the risk manager would need to evaluate these risks to see which of them will have critical impact on the firm and which of them are not significant enough to deserve further attention.

As a matter of policy, these risks are assessed and steps as appropriate are taken to mitigate the same.

Risk Management and Risk Monitoring are important in recognizing and controlling risks. The entirety of enterprise risk management is monitored and modifications made as necessary.

Risk mitigation is an exercise aiming to reduce the loss or injury arising out of various risk exposures.

The Company adopts systematic approach to mitigate risks associated with accomplishment of objectives, operations and regulations. The Company believes that this would ensure mitigating steps proactively and help to achieve stated objectives.

The Company will be constituting a Risk Assessment and Minimization Committee with functional heads, HSE (MR) and the Company Secretary as members. The Committee will submit its periodical report to the Board about the measures taken for mitigation of Risk in the organisation.

The Company will consider activities at all levels of the organization and the key elements of the Risk Management and Risk Mitigation are:

1) Risk Assessment
(2) Risk Management
(3) Risk Monitoring
(4) Risk Mitigation

Risk Assessment

- Risks are analysed, considering likelihood and impact, as a basis for determining how they should be managed.

- Risk Assessment consists of a detailed study of threats and vulnerability and resultant exposure to various risks.

- To meet the stated objectives, effective strategies for exploiting opportunities are to be evolved and as a part of this, key risks are identified and plans for managing the same are laid out.

Risk Management, Risk Monitoring and Mitigation

In the management of Risk the probability of risk assumption is estimated with available data and information and appropriate risk treatments worked out in the areas of risk such as dependence of single customer ,competition, contractual nature of business ,Monsoon period, Execution and Environmental Risk, financial risk, political risk, talent retention risk, legal risk .

The Risk Management process is aimed at identification, assessment, mitigation, monitoring risks and capturing lessons learnt from pre-bid to execution stage till project close out. The challenges in the form of growing competition, newer geographies, forex variation, claims management and staffing of key manpower are mitigated through specific actions like operational excellence initiatives, alliancing, cost optimisation, increased customer intimacy, compliance with stringent HSE standards, proactive hedge management, strong contract management and talent acquisition and retention.

1. a) **Dependence of single customer.**

   Most of the oil producing countries, the Government owned oil and gas companies have been emerging as the single largest producer of oil and gas. Accordingly, most markets are now dominated by a single customer in that particular market, and India is no exception where ONGCL is the predominant oil and gas producer in India, especially in the shallow offshore fields. High concentration in any single customer exposes the company to the risks inherent associated with such customer.

   b) **Mitigation measures**

   The Company is in the process of developing prudent model for reducing undesirable concentration in a geography, industry, or customer. The quest for diversified activities within the existing realm of overall management after due consideration of the advantages and disadvantages of each activity is consistent with company policy of increasing business volumes with minimum exposure to undue risks. As part of this strategy, the Company is in the process of expanding its business to Middle East.

2. a) **Competition**

   The Indian market had witnessed a substantial increase in international competition from foreign companies in the past few years. Even though, this has been now reduced to some extent on account of improvement in the international market condition, it will take some more time for stabilisation and firming up of rates. However, the recent sharp fall in oil prices may again effect the international market condition.

Another ,significant drawback of the EPC market, which accounts for the highest proportion of revenues for the Company, is that it is a “winner take all” market as the entire contract is awarded to the lowest bidder.

b) **Mitigation measures**

As stated above, it will take some more time for stabilisation and firming up of rates, therefore, for the time being the margin will be under pressure. This reduction in bidding prices has to come from better efficiency in executing work as well as looking at reducing input costs and margins.

The Management is cognisant of this fact, and is taking steps to ensure that input costs, both direct and indirect, are reduced to the maximum extent possible while efficiency parameters are increased to ensure that the Company can be more competitive in winning contracts during the year. The Management is also looking at the possibility of tying with other players in this Industry at the bidding stage to take advantage each party’s strength so as to become more competitive in winning contracts during the year.

3. a) **Contractual nature of business**

Most of the Company’s revenues are now earned on turnkey construction / modification contracts, where the Company is either a main contractor or a subcontractor. This has led to some fluctuations in the year to year revenues, and resultant profits, as revenues can now be recognized only when contracts are completed in total, or specifically identified milestones have been achieved as against a per diem revenue recognition that was possible under the vessel management contracts in earlier years.

The order book position of the Company is also dependent on the schedule and timing of award of contracts by its clients.

This problem is compounded by the fact the Company’s yearend is March 31, which is in the middle of the working season in Mumbai High, which ends around May 31.

Further, the contracts awarded by ONGC are generally for around 12 to 24 months, although in some cases contract completion period has been 36 months. Hence, the order book position and revenue visibility is also weak, especially at year end, as most of the contracts for the new season (i.e. October to May) would be awarded just before or during the monsoon period.

b) **Mitigation measures**

These fluctuations are only expected to be timing difference, which will even out over a period of time. These fluctuations in reported revenues and profits would not affect the overall revenue earning and profit making capacity of the Company.

It may be noted that market conditions in the Middle East and Far East are different, as the oil companies in these markets tend to give contracts for longer durations and their working seasons are different from the Indian seasons. Therefore, by expanding its activities to Middle East countries, the Management is confident that the above fluctuations can be reduced to a great extent.

4. a) **Monsoon period**

There is not much activities conducted at Offshore during the period from May 31 to September 15 every year. As a result, there is not much revenue generation during this period where as the Fixed overhead of the Company during this period remains unaffected.

b) **Mitigation measures**

During the monsoon period in India, market in the Middle East and Far East are very active, therefore, by expanding its activities to Middle East countries, the Management is confident that the above fluctuations can be reduced to a great extent.

5. a) **Execution and Environmental Risk**

These risks relate broadly to the company's organisation and management, such as planning, execution, monitoring and reporting systems in the day to day management process namely:

• Organisation and management risks,
• Execution risks,
• Business interruption risks,

b) **Mitigation measures**

The Company is reducing these risks by:

- continuous improvement in quality of services by implementing total Quality Management by having high quality Human Resources team that promotes.

- giving considerable focus to adherence to PERT charts, targeted dates and commitment to quality in every project and customer feedback is studied with personal interaction with them before, during and after project completion.

- Strict implementation of procedure with regard to :
  Hazard Identification and Risk Assessment for Occupational Health & Safety of employees for all Projects/ Locations/ Offices. – {Pertains to OHSAS 18001-2007 Standards}.

  Identification of Environmental Risks, Study of their Impacts and Control Measures implemented to contain the same. – {Pertains to ISO 14001-2004 Standards}.

The Company has ISO 9001-2008 {through the American Bureau of Shipping (ABS)}; OHSAS 18001-2007 & ISO 14001-2004 {both through Integrated Quality Certification Pvt. Ltd (IQC)} for the following services:

Suggest amend as per **<u>Scope</u>** mentioned in our Certifications as under :

- Diving and Underwater Services.
- Marine Logistics.
- Ship & Rig Repairs.
- Turn Key Projects {Design Engineering, Project Management, Procurement, Fabrication, Construction, Installation and Commissioning of Offshore Oil & Gas Platforms and Structures}.

The Company is committed to take all measures to protect the environment in all its activities, as a social responsibility.

6. **Financial Risk**

(i)a) **foreign exchange rates**

Even though the functional currency is the Indian rupee, the Company transact a major portion of its business in USD/Euro and other currencies and accordingly face foreign currency exposure from our Revenue and from our purchases from overseas suppliers in U.S. dollars and other currencies and are exposed to substantial risk on account of adverse currency movements in global foreign exchange markets.

b) **Mitigation measures**

Exchange fluctuations

The Company risk on account of foreign currency fluctuations through limited by hedging of specific transactions with our Bankers to the extent possible. Our risk management strategy is to identify risks we are exposed to, evaluate and measure those risks, decide on managing those risks, regular monitoring and reporting to management. The objective of our risk management policy is to minimize risk arising from adverse currency movements by managing the uncertainty and volatility of foreign exchange fluctuations by hedging the risk to the extent possible to achieve greater predictability and stability. Without venturing into the speculative aspects of dealing in currency derivatives, we aim to cover foreseeable fluctuations by hedge cover to the extent possible. However, taking a hedge cover towards receivable from the Additional claims is a very difficult task as there is no certainty on the receiving date of these claims. To some extent exposure is further curtailed by awarding payment to key subcontractor on the same currency basis with payment on back to back basis.

ii) a. **Changing laws:**

Changing laws, regulations and standards relating to accounting, corporate governance and public disclosure, Securities and Exchange Board of India (SEBI) rules, and Indian stock market listing regulations are creating uncertainty for companies. These new or changed laws, regulations and standards may lack specificity and are subject to varying interpretations. Their application in practice may evolve over time, as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs of compliance as a result of ongoing revisions to such corporate governance standards.

b. **Mitigation measures**

The Company is committed to maintaining high standards of corporate governance and public disclosure and our efforts to comply with evolving laws, regulations and standards in this regard would further help us address these issues.

Our preparation of financial statements in conformity with Indian GAAP and in accordance with the Accounting Standards issued by ICAI, requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements and the reported amounts of revenue and expenses during the reporting period..

In all contracts with ONGC provision exists for the client to bear the consequences of change in laws other than Income tax.

(iii)a **Risk of Corporate accounting fraud:**

Accounting fraud or corporate accounting fraud are business scandals arising out of

Misusing or misdirecting of funds, overstating revenues, understating expenses etc.

Mitigation measures

The Company mitigates this risk by

- Enforcing and monitoring code of conduct for key executives
- Instituting Whistleblower mechanisms
- Deploying a strategy and process for implementing the new controls
- Adhering to internal control practices that prevent collusion and concentration of authority
- Employing mechanisms for multiple authorisation of key transactions with cross checks
- Scrutinising of management information data to pinpoint dissimilarity of comparative figures and ratios.
- Creating a favourable atmosphere for internal auditors in reporting and highlighting any instances of even minor non-adherence to procedures and manuals and a host of other steps throughout the organisation and assign responsibility for leaving the overall effort to a senior individual.

iv(a) Credit Risks:

- Risks in settlement of dues by dealers/customers
- Provision for bad and doubtful debts
- Risk of cost overrun in the execution of lumpsum turnkey contracts;
- Risk of not receiving timely payments

b) Risk Mitigation Measures:

- Systems put in place for assessment of creditworthiness of dealers/customers.
- Provision for bad and doubtful debts made to arrive at correct financial position of the Company.
- Appropriate recovery management and follow up.
- Undertake projects to the extent possible on receiving payment security in the form of irrevocable bank guarantee / letter of credit

7. a) **Retention of talent**

The employees are the biggest asset of any company, retaining talent is challenging task for companies. The Company's growth will be effected if it cannot retain its best talent.

b) **Mitigation measures**

Human Resources Development (HRD) Department of the Company in consultation with Managing Directors and functional heads ensures that the right person is assigned to the right job and that they grow and contribute towards organisational excellence.

Risk in matters of human resources are sought to be minimised and contained by following a policy of providing equal opportunity to every employee, inculcate in them a sense of belonging and commitment and also effectively train them in spheres other than their own specialisation. Employees are encouraged to make suggestions on innovations, cost saving procedures, free exchange of other positive ideas relating to contract execution procedures etc. It is believed that a satisfied and committed employee will give of his best and create an atmosphere that cannot be conducive to risk exposure.

Employee-compensation is always subjected to fair appraisal systems with the participation of the employee. Packages are inclusive of the proper incentives and take into account welfare measures for the employee and his family.

8. a) **System Risks:**

- System capability
- System reliability
- Data integrity risks
- Coordinating and interfacing risks

b) **Risk Mitigation Measures**:

- EDP department maintains repairs and upgrades the systems on a continuous basis with personnel who are trained in software and hardware.

- Password protection is provided at different levels to ensure data integrity.
- Licensed software is being used in the systems.
- The Company ensures “Data Security”, by having access control/ restrictions.

9. Legal Risks:

These risks relate to the following:

- Contract Risks
- Contractual Liability
- Frauds
- Judicial Risks
- Insurance Risks

Risk Mitigation Measures:

Following are the Risk mitigation measures adopted by the Company to mitigate the risks relating to Legal aspects:

- A study of contracts with focus on contractual liabilities, indemnities, obligations, deductions, penalties and interest conditions is undertaken on a regular basis.
- The Legal department vets all legal and contractual documents with legal advice from Legal retainers for different branches of legislation.

- Contracts are finalized as per the advice from legal professionals and Advocates.

- Insurance policies are audited to avoid any later disputes.

- Timely payment of insurance and full coverage of properties of the Company under insurance.

- Internal control systems for proper control on the operations of the Company and to detect any frauds.

The Company has established a compliance management system in the organisation and Secretary of the Company being the focal point will get the quarterly compliance reports from functional heads and being placed before the Board supported by a quarterly Secretarial Audit report by a practicing Company Secretary in compliance with clause 49 of the listing agreement.

The Company is subject to additional risks related if it goes ahead with its expansion to Middle East countries which include complying with a wide variety of national and local laws, restrictions on the import and export of goods and technologies and multiple and possibly overlapping tax structures. The Company will have to put in place robust process with the help of consultants/counsels where the Company has set up its subsidiary/expand its operation.

For **Dolphin Offshore Enterprises (India) Limited**

Satpal Singh
Managing Director & CEO

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