

RISK MANAGEMENT POLICY

1. Preamble:

Rail Vikas Nigam Ltd (RVNL) is a Public Sector Undertaking specializing in development and execution of railway projects. In the course of its operations, it is prone to business risk in respect of obligations of its clients and its contractors

The risks are varied in nature, and go hand in hand with the business opportunities, and it can never be assured that the Company operates in a totally risk free environment. The scope of this document is to formalize a risk management policy to identify, evaluate and minimize identifiable risks.

The Risk Management Policy shall be periodically reviewed by the Board of Directors, so that the risks are managed and controlled through properly laid down framework.

2. Business Environment and Risk Management Task:

While striving to meet its Corporate Mission and Corporate Objectives, risks and concerns will go hand-in-hand alongwith the opportunities. The Company operates under limiting cost and time schedules.

Similarly, the risk of time overrun has to be balanced against the system of checks and balances. As a part of nation building task, while operating in risky geographical areas, the company's employees and projects are liable to be exposed to risk, and threats to life, liberty and property. These are illustrative potential risk areas. The Risk Management Policy seeks to strike a balance between company's strengths, weaknesses, opportunities and threats on one hand with the real and potential risks on the other hand.

3. The Policy

I. RVNL shall establish documented Risk Management System and assign responsibilities to its employees to take corrective and preventive measures.

II. RVNL shall review the Risk Management System and Upgrade/ revise-the same periodically.

III. RVNL shall strive to increase awareness among its employees and other stake holders about the possible risks and the measures to mitigate and control the same.

4. Roles and Responsibilities:

To implement the above Policy, the following roles and responsibilities are laid down for the Enterprise Risk Management Process:

i. BOARD OF DIRECTORS:

The Board of Directors has the overall responsibility for ensuring that the risks are identified and managed. The role can be undertaken through activities like assessing the risk appetite of the company in line with the overall business environment, and company's objectives, identifying the potential risks and their impact assessment on the on-going and potential projects, development of response strategy to the assessed risks, dissemination of response strategy at the implementation level and its implementation, monitoring and feedback on the risk management effectiveness.

The Board of Directors may delegate the above mentioned activities to the Risk Management Committee.

II. RISK MANAGEMENT COMMITTEE:

Risk Management Committee (RMC), while undertaking the tasks delegated by Board, has to provide assurance to the Board that Risk Management processes are working effectively and the key risks are being managed to acceptable levels. RMC shall perform these functions through following activities:-

- Identification of key risk bearing activities and their gap with respect to the risk potential as compared to best business practices as:
 - minor,
 - significant or critical,
 - substantial or major.
- To set up Control Systems for the risk-assessment.
- To provide guidelines relating to drafting/modifying of Business Operating Procedures, and their documentation.
- To review the risk assessment reports and issue directions for improvements.

Risk Management Committee's mission

RMC's mission is to mitigate the key risks, inherent in the business process; while maintaining the productivity and efficiency. Project Implementing Units (PIUs) can rely upon RMC as a troubleshooter for any potential risk management/mitigation. In performing this function, the RMC will undertake the following activities.

- Identify processes and associated risks in the business process, in association with Chief Project Managers (CPMs).
- To identify and suggest newer methodologies for measuring and managing risks.
- To coordinate with finance and/audit to continually verify data for operational losses.
- To play an active role along with CPMs in designing the standard operating procedures

Procedure for implementation and monitoring of Risk Management Policy

The RMC will guide the CPMs in implementing the Risk Management Policy, monitor its implementation in everyday activities of their respective Project/Division, giving feed back to Board of Directors about the Risk Management of the ongoing operations, and potential risk areas. -

The Corporate Procedure Manuals, to be established by each unit in Corporate Office and by each CPM should be in line with the Risk Management Policy.

Internal Audit:

Internal Audit, as a part of annual Internal Audit Programme, will monitor the implementation of Risk Management Policy. It will assess:

- Whether Risk Management Plan(s) is(are) in place for the functions being audited
- Risk Management Plan(s)
 - is appropriately integrated with other planning documents, so as to lead towards achieving Corporate Objectives,
 - is current in its relevance and reviewed on regular basis.

5. Documentation and Monitoring:

A documentation system shall be laid down for setting up a monitoring and feedback mechanism as above.

ENTERPRISE- WIDE RISKS

- 1) Sub-optimal project selection
 - Sub-optimal project selection refers to the risk of not selecting projects with the best potential risk/reward ratios.
- 2) Contractual Risk
 - Contractual risk refers to the risk of having sub-optimal or erroneous clauses in the contract which could potentially compromise interests and/or provide unintended options/exit routes to other parties.
 - Contracts can be used to build the relevant amount of protection required for market and operating conditions. Various contractual obligations should address the project's operating risk characteristics and mesh with other project contracts. The project's contractual structure should protect RVNL's interests through contracts that encourage the parties to complete project construction satisfactorily and to operate it competently. For each project, RVNL primarily enters into contracts with:
 - a) Client (including concession agreements)
 - b) EPC Contractors/Sub-contractor(s)/Suppliers
 - c) Project Management Consultants (PMCs)
 - d) Consultants
- 3) Legal Compliance Risk
 - Legal risk arises due to inadequate knowledge of implications local, national, foreign laws on various clauses incorporated in the contract.
 - Compliance risk arises due to non-compliance of various local, national, foreign laws.
- 4) Risk of delay in project completion
 - This risk refers to the consequences of non-completion of the project by the contracted/ agreed due dates. These consequences may range from arbitrations, litigations, loss of reputation etc. It is to be noted that delays beyond the extension granted by the client are covered within the scope of this risk.
 - In complete specification of scope of project leading to time and cost over-runs.
 - Risk related to Govt. regulations & policies on land acquisition. There may be difficulty in acquiring land due to people's protest and non acceptance of either land acquisition notification or the compensation. Displacement will be a major issue.
 - Delay in timely approvals and clearances by Railway administration.
- 5) Escalation of project costs risk
 - This risk of actual project costs exceeding the budgeted project costs is covered here. The budgeted project costs refer to those which have been used in the pricing/ bidding process.
- 6) Improper contractor selection risk
 - The risk of sub-optimal selection of the contractor is covered here. Sub-optimal selection implies selection of contractors with a higher probability of failure.

- 7) Improper supplier selection risk
- The risk of suboptimal selection of the suppliers is covered here. Suboptimal selection implies selection of suppliers with a higher probability of failure.
- 8) People Risk
- People risk is related with the understanding the needs of the employees and aligning it to organizational goals. Organizations need to appreciate that the HR function plays a significant role in this globally competitive marketplace and therefore there is a greater need to evolve it. This risk refers to the inadequate staffing in terms of number or skill sets for the work on hand or for projected or contingent work.
 - Risk relating to staff at worksite.
 - Risk of effect of construction activity on train operation and vice versa.
- 9) Information Technology Risk
- Information technology risk may be described as the risk of Failure of hardware, Failure of software or Failure of the network.
 - IT risk may result in Loss of data, decline in ineffectiveness of management controls, Delay in achieving milestones or Decline in operating efficiency.
- 10) Sovereign risk
- Sovereign risk refers to the unanticipated change of laws or adhoc measures adopted by the government of a country resulting in denial of expected/ contracted privileges\
- 11) Environment Risk
- Relates to infringement of environment related issues.

1.0 PRELIMINARY ACTIVITIES

1.1 Pre-project activities, advance action and project planning after award of work

1.1.1 Bankability Study : - Traffic Plan - IRR
- O&M Cost - Sensitivity analysis

1.1.2 Pre-project activities should target to accomplish the following:

- Planning – to include obtaining approval of drawings/ layouts/ specification, freezing of plans
- Formalizing operational procedures and timelines for obtaining blocks from railway authorities. Signing written confirmation (MOU) with the

- o divisional/zonal railway
- o Delegation of adequate powers for execution of project..
- o Establishing a mechanism for dealing with contingencies.
- o Establishing the required pre-mobilization environment including obtaining necessary permits/ licenses and compliance with the regional / national laws.
- o Conducting necessary surveys, benchmarking and other critical technical/ engineering actions as necessitated for project execution.
- o Starting the mobilization process by identification of resources and issuing the requisite orders.
- o All problems/ deviations encountered at this stage should be brought to the notice of Functional heads including finance and the risk management group for impact analysis on project timelines, costs and revenues.

1.2 **Project organization and Staffing**

- Building the project team.
- Preparation of detailed organization charts.
- Preparation of detailed staffing requirements including level and duration of involvement of all key personnel.
- Preparation of contingency plans for staffing in case of failure of sub-contractor(s). The contingency plans would reveal the level of pressure RVNL would have to face in case of failure of sub-contractors. The discovery of contingency staffing requirements would help in proper selection of sub-contractors for critical works

2.0 **CONTRACTING**

2.1 **Evaluation of Contractor**

- The criteria for evaluation of contractors should take cognizance of:
 - o Technical capability of the contractor.
 - o The financial strength of contractor.
 - o Past track record.
 - o On-going projects

2.2 **Preparation and issue of contract document.**

- Standardized format(s) for tenders which are developed in consultation with Legal experts.
- All critical contractual terms in the tender should be in accordance to a standardized format.
- The tender should clearly mention in a logical order all technical details of work required to be done.
- The tender should clearly state the process of -bidding, amount of guarantees, earnest money required and the manner of award of contract.
- All critical clauses aimed at managing risk such as those related to dispute solving mechanisms, liquidated damages, jurisdiction, price

variation clauses (if any) etc. should be clearly detailed.

3.0 VENDORS

3.1 Evaluation of Vendors

- The criteria for evaluation of vendors should take cognizance of:
 - Capability of the vendor to supply to the specified quantity of the required items and in accordance to the specified quality parameters.
 - The financial strength of vendor, especially in the case of high-value contracts.
 - Past track record

3.2 Preparation and issue of purchase/tender.

- Standardized format(s) for tenders which are developed in consultation with legal experts.
- All critical contractual terms in the purchase order/ tender -should be in accordance to a standardized method. The purchase order/ tender should clearly mention in a -logical order all technical details of items required as well as the schedule of supply.
- The purchase order/ tender should clearly state the process of bidding, amount of guarantees, earnest money required and the manner of award of contract.
- All critical clauses aimed at managing risk such as those related to
- dispute solving mechanisms, liquidated damages, jurisdiction, price variation clauses (if any) etc. should be clearly detailed

4.0 EXECUTION STAGE

4.1 Construction activities

- Construction activity should involve the following core elements:
 - Adequate delegation of powers
 - Establishing contingency plans including establishing mechanisms/ procedures/ process by which the project team in consultation with the key officers of the corporate office can effectively deal with contingencies such as failure of subcontractor, supplier, delays by the client, inadequate staffing, plant and machinery etc.
 - Project execution and supervision as per plans. Continuous monitoring of project for timely completion.
 - quality control
 - All problems, deviations encountered at this stage should be brought to the notice of Functional heads including finance and the risk management group for impact analysis on project timelines, costs and revenues.
 - During construction, tracking of actual cash flows and comparison with estimates prepared at various earlier stages of the project. The

reasons for divergence should be noted.

- Active participation by core project team in early dispute resolution with subcontractors and suppliers.
- Finalization of accounts, closing of contracts and preparation of completion reports

5.0 Other factors

- Time/Cost overruns

6.0 HUMAN RESOURCE MANAGEMENT

6.1 Recruitment Policy

- The Human Resource Department is responsible for attracting, recruiting and retaining good talent and developing healthy and professional environment. The Recruitment Team should:
 - Develop a detailed Human Resources Plan annually
 - Draw a forecast of new positions to be filled in the upcoming year based on the trend of Attrition and Superannuation in addition to requirements towards new projects.
 - Develop job descriptions in line with new roles and new job areas

6.2 Training policy

- Company needs to have Comprehensive training program, based on scientific and dynamic training needs analysis to mitigate the risks on account of:
 - Rapid changes in technology and best work practices, and level of newly recruited professionals.