

Risk and Governance



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Reliance's Risk Management Framework was stress tested by the black swan event and the business outcomes are encouraging.

The Group's motto, '**Growth is Life**', aptly captures the ever-evolving spirit of Reliance. It also presents multiple **opportunities and risks** that are managed through the robust Risk Management Framework. The framework helps the Group identify, assess, respond to and monitor, on a real-time basis, risks that impact business objectives.

Risk management is an integral component of the Reliance Management System. Effective risk management with enhanced use of technology has improved the quality of business decisions.

Enterprise Risk Management at Reliance

Global events have challenged nearly every company, leading to a rethink of assumptions and adaption of strategies to a new operating environment that involves managing major risks with a renewed focus on the safety of people. At Reliance, the Risk Management Function, enabled by the effective use of new technologies, has enhanced the organisation's readiness in responding to COVID-19.

The Company has a well-established "**Three Lines of Defense**" approach:

- 1 Business/Process Managers (Self-verification, first line of defense)**
- 2 Risk Management Function (Functional Assurance, second line of defense)**
- 3 Internal Audit and Management Assurance Function (Independent Assurance, third line of defense)**

The framework and related processes seek to maximise business outcomes by allowing the management to:

- Understand the risk environment and assess the overall potential exposure
- Determine risk mitigation strategies
- Allocate resources and actively manage those risks
- Monitor the effectiveness of risk management – across the value chain and all the way up to the Board

The Company is prone to the following categories of risk:

Strategic and commercial risks

Health, safety and environment risks

Compliance and control risks

Financial risks

These risks, either separately or in combination, could have a materially adverse effect on the implementation of Reliance’s strategy, its business, financial performance, results of operations, cash flows, liquidity, prospects, shareholder value and returns, and reputation.

Governance Framework

Reliance’s Risk Management Framework is designed to be a simple, consistent and clear framework for managing and reporting risks from the Group’s operations to the Board. The **Board provides oversight** through various Risk and Executive Committees listed below:

<p>The Board Committees</p> <ul style="list-style-type: none"> ▶ Risk Management Committee ▶ Audit Committee ▶ Stakeholders’ Relationship Committee ▶ CSR and Governance Committee ▶ Finance Committee ▶ HR, Nomination and Remuneration Committee ▶ Health, Safety and Environment Committee 	<p>Executive Committees</p> <ul style="list-style-type: none"> ▶ Group Operational Risk Committee ▶ Group Financial Risk Committee ▶ Group Audit & Disclosure Committee ▶ Group Compliance Committee ▶ Group People Committee 	<p>Business Risk and Assurance Committees (BRAC), which meet on a monthly basis for Business and Strategic Risk Management</p> <hr/> <p>Business and Functional Leaders: Functional assurance and monitoring on an on-going basis and weekly LOD meetings</p>
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The cadence of governance meetings, including weekly meeting of the three lines of defense, reinforces early identification of a new risk and its mitigation.

For understanding the Company’s corporate governance and functioning of the Board and details on Internal Controls, please refer to the Board’s Report and Corporate Governance Report

The Risk Management Framework covers risk management activities at three levels:

1

Day-to-Day Risk Management

This includes identification and mitigation of risks by the management and staff at Reliance’s entities, assets and functions. This is executed as an embedded component in the Operating Management System, Financial Management System and People Management System.

2

Business and Strategic Risk Management

This is executed by business, function and Group leadership. It also results in integration of risks with key business processes such as strategy, planning and execution, performance management and resource allocation.

3

Oversight and Governance

The Board, Executive Committees, Group and functional leadership provide oversight to the identification and management of the most significant risks and are also responsible for improving the Risk Management Framework and ensuring compliance.

RISKS AND RESPONSE

STRATEGIC AND COMMERCIAL RISKS

Commodity Prices and Markets

Risk Description

The risk arising out of COVID-19 – from social distancing, national lockdown, uncertainty in environment, demand contraction, government intervention (ranging from encouraging certain businesses to indirect stoppage of goods and services) – has overshadowed the entire year.

External market conditions, in particular; prices of crude oil, natural gas and downstream products have a direct impact on RIL's financial performance. These prices are affected by supply and demand, both globally and regionally. Factors that influence fluctuations in crude prices, crude availability and that can have an impact on margins include operational issues, natural disasters, political instability, including geopolitical risks, economic conditions and aggressive pricing by competitors. Stringent recycling norms and government regulations can reduce plastic consumption.

Government restrictions on account of the COVID-19 pandemic could affect smooth operation of business activities, store operation, and expansion. Reliance's inability to build infrastructure at a pace and scale needed by the rapidly growing Retail business could hinder operational efficiency and demand fulfilment.

Risk Response

Since RIL operates an integrated O2C business, some of these risks in one part of the business are offset by gains in other parts of the Group's integrated O2C business.

RIL exports its products to diverse geographical locations so that the risk of non-evacuation is mitigated with minimal adverse effect. The Company increased the usage of multimodal logistics (including coastal) to fulfil its contractual commitment to customers. The Company operated at near full throughput even during the lockdown period.

The risk of non-availability of crude and feedstock is actively managed by sourcing crude from multiple geographies using short-term and long-term purchase contracts. As OPEC and other producer countries implemented a coordinated production cut, RIL diversified its feedstock supply sources to ensure adequate and timely availability of feedstock. It also increased Straight-run Fuel Oil (SRFO) sourcing to mitigate risk of lower availability

of heavy crude oil. Reliance has a robust Commodity Risk Management Policy and Framework that enables hedging the exposures arising from commodity price fluctuations, such that the risks remain within acceptable levels.

In its downstream business, RIL explored new opportunities for manufacturing surgical gowns, PPE, masks, testing-swabs for medical application. RIL is advocating in favour of the environment on the basis of life cycle studies of plastics vs alternatives, and is focusing on plastic waste collection and disposal, increasing recycling footprint in the country.

Reliance Retail undertakes regular assessment of emerging risks and opportunities and has implemented necessary steps in securing its people and business in the volatile and uncertain operating environment posed by COVID-19.

Decisive actions were taken by the business to adapt and strengthen

its operating models by activating digital commerce platforms and strengthening omni-channel capabilities.

The business made steady progress in bringing New Commerce to life by extending partnerships with merchants and becoming their trusted partner.

Proactive steps were taken to engage with customers through initiatives such as distance selling, store on wheels, pop up stores among others to ensure customers are served well in the most difficult times.

With operating curbs lifted progressively, thrust on expansion continued as the business opened new stores across geographies and maintained its pace and scale of growth.

Customer Experience and Retention

Risk Description

Digital Services now has over 426 million customers on the back of an innovative customer acquisition strategy. Along with the expansion of its current customer base, customer retention and experience are of utmost importance to generate sustainable business performance and return on investments. The business needs to continuously deliver differentiated customer experience to proactively mitigate any risks that may weaken its value proposition, brand and customer loyalty.

Reliance Retail operates in the consumer sector and a slowdown in macro-economic growth and weak consumer sentiments and spending could have a bearing on its performance. In a fast-changing external environment, with evolving customer preferences and shopping habits, inability of the retail business to stay abreast of these trends and behaviours could weaken its compelling value proposition and offering for customers and overall customer experience.

Risk Response

Digital Services sustains its customer value proposition through continuous innovation on products/service offerings, considering the needs of various customer segments and affordability. It makes continual investments in operational excellence and network infrastructure to deliver superior customer experience. Through its Prime Membership Program, the Company offers the most competitive monthly tariff plans in the industry, apart from offering attractive deals, thereby ensuring customer retention and loyalty.

Digital business has swiftly taken multiple steps for superior customer experience, including multiple

options to its customers for mobile recharges, scaling up virtual call centres for customer support and resuming store operations with the lifting of the lockdown. It enhanced network capacity for better indoor coverage and, above all, has been continuously driving improvement in the quality of service. The Company continues to develop new products and services on the back of next generation technologies such as AI, IoT and 5G networks.

Reliance Retail continuously undertakes market study to stay abreast of the emerging trends and implements proactive measures to ensure that the customer promise

is delivered. It continues to drive consumption in emerging categories resulting from evolving customer preferences and shopping habits, thereby enabling sustained demand across businesses.

Focus on developing own brand portfolio in categories such as health and immunity boosting food in Grocery, productivity devices and appliances in Consumer Electronics, serving 'at home' lifestyle through re-curation of range in Apparel are some of the ways in which business has kept pace with changing consumer habits.

Data Privacy Risk

Risk Description

Due to COVID-19, the companies are collecting personal information about the medical condition of employees, vendors and other visitors to their premises. Reliance is required to comply with statutory, regulatory and contractual restrictions with respect to the collection of data, its storage, its security and dissemination to manage data privacy risk.

The Government introduced the Personal Data Protection Bill, 2019 (PDP 2019) in Parliament, which would create the first cross-sectoral legal framework for data protection in India. Currently, the data privacy requirements are governed by the Information Technology Act 2000, amendment 2008.

Citizens and governments across the globe continue to face data breaches and scandals. This has transformed the way citizens, governments and organisations think about data privacy globally. Data privacy laws and societal expectation are increasing the imperatives to protect personal information of individuals.

Risk Response

Reliance continues to ensure that privacy principles are enshrined in the organisation and its services. Since Reliance is also involved in providing health support during the pandemic to both employees and society at large, the data privacy requirements as per the law are tightly integrated

into business processes and utmost care is taken to validate these regularly. Enhanced practices are in place to ensure protection of personal data while sharing it with third parties. Identified applications that store personal data are adequately secured. Besides, data privacy

awareness campaigns are conducted on an ongoing basis. Reliance is fully compliant with the existing Indian privacy laws and is gearing up to adopt requirements of the anticipated Indian PDP Bill, 2019.

Cybersecurity Risk

Risk Description

COVID-19 made it imperative for the organisation to embrace certain practices, including social distancing, remote working and all these, in turn, led to significant dependence on and increased usage of digital technologies. Reliance continues to focus on large scale digital transformation/adoption of technology across its Retail business. A digital security breach or disruption to digital infrastructure caused by intentional or unintentional actions, such as cyber-attacks, data breaches or human error, could have a serious impact on business. This impact could include loss of process control, impact on business continuity or damage to assets and services, harm to the environment, loss of sensitive data or information, legal and regulatory non-compliance, reputational damage as well as revenue loss.

Risk Response

The Company subjects its networks and systems to security penetration tests on a continuous basis. Reliance invests significant resources to ensure cybersecurity resilience and data protection. Periodically, independent assessments are carried out to validate and improve resilience to cybersecurity attacks. These encompass technical security controls, secure operational

processes, cybersecurity incident monitoring mechanisms, disaster recovery controls and trained manpower. Cybersecurity controls are ensured at design stage through its integration with DevSecOps. Reliance's cybersecurity measures are aligned to the growth and diversification of the Company. Reliance's Hydrocarbon and Digital businesses are now re-certified with

ISO 27001 security benchmark and Reliance Retail is now re-certified with the global PCI DSS 3.2 (Payment Card Industry Data Security Standard). Reliance exchanges cybersecurity intelligence with industry peers and government bodies. Cybersecurity awareness training and tests are conducted for every employee and partner.

SAFETY AND OPERATIONAL RISKS

Health, Safety and Environmental (HSE) Risks in Operations

Risk Description

HSE risks include the effects of natural disasters (floods, earthquakes, among others) and safety lapses on human capital. The nature of Reliance operations exposes the Company, its employees and the society, to a wide range of health, safety, security and environment risks due to the geographical location and technical complexity of operations. Various HSE regulations across geographies regulate Reliance's business of Exploration & Production of oil and gas, and their further refining and downstream processing. HSE risk in retail extends to food safety.

A major HSE incident, such as fire, oil spill and security breach, can result in loss of life, environmental degradation and overall disruption in business activities.

Risk Response

Oil to Chemicals (O2C) business poses risks inherent to Oil & Gas operations involving fire, explosion, spills and chemical releases. With an endeavour to mitigate these risks throughout the operating life cycle, robust practices are embedded to manage Safety and Operational risks across the business entities.

HSE risks, including process safety, are identified through a systematic risk assessment programme starting from project ideation, design, commissioning, normal operations

up to the decommissioning phase. Advanced risk assessment techniques are applied to assess the HSE risks periodically, recognise emerging risks and embed appropriate controls. Reliance facilities have employed inherently safer design strategies and state-of-the-art controls in the hazardous processes that reduce vulnerability of these facilities to HSE incidents. These risks are owned and actively managed at asset-facing level. Every member of the workforce is communicated on the potential

exposure to these risks and they are an integral part of risk management.

During the year, the industry has faced challenges in managing the health of personnel, supply chain, competent resources to manage hazardous facilities and adherence to practices for managing health of assets. Reliance has proactively reached out to industry peers, industry forums and have actively participated in industry efforts like 'Reflections from global process safety leaders during and following pandemics' by the

Health, Safety and Environmental (HSE) Risks in Operations

Centre for Chemical Process Safety (CCPS) for mutual learnings. The Company has actively learnt from external HSE incidents in the industry and strengthened its systems and processes. Guidelines and advisories on 'Health and Safety management during pandemic' have been promptly developed and deployed, considering the new-normal conditions. Reliance's central technical teams have been agile in engaging with various expert groups to timely facilitate resources to the sites for troubleshooting, maintenance and oversight to ensure that there are no deviations in HSE practices.

The Company has taken multiple steps with respect to employees including work from home,

bio-bubbles at manufacturing locations, AI monitoring of behaviour, health monitoring, medical support via online daily symptom check and remote doctor consultation and tie-ups with private hospital chains to ensure medical facilities are available for Reliance employees and their family. Suitable online programmes were organised to keep morale high and ensure the mental well-being of employees. Reliance has ensured required technical competencies were always available to operate and maintain its facilities. Dynamic risk management actions were devised in its operations as the scenario progressed during the pandemic, enabled by digitally connected technology. Risk assessments and oversight activities

like process monitoring, HSE auditing and safety reviews were seamlessly supplemented by remote collaboration digitally. For Grocery business, food safety checks have been implemented to provide multiple layers of assurance, thereby ensuring safety of consumers.

Reliance has initiated digital safety platform activities underpinned with Industry 4.0 technologies like Big data and predictive analytics, Machine Learning, Artificial Intelligence and IoTs. With digitisation, there will be real-time access of information to management and asset facing personnel for timely intervention and to make safety critical decisions proactively.

Safety and Environmental Risks During Transportation

Risk Description

With most of the crude being supplied to RIL by sea vessel, and the overwhelming majority of refined products being exported by sea, road and pipeline, the Company faces the risk of HSE incidents, oil spills and so on, leading to disruption in business activities.

Events like technical integrity failure, natural disasters, extreme weather, human error and other adverse events or conditions could lead to loss of containment of hydrocarbons or other hazardous materials, as well as fires, explosions or other personal and process safety incidents.

RIL is operating a fleet of tugs, port service vessels and operations of port and terminal infrastructure and is exposed to a complex and diverse range of marine risks, with respect to exploration vessels, oil tankers, chemical tankers, gas tankers, and dry cargo vessels.

Risk Response

RIL has a strong vessel vetting, incident monitoring and emergency response system.

RIL's augmented ship vetting programme ensures, the vessels that are contracted to carry RIL Cargo are screened based on risks prior to their induction. The third party ship vetting system based on extensive data analysis narrows the risk arising,

in case physical inspection of vessels is not carried out due to COVID-19. Vendor management audits are carried out at prescribed intervals for time charters and STS service providers in accordance with the Marine Assurance Framework.

RIL's control framework for road transportation has matured over a period of time and is run in

collaboration with contractors. The contractors are supported by the Company through capacity building for their drivers in areas such as defensive driving, route hazard mapping and real time tracking. A dedicated state-of-the-art emergency response centre provides emergency response to transporters.

Physical Security and Natural Calamity Risks

Risk Description

Due to the geographical presence of sites and nature of its business operations, Reliance is susceptible to hostile acts such as terrorism, vandalism, shoplifting or piracy which could harm the Company's people, property and disrupt its operations. Some of Reliance's sites are subject to natural calamities such as floods, cyclones, lightning and earthquakes.

Some of the network locations, offices, employees and other ecosystems are subject to various forms of intentional or natural disruptions, thereby impacting network availability, customer experience, restoration cost and efforts.

Failure to respond quickly or to be perceived as not responding fast enough in an appropriate manner to either an external or internal crisis, could disrupt the Company's business and operations severely and also damage reputation. The impact of such disruption can severely impact business and operations if the Company is unable to restore or replace critical capacity to the required level within the necessary timeframe.

Risk Response

Global Corporate Security (GCS) a dedicated and distinct function of RIL, de-risks, safeguards and secures the Company. It maintains best-in-class detailed disaster recovery, crisis and business continuity management plans to respond to natural calamities, and any disruption or incident.

The businesses are provided assurance on an ongoing basis by GCS with respect to the management of security risks affecting its people, assets and operations. It actively monitors the threat landscape to prevent/mitigate risks using cutting-edge technology solutions, seamlessly deployed as a digital-physical managed service on a platform-based approach. Real-time

situational awareness has been enhanced and speedy response mechanisms are put in place at critical locations. Regular mock drills/ exercises are conducted, with all the stakeholders for checking the efficacy of the same.

Additionally, risks pertaining to digital services are uniquely mitigated through integrated response that is facilitated by various teams such as security, customer services, corporate services, network maintenance and the local geographical offices to keep the networks functional, thereby safeguarding Company assets, people security while maintaining customer experience.

Security & Loss Prevention (SLP) proactively supports in reducing pilferage, theft and losses to enable higher business profitability and mitigating risks at Reliance Retail. It is enhanced with a prudent mix of physical security, remote surveillance and data-based audit interventions to foster a safe and secure environment and to protect assets 24X7.

RIL is rolling out an integrated security platform with wide area high-end sensors, seamless electronic communication and AI-based analytics across the enterprise.

COMPLIANCE AND CONTROL RISKS

Regulatory Compliance Risks

Risk Description

Increased regulatory scrutiny has raised the bar on regulatory compliance. This requires alignment of corporate performance objectives, with regulatory compliance requirements. COVID-19 has led the government to announce a range of notifications which companies need to adopt swiftly and effectively.

Risk Response

Reliance has adopted a digitally-enabled comprehensive compliance management framework. It is updated at regular intervals, and is integrated with business processes, risks and controls. Changes in regulations including COVID-19 induced changes are also tracked and integrated within the

Reliance Compliance Management System. The responsibility matrix is cascaded down to a single point of responsibility. Apart from assurance through Three lines of defense, compliances are also periodically monitored at the Group Compliance Committee level.

The Company's code of conduct, training as well as focus on ensuring 100 % compliance and continuous monitoring have enabled a mature, digitally-enabled compliance framework.

FINANCIAL RISKS

Treasury Risks

Risk Description

Treasury risks include, among others, exposure to movements in interest rates and foreign exchange rates. Following is the summary of key risks faced by Reliance:

Liquidity Risk

At the onset of the COVID-19 pandemic, liquidity across markets initially tightened. However, across markets, central banks almost immediately pressed into action and significantly eased monetary and credit conditions.

Interest Rate Risk

Reliance borrows funds from domestic and international markets to meet its long-term and short-term funding requirements. It is subject to risks arising from fluctuations in interest rates. As central banks maintained easy and accommodative monetary policies, interest rates across the world dropped very sharply.

Foreign Exchange Risk

Reliance prepares its financial statements in the Indian rupee, but most of the payables and receivables of the Hydrocarbon business are in US dollars, minimising the cash flow risk on account of fluctuations in foreign exchange rates. Reliance avails long-term foreign currency liabilities (primarily in USD, Euro and JPY) to fund its capital investments. RIL also avails short-term foreign currency liabilities to fund its working capital.

Rupee depreciated sharply against the dollar during the first quarter. However, it soon reversed its trajectory completely and went on to close the year ~3% stronger.

Risk Response

As liquidity conditions eased out, Reliance raised ₹24,955 crore of Rupee debentures in the 3 - 5 year tenor to add to its already existing liquidity buffer in 1Q FY 2021. Capital flows received in FY 2020-21 by way of the Rights Issue and stake sale in Digital and Consumer Retail businesses strengthened RIL's liquidity position further. The Company continues to maintain

sufficient liquidity buffer to meet additional demands that may emerge on account of the COVID-19 crisis.

Interest rate risk is normally managed actively through financial derivative instruments available to convert floating rate liabilities into fixed rate liabilities or vice-versa. In FY 2020-21 Reliance benefited significantly on account of the ultra-low interest rate environment

as a large part of its borrowings are floating on short-term benchmark rates.

Foreign exchange risk arising from the mismatch of foreign currency assets, liabilities and earnings is tracked and managed within the internal Risk Management Framework and rules that are dynamic to market changes.

Insurance – Risk Mitigation

Reliance maintains insurance cover for properties on All Risk basis, including against Act of God perils (flood, earthquake, cyclone, tsunami etc.), business interruption and third party liability. The Company covers the properties on full sum insured basis on replacement value. It also maintains various other types of insurance, such as Erection All Risk for its major capital expenditures projects, Directors' and officers' liability, transit cover, charterers' liability cover and employee benefit insurance policies. The scope of coverage, insurance premiums, policy limits and deductibles are in line with the size of the company and its nature of business.

Leading Edge Technology – Governance, Risk, Compliance and Audit (GRCA 2.0) Platform

A robust ERP system, data analytics capabilities and GRCA tools are used for risk management. Reliance has transformed risk management during the year to enable **real-time risk monitoring with the launch of the GRCA 2.0 Platform**. GRCA is an in-house development on **open source technology** that fosters real-time actionable dashboards that enables real-time risk assessment and its mitigation. It is scalable and agile.

The Future Ahead

COVID-19 has been one more litmus test for resilience and adaptability. Based on the deep culture of risk management built over the past years, and supplemented with strong cadence-enabled governance, Reliance has a matured Risk Management Framework enabled by technology. Reliance's risk management is agile for course correction in the VUCA world, including dealing with upside risks. Recovery of economic activity and the consequent demand rebound as vaccination programmes reach scale in various countries will result in a more favourable environment.