BLUE STAR

GOVERNANCE, RISK & COMPLIANCE MANAGEMENT FRAMEWORK

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1) Introduction

Contemporary developments in the space of Governance, Risks and Compliance are increasing the need for conscious planning, initiatives and allocation of the resources by the organizations world-wide to create resilience against the exposures and sustained business growth in the long term. To meet these objectives, organizations need policies and processes to promote best governance protocols to inculcate a robust culture of compliance and risk mitigation. In the light of aforesaid, Blue Star has adopted broad range of Governance, Risk and Compliance (GRC) policies, practices and processes to meet the requirements of the stringent regulatory environment, increasing business complexities and enhanced focus on accountability. As these processes are interdependent, when orchestrated in a well synchronized manner, will enhance the economic value for all its stakeholders and enable sustainable growth for Blue Star in the long term.

2) Objective

The objective of this framework is to enhance organizational effectiveness by integrating processes and components of GRC at Blue Star, removing overlaps and redundancies, maintaining regular oversight thereon and carrying out timely course correction. The framework also sets out Blue Star's approach to governance, risk & compliance in an integrated manner to ensure the delivery of its strategic objectives and lay out a cohesive framework where all the governance related initiatives are monitored more objectively and at a regular frequency.

3) Scope

This framework implies implementing the governance/corporate policies in a manner that they produce the desired outcomes and evaluating the impact on business performance. This framework also considers all the GRC components as a group and therefore serves as the group governance framework in terms of the Kotak Committee recommendations on SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

4) Applicability

This framework shall be applicable to Blue Star Limited, it's subsidiaries and Joint Ventures, to all the custodians, key stakeholders, committees as defined under this framework and the Employees wherever applicable.

5) Definitions

a) Committee refers to the committees formed by the Board under the Companies Act 2013 and LODR regulations 2015 and includes the Ethics Committee and Executive Management Committee.

b) Custodians refer to the identified people/personnel who are responsible to administer, track and keep a record of the Policies/SOP assigned to them.

c) GRC Committee refers to the committee formed under this framework and is responsible for the implementation and the smooth functioning of the GRC framework at Blue Star.

d) Policy refers to the internal corporate policies as published and amended by Blue Star from time to time.

e) Risk refers to any kind of risk included but not limited to economic risk, business continuity risk, compliance risk, financial Risk, reputation risk, operational risk, etc as detailed in Risk Management Policy of Blue Star.

6) Integration of Governance, Risk & Compliance (GRC) components

Blue Star has a wide range of monitoring tools in form of policies, procedures and SOP's in place falling under different categories. Through this GRC framework the Company aims to integrate these monitoring tools to create a strong mechanism.

Blue Star currently has a broad governance framework comprising of the following components:

a.   Internal Financial Control (IFC)
b.   Enterprise Risk Management (ERM)
c.   Internal Audit (IA)
d.   Ethics & Compliance
e.   Environment, Health & Safety

Blue Star aims at achieving an integrated framework as depicted below:
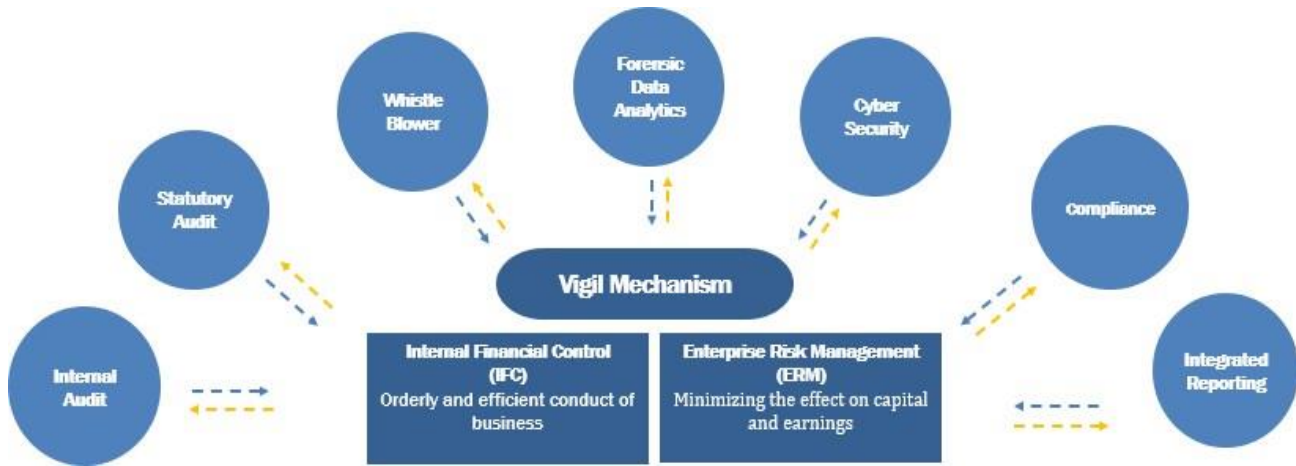
Integration of each component mentioned above where output of one component serves as an input to another component will not only help to create a holistic approach towards governance but also facilitate continuous control monitoring and a robust Integrated Mechanism removing redundancies if any. GRC Framework followed at Blue Star is listed out in the table below:

GRC components	Policies & Practices for monitoring specific areas	GRC Custodians	Governance Structure	Key Stakeholders
Internal Audit	Annual Internal Audit Plan	Senior GM - CFS / GM - Head – P2P and Internal Controls	Audit Committee	Board/Audit Committee/Statutory Auditors
IFC	Delegation of Authority Matrix	Group CFO, Senior GM - CFS / GM -Head - P2P and Internal Controls	Audit Committee	Committees/Employees
	Control Self Assurance	Group CFO, Senior GM - CFS / GM -Head - P2P and Internal Controls	Audit Committee	Board/Audit Committee
	IFC testing	Group CFO, Senior GM - CFS / GM -Head - P2P and Internal Controls	Audit Committee	Board/Audit Committee/Statutory Auditors
Governance, Ethics & Compliance	Whistle Blower	Company Secretary & Compliance Officer / Senior GM – CFS	Audit Committee / EMC/HR	Board / Committees/Employee

GRC components	Policies & Practices for monitoring specific areas	GRC Custodians	Governance Structure	Key Stakeholders
	Code of Conduct	Group CFO, Company Secretary & Compliance Officer / Senior GM - CFS	Audit Committee / Statutory Auditors / Internal Auditors/HR	Stock Exchanges, Investors,
	POSH	Senior GM - CFS /CHRO	ICC & HR	ICC – State government, district officers
	Related Party Transactions Policy & practices	Group CFO Senior GM – Finance & Accounts/ Company Secretary & Compliance Officer	Audit Committee	Board & Audit Committee, Investors, MCA & Stock Exchanges
	Materiality Policy	Group CFO Senior GM – Finance & Accounts / Company Secretary & Compliance Officer	Audit Committee	MCA
	Dividend Distribution Policy	Group CFO, Company Secretary & Compliance Officer / Senior GM – CFS	Board	Shareholders
	Prevention of Insider Trading	Group CFO, Company Secretary & Compliance Officer / Senior GM – CFS	Audit Committee	Board, Investors, MCA & Stock Exchanges
	Ethics & Compliance Framework	Group CFO, Company Secretary & Compliance Officer / Senior GM – CFS	Audit Committee	Board/Audit Committee
	Composition, Charter & Policies relating to Board and it's committees	Group CFO, Company Secretary & Compliance Officer / Senior GM – CFS	Board	Investors, Bankers
ERM	Risk Management Policy & practices	Group CFO, Senior GM – CFS / Company Secretary & Compliance Officer	Risk Management Committee	Board, Investors, Bankers, SEBI, Credit Rating Agencies
EHS	Corporate Safety Policy & practices	CHRO	HR	Employees / Customers / Regulatory authorities

7) Governance, Ethics & Compliance

    a) <u>Corporate Governance at Blue Star</u>

Corporate governance encompasses the entire system of managing and supervising an enterprise. The Board and the committees are committed to a responsible and transparent style of management and supervision aimed at increasing the Company's value over the long term. Blue Star has always placed great importance on responsible corporate governance. The Company has year after year maintained a high standard of governance and strives in continuing with the same. The following committees have been formed to scrutinize and look over various governance activities:

a) Audit Committee
b) Nomination & Remuneration Committee
c) Stakeholders Relationship Committee
d) Risk Management Committee
e) Corporate Social Responsibility Committee

These committees are formed under the Companies Act, 2013 and the LODR Regulations 2015. For any further details on the duties and activities of the Board committees refer to Corporate Governance Report as part of the Annual Report of Blue Star.

<u>Ethics & Compliance at Blue Star:</u>

Blue Star manages its businesses responsibly and in compliance with the statutory and regulatory requirements of the country in which it operates. Blue Star defines compliance as legally and ethically impeccable conduct by all employees in their daily work, because the way they carry out their duties affects the Company's reputation. Blue Star does not tolerate any violation of laws, codes of conduct or internal regulations. Ethics and Compliance is not a one-time event. It's a continuous process and that's where the need of a robust compliance framework arises. Blue Star aims to achieve this through flexible controls hierarchy, assessments and audits, issue tracking and remediation and analytics. To track and achieve high standards of ethics and compliance Blue Star has put in place various policies as under:

Policy	For reference
Whistle Blower	https://www.bluestarindia.com/media/271525/whistle-

|	
	blower-policy.pdf
Code of Conduct	https://www.bluestarindia.com/media/271526/code-of-conduct.pdf
POSH Policy	https://www.bluestarindia.com/media/324777/prevention-of-sexual-harrassment-at-work-place-dec-2020.pdf
Related Party Transactions Policy & practices	https://www.bluestarindia.com/media/301925/policy-on-rpt_upload.pdf
Materiality Policy	https://www.bluestarindia.com/media/254728/blue-star-policy-on-criteria-for-determining-materiality-of-events.pdf
Corporate Responsibility Policy	https://www.bluestarindia.com/media/217799/blue-star-csr-policy.pdf
Dividend Distribution Policy	https://www.bluestarindia.com/media/104569/dividend-distribution-policy.pdf
Prevention of Insider Trading	https://www.bluestarindia.com/media/301924/code-of-insider-trading-upload.pdf
Composition, Charter & Policies relating to Board and it's committees	Corporate Governance Report as a part of Blue Star's Annual Report

8) Risk Management at Blue Star

a) With the recent spurt in regulatory mandates and actions and rising shareholder activism, many organizations have become sensitized to identifying and managing areas of risk in their business: whether it is financial, operational, brand or reputation related risk. These risks are no longer considered the sole responsibility of specialist executives, and the boards demands clear accountability and visibility into exposure and status of mitigation measures so they can effectively implement the organization's long-term strategies. Blue Star has put in place a risk management mechanism which aims at identifying, measuring, mitigating and managing risk. Blue Star has implemented the following policies which help in identifying and mitigating risk:

b) The Risk Management Committee, the Audit Committee and the Executive Management Committee form the governance structure for each of the policies.

c) Measures taken at Blue Star to control and mitigate risks:

d) Blue Star has in place an exhaustive risk management policy which can be accessed at https://www.bluestarindia.com/media/298246/risk-management-policy.pdf.. The Company has adopted the Committee of Sponsoring Organizations of the Treadway Commission (COSO) 2004 framework for its Enterprise Risk Management Process. The Company's risk management framework sets the foundations and organizational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management capability.

9) GRC Committee

To ensure smooth functioning of the Integrated Framework, Blue Star has set up the GRC committee whose structure is as follows:
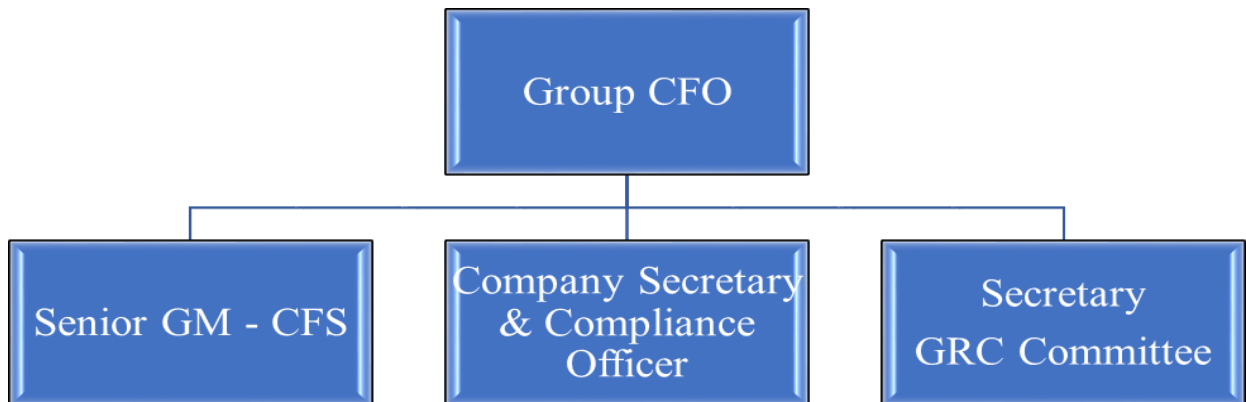
10) Responsibilities of the GRC Custodians

a) The GRC custodians are expected to work in an integrated manner and share outcomes, issues, learnings, developments & amendments relating to their field/GRC component. To achieve this integrated flow the GRC custodians shall meet on a quarterly basis to discuss the following:

    a. Compliances arising from GRC component for which they are custodians

    b. Deciding workflows and automation

    c. Future Initiatives

    d. Integration opportunities and redundancy/overlap removal

    e. Key developments which shall include tracking regulatory, statutory & external environment development with relation to GRC component.

    f. Centralized repository of decisions for future references and record

    g. Measure the impact of the GRC framework on the business and functions.

    h. Implementation of the recommendations of the respective committees and follow up

    i. Maintain high degree of confidentiality of the matters discussed at the GRC Committee

This quarterly meeting of the GRC custodians shall be chaired by the Group CFO and the Action Taken Report shall be reviewed jointly.

b) In addition to this, the GRC Custodians shall ensure that the Governance Policies are not treated as a static document. Policy audits shall be undertaken by the GRC custodians to ensure that the policies are effectively implemented and aid the purpose of achieving the following objectives:

    a. Efficacy and relevance of policy
    b. Managing Compliance levels
    c. Deviation management
    d. Testing of controls
    e. SOP and responsibility matrix

Policy audits shall be carried out on a half yearly basis. Any change in these policies will be apprised during the GRC quarterly meet and then will be taken up for the Board's approval for implementation of changes/revised policy.

11) Responsibilities of the Employees

The GRC Custodians shall on a timely basis undertake trainings and awareness sessions for the employees on various GRC components. Along with the GRC custodians and the committees, the employees of Blue Star shall be responsible for:

a) Actively seeking to understand the objectives, risks, controls and obligations that relate to their activities and participate in governance, risk and compliance management

b) Undertaking activities in compliance with legislation and our policies and procedures

c) Identifying and reporting risk events and instances of non-compliance; and

d) Reporting new risks, risks exceeding tolerance, breaches or weaknesses of controls to their supervisor and as and when required

12) Responsibilities of the GRC Committee

a) Providing expert advice and support in relation to the company's governance, risk and compliance management

b) Establishing the link between the GRC components along with the GRC custodians that enables effective risk management and compliance activity to be carried out consistently across the organization

c) Ensuring there is an appropriate level of understanding and engagement in risk and compliance management through effective education, reporting, escalation and discussion

d) Establishing a Business Continuity Framework to ensure risks that threaten the ongoing operation of the organization are effectively planned and managed

e) The review and continuous improvement of this framework and governance, risk and compliance management across the organization

f) Facilitating the process outlined within the Enterprise Risk Management and Compliance Framework and ensuring the ongoing reporting of the outcomes of those processes.

g) Measuring the impact of various GRC components and making use of the same to improve the company's strategies.

13) *Effectiveness of the GRC Framework implementation*

The Effectiveness of the integrated GRC Framework shall be measured through:

a. Direct and indirect impact on operations in terms of profitability and sustainability
b. Impact of each GRC component and measures taken
c. Audit Committee and Internal/External Auditor feedback
d. Communication of the impact – dash boards, score cards on an annual basis
e. Calibration of the impact with external environment

The GRC Framework thus aims at effective GRC implementation to reduce risk and improve control effectiveness, security and compliance through an integrated and unified approach that will ultimately reduce the ill effects of organizational silos and redundancies.