

WOCKHARDT LIMITED

Forex Risk Management Policy

PREFACE

- 1.1 This Forex Risk Management Policy, hereafter referred to as 'the FRMP', or 'Policy' provides the framework to define, identify, measure, manage, mitigate and review potential risks pertaining to fluctuations in Foreign Exchange of Wockhardt Limited (referred to as 'Wockhardt' or 'the Company').
- 1.2 The scope of the Policy is related to risks arising from foreign exchange fluctuations.
- 1.3 The Policy is also intended to institutionalize the arrangement for a periodical review of operation and annual audit of forex exposure/ hedge transactions to verify compliance with RBI / other applicable statues/ regulations.
- 1.4 The Policy will come into force with immediate effect.

OBJECTIVE

- 2.1 The objective of this Policy is to provide a framework for risk identification, risk measurement, risk mitigation, risk monitoring and ensuring regulatory and internal compliance by way of hedging in accordance with the overall objectives of the Company.
- 2.2 While a balance has to be achieved between risk and return, the primary objective will be to contain, to the extent possible, the risk pertaining to foreign exchange fluctuations.

IDENTIFICATION AND MEASUREMENT

- 3.1 Indian National Rupee ('INR') is the functional currency for the Company. Any other currency shall be considered as foreign currency.
- 3.2 Any receivables and payables of the Company which *inter alia* includes but not limited to payments or receipts related to exports, imports, export advance, borrowing, trade credit, investments, royalty, and dividend etc. in any other currency than INR constitute foreign exchange risk for the Company.
- 3.3 The Company is likely to have following nature of exposures:
 - a. Export earnings
 - b. Advance received against exports
 - c. Import and other payments
 - d. Buyer's Credit/ Suppliers credit/ Letter of Credit
 - e. PCFC/ PSFCs/ Bill discounting etc.
 - f. Overseas Investments
 - g. Foreign Currency Borrowings and its repayment

3.4 Risk identification – Crystallised vs. Expected

- a. Only those foreign currency exposures, which have been firmly established/ crystallised as payables or receivables will be considered by the Company for the risk management purpose.
- b. Expected or Probable exposures will not be considered as exposures for the purpose of risk management or hedging.

3.5 Currency Pairs

- a. The Company is likely to have contracts majorly in USD, EUR and GBP.
- b. Also in JPY, Russian Rubble, CHF, RMB and any other currency.

3.6 Exposure capturing

Foreign exchange risk, to be measured in terms of open exposure for every currency pair of the Company.

FOREX RISK MANAGEMENT

Forex risk management for Wockhardt is intended to be an estimation of exposures arising out of Foreign Currency payments/ receipts/ payables/ receivables and managing those exposures in a disciplined manner as allowed by the Policy, so that the gain/loss due to currency fluctuation either remains minimal or remains naturally hedged.

4.1 Forex Risk Management ('FRM') Principles

- a. FRM will be applicable only on crystallized exposures and not on probable or expected exposures.
- b. Inter-company Export receivables will be netted off against inter-company export advances in the same currency pair.
- c. Being a net exporter, Wockhardt enjoys an effective natural hedging against currency fluctuations and therefore, will not hedge the import liabilities pertaining to raw materials/ packing materials/ chemicals and consumables imports and other regular payments. However, exposures pertaining to buyer's credit/ LCs etc. availed against imports of Capex items could be evaluated time to time.
- d. The Company's being net exporter, any payment / liabilities in foreign currency is to be considered against such natural hedging to arrive at total uncovered Forex exposure.
- e. Any crystallised Forex liabilities on any foreign currency loan availed by the Company to meet its working capital/ capex/ R&D activities shall also be evaluated in the light of net exporters status of the Company based on

expected cash flow.

- f. The Company will monitor the exposures, if any, on an ongoing basis and will keep the Board of Directors informed, time to time, on the action taken to hedge such exposures.

4.2 Counterparty

The Company:

- a. can take the hedge from any authorized dealer i.e. a private, foreign or state run bank in India;
- b. however, will preferably deal with banks who have lending relationship with the Company.

4.3 The list of permissible hedge instruments are as under:

- a. Spot, Cash, Tom
- b. Plain vanilla Currency Forward
- c. Any other instrument as approved by the FRMC

4.4 Cancellation & Rebooking – Rollover & early utilisation

While the Company is not allowed to trade in currency, the Company is allowed to cancel and rebook a hedge if required to meet the Policy guidelines. Such cancellation and rebooking has to be done with specific permission of FMRC and shall be reported to the Board from time to time.

FRAMEWORK AND RISK REPORTING

The Risk Management Framework shall follow the following:

5.1 The Board shall constitute a Forex Risk Management Committee ('FRMC') comprising of the following members:

- a. Chairman
- b. Managing Director
- c. Chief Financial Officer ('CFO')

5.2 FMRC shall be responsible for implementation of and monitoring the Policy.

5.3 The Committee may further create sub-committee, if desired, to assign the monitoring of developments in the forex market and exposure position regularly so as to dynamically react to the changing market conditions

5.4 Front Office

Treasury department or Front Office will be responsible for carrying out day to day dealings and to execute transactions under the guidance of CFO.

5.5 All transactions shall be authorised in writing by all members of the FMRC.

- 5.6 The Committee will review exposure periodically and report to the Board at quarterly intervals. Following points to be evaluated during review:
- a. Assessment of foreign exchange outlook.
 - b. Assessment of Company's net exporter status
 - c. Open and hedged exposure - tenor wise, if any
 - d. Review of the hedging activities undertaken
 - e. Regulatory changes and compliance
- 5.7 Audit of the FRM Transactions and Hedging, if any, would be carried out annually by competent external firms of repute.

REGULATIONS AND COMPLIANCE

6.1 Regulatory review and compliance

The FRMC shall review the policy regularly and make changes deemed to be necessary in light of emergence of new market instruments, changes in business conditions, changes in regulatory framework etc. and propose the same to Board for approval.

6.2 Accounting Policy

The Company shall follow applicable accounting Principles/Standards as may be prescribed from time to time.
