# Risk Management



## Risk Management



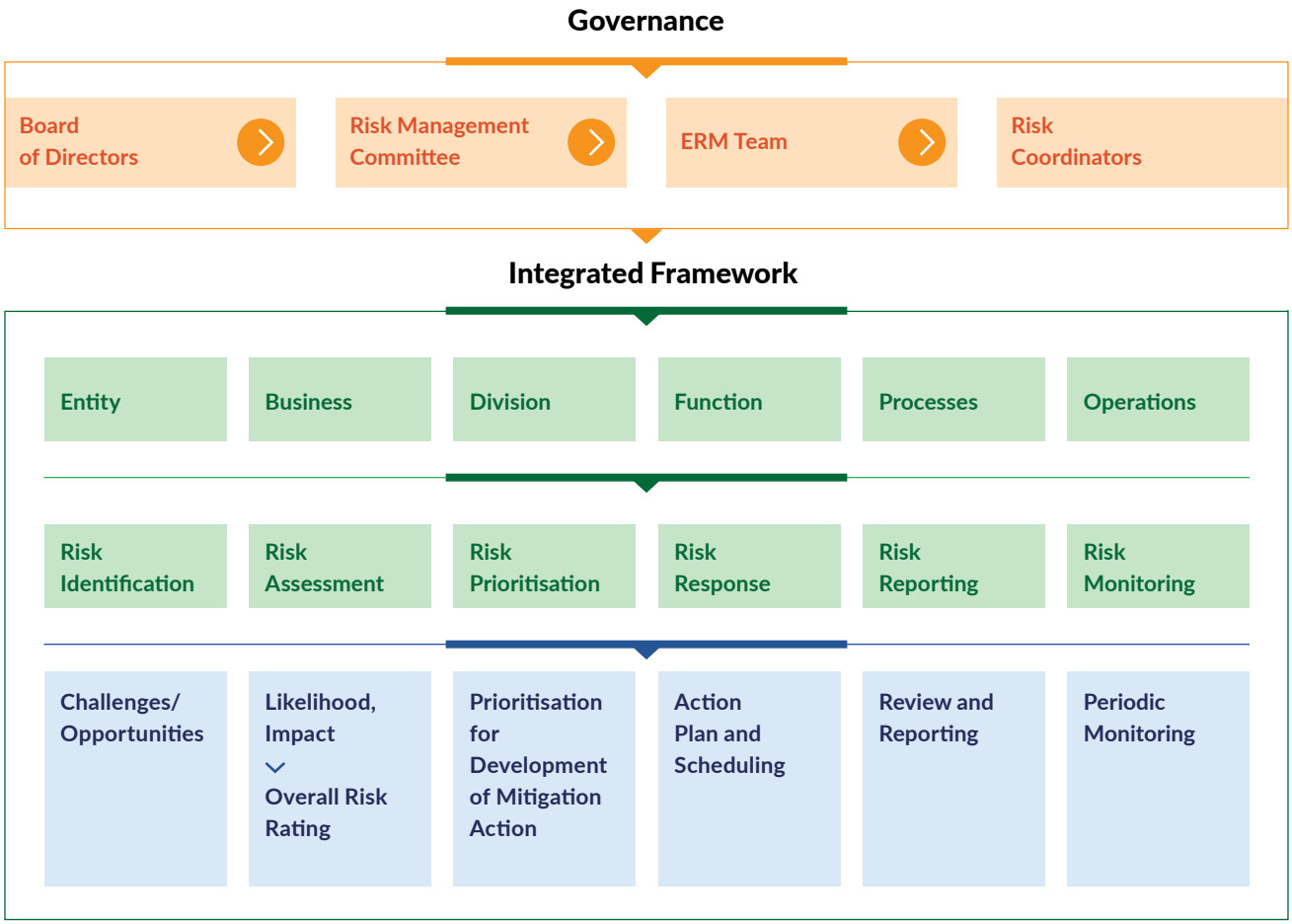
# Strengthening Resilience through Risk Management

At Sun Pharma, risk management is deeply integrated with our corporate strategy. We focus on assessing, mitigating, and reducing risks while improving our risk management skills. Given our presence in multiple geographies globally, we face various uncertainties, including strategic, regulatory, financial, operational, and market risks.

We monitor, analyse and mitigate these risks through our Enterprise Risk Management (ERM) framework. Our risk governance mechanism and our integrated approach to risk management help us navigate current and emerging challenges, enabling us to achieve our business objectives with resilience and determination.

### Our Enterprise Risk Management Framework

Our Enterprise Risk Management (ERM) framework forms the basis of our risk monitoring and response system, tailored to meet the needs of both internal and external stakeholders. We have incorporated valuable practices recommended by ISO 31000:2018 and the Treadway Commission's Committee of Sponsoring Organisations (COSO) to enhance our risk management processes and frameworks. The ERM framework, as shown below, applies to all our business units, subsidiaries, regions, and support functions.



# Risk Management



## Risk Governance Structure

Risk Management at Sun Pharma is a cross-functional, collaborative effort involving multiple departments to ensure a unified approach to identifying and managing risks. The overall responsibility of risk management in the organisation lies with the independent Risk Management Committee (RMC) constituted by the Board of Directors. The RMC is tasked with ensuring that appropriate systems and processes are in place to monitor and evaluate risks associated with our business, monitor the implementation of our Risk Management policy, and evaluate the effectiveness of our systems. The RMC also undertakes quarterly reviews of our Enterprise Risk Management framework and keeps the Board of Directors informed on the evolving risk landscape and actions to be taken[29].

We have dedicated Risk Coordinators whose primary responsibility is to manage and coordinate all risk management activities. The Risk Coordinators undertake regular reviews of the Risk Register to ensure adequate coverage of all respective business and support functions. They also facilitate and provide support to respective functions to identify, assess, evaluate, prioritise, monitor and report on potential and actual risks. Further, they maintain direct oversight on the current status of all risks and track the progress of the implemented mitigation plan and submit periodic findings and updates to our Enterprise Risk Management (ERM) team.

The Risk Coordinator is supported by Function Heads who form the second line of operational risk management. Function heads have the primary responsibility to identify, assess and manage risks pertaining to their function. They undertake periodic meetings to monitor the trends and parameters of their responsibility area that impact our risk profile, communicate internally on findings and coordinate the updates to be made to our risk register. Regular review of business function risk registers is also undertaken to assess the need to include any new risks. Function Heads also evaluate the effectiveness of existing mitigation measures and implement additional actions for reduced risk exposure.

Our ERM team maintains and monitors the risk register for all business and support functions. They are responsible for ensuring the adequacy of our risk management processes and their implementation. They also track the progress of mitigation measures for significant risks. The ERM team works closely with all Risk Coordinators to ensure appropriate mitigation measures have been developed and implemented for each identified risk. Risk reports are regularly prepared by the team and submitted to the RMC. Our Internal Audit team has overall responsibility for reviewing our identified risks and validating the effectiveness of implemented mitigation plans during periodic internal audits.

Through our materiality assessment process, we capture the stakeholder perceptions of important topics for our business. This enables the management to consider the views of stakeholders to the organisation while evaluating the risk register, enabling the creation of risk responses to important areas which affect our ability to create value for our stakeholders. We evaluate our material topics with the senior management to monitor if there are any changes in global macroeconomic trends, business landscape or strategy necessitating additional relegation, addition or re-prioritisation of topics.

## Risk Management Approach

We promptly address new risks and review existing ones at least biannually or more often if needed. For adverse events, updates are shared with the Board depending on their severity. Every six months, the Risk Management Committee is briefed on newly identified emerging risks, ensuring a proactive and transparent risk management approach.

### Risk Identification

Functional heads identify internal and external events that may impact the Company's operations. These risks are documented in a risk register, detailing their descriptions, causes, and mitigation strategies.

### Risk Assessment and Prioritisation

Identified risks are assessed/rated for their likelihood and impact based on Company's risk appetite by senior management, using both quantitative and qualitative methods. The organisation then prioritises significant risks to develop an effective mitigation strategy.

### Risk Response

Respective function heads develop mitigation strategies, along with clear action plans with timelines, and present them to senior management for approval. The activity or situation posing a risk may be reduced, accepted, shared, transferred, or avoided depending on the facts and circumstances.

### Risk Reporting

The ERM team and respective risk coordinators/ functional heads review all risks. Key risks are periodically reported to the senior management.

### Risk Monitoring

Management has defined a periodic process for reviewing risks and their mitigation plans. The RMC periodically evaluates the status of action plans for key risks, as agreed upon with risk coordinators/ function heads.

[29]For detailed information about the roles and responsibilities of each stakeholder, please refer to the Company's synopsis of Enterprise Risk Management Policy available at: https://sunpharma.com/wp-content/uploads/2024/07/2024-05-21-Risk-Management-Policy-Synopsis.pdf

# Risk Management



## Key Risks

Following the management's extensive assessment, we have identified significant risks that may impact our business operations, financial performance, and overall success. Below is a summarised account of the key risks and the impact(s) that merit careful consideration of the organisation's exposure to these risks. The list of mitigation actions is not exhaustive. It only indicates the comprehensive approach we take to manage the risks.

### Risk - Corporate Governance and Business Ethics

**Risk Description –** Addresses the requirements of sustaining a high standard of compliance across various markets, staying up to date with changing regulations, and enforcing ethical business practices.

| Impact | Mitigating Actions |
|---|---|
| Failure to maintain and uphold the highest standards of corporate governance and business ethics could result in regulatory consequences, as well as financial and reputational damage, and business continuity. | • Consistent and regular engagement with regulatory agencies in all our markets, to ensure compliance and reduce any possibility of noncompliance.<br>• Focused and regular training is provided to all staff members to ensure strict compliance with the Company's business ethics and Global Code of Conduct. Strong focus is also given to quality control at all operational locations to maintain cGMP compliance. |
| **Magnitude** | **Likelihood** |
| Minor | Unlikely |

### Risk - Product Quality, Safety and Recall Management

**Risk Description –** These risks are associated with an identification of the difficulties in monitoring and making sure of the safety of our products throughout their lifecycle. It includes the following issues such as adverse event reporting, compliance with GxP regulations, and communication of safety-related information.

| Impact | Mitigating Actions |
|---|---|
| Significant concerns about product safety and quality could lead to recalls and regulatory alerts, temporarily impair business operations, and harm our reputation and brand. It could also result in legal repercussions, fines and penalties. | • Ensure continued and strict compliance with global quality standards and protocols and the applicable local regulatory requirements.<br>• Provide for robust and centralised pharmacovigilance systems with thorough Standard Operating Procedures (SOPs) to ensure effective monitoring and reporting of adverse events.<br>• Regular investment in technological advancement, training programmes on current Good Manufacturing Practices (cGMP), automation, digitalisation, and employee skill development.<br>• Undertake detailed and regular quality assessments of third-party suppliers.<br>• Implement measures to protect our brand (intellectual property and trademarks) and combat counterfeiting, to ensure the authenticity of our products in the market. |
| **Magnitude** | **Likelihood** |
| Major | Unlikely |

# Risk Management



## Risk - Cyber Security and Data Privacy

**Risk Description –** Vulnerabilities of IT systems, absence of regular technology updates, and potential cyber threats from hackers and data breaches that compromise sensitive information and digital assets.

### Impact

The absence of strong data integrity and security significantly increases the risk of data breaches, potentially leading to the loss of valuable data with potential adverse effects on the business. Breaches of customer/stakeholder data may expose us to litigation, fines, and penalties.

### Mitigating Actions

- Regular vulnerability assessments and simulated hacker attacks of our IT systems are undertaken to prevent breaches of the Company or stakeholders' data.
- We have implemented patch management, antivirus software, IT monitoring systems, and perimeter protection to reduce the risks associated with cybersecurity and data breaches. Furthermore, we regularly provide training to our staff members on cybersecurity and reaffirm this knowledge through recurring internal emails that address secure data practices, safeguarding against phishing emails, and averting hacker attacks.

### Magnitude

Major

### Likelihood

Likely

## Risk - Human Capital Development

**Risk Description –** Focused investment in talent management initiatives, such as talent acquisition, retention, development, employee well-being, and satisfaction.

### Impact

Neglecting to meet employee expectations could lead to adverse long-term effects on productivity and hinder the Company's growth trajectory.

### Mitigating Actions

- We implement various initiatives to attract and retain talent, including global talent management programmes, competitive compensation, fostering an inclusive work culture, and offering employee benefits programmes.
- We have established a formal succession planning programme for all leadership positions.
- We prioritise employee skill enhancement through continuous training and development opportunities.

### Magnitude

Major

### Likelihood

Remote/Rare

# Risk Management



## Risk - Access and Affordability

**Risk Description –** Addresses hindrances in product portfolio, product accessibility, and pricing.

### Impact

Long-term brand value and growth prospects may suffer if the Company's products become inaccessible or if expansion into new geographic markets is hindered.

### Mitigating Actions

- We prioritise building a robust and diversified product portfolio through improved cross-functional synergies, organisational capabilities, project management, and governance throughout the product lifecycle.
- We enhance our capabilities in both in-licensing and out-licensing of products.
- Our focus lies on the development and commercialisation of complex generics and specialty products, among other priorities.
- We emphasise operational excellence programmes aimed at improving yields, ensuring supply chain continuity, and maintaining sufficient inventory levels.

### Magnitude

Major

### Likelihood

Possible

## Risk - Environmental Impact Management

**Risk Description –** Increased efforts for efficient water usage and reduced waste generation, and proper disposal are necessary to demonstrate the Company's commitment to a sustainable future and a healthy planet.

### Impact

Neglecting environmental effects can result in unfavourable legal, regulatory, and financial repercussions, a decline in shareholder trust and reputation, and finally could lead to potential loss of an operating license.

### Mitigating Actions

- We continue to identify opportunities to minimise any adverse environmental effect from our operations. We have adopted targets for waste management and water conservation. Our targets are to reduce water consumption by 10% and to co-process 30% of hazardous waste by 2025.
- We closely monitor and track our waste management and water consumption. Our priorities are to increase water efficiency, decrease water withdrawal, and increase water recovery. For waste management, we focus on co-processing hazardous waste and increasing recycling and reuse within our own operations.

### Magnitude

Minor

### Likelihood

Unlikely

# Risk Management



## Risk - Climate change

**Risk Description –** Inefficacious management of greenhouse gas (GHG) emissions could lead to climate-related physical and transition risks for the Company, causing disruption of operations and affecting business continuity.

### Impact

Our assets could be harmed by possible direct physical threats to our activities, which consequently, can result in a halt to operations and a rise in the cost of repairing and rebuilding affected locations. The transition risks brought on by climate change may also lead to stricter laws in the nations where we do business and export, which would increase the cost of compliance or new technology investments. Losing reputation and the trust of stakeholders can also result from a failure to respond to the negative effects of climate change.

### Mitigating Actions

- We have set a 35% reduction target for absolute carbon emissions (Scope 1 and Scope 2) by 2030 compared to baseline of 2020.
- To identify and assess the physical and transitional risks associated with our operations, we have also undertaken climate risk assessments.
- By boosting the proportion of biomass, obtaining renewable energy, and putting energy-efficiency programmes into place to maximise our energy usage, we are constantly looking for ways to lessen our dependence on fossil fuels in our operations.

### Magnitude

Minor

### Likelihood

Unlikely

## Risk - Sustainable Supply Chain and Responsible Procurement

**Risk Description –** Consists of supply chain disruptions that could affect the business continuity or product quality and the risk of non-substitutable suppliers that can affect the continued availability of critical raw materials.

### Impact

Long-term commercial partnerships with suppliers may be impacted if standards related to various social, environmental and safety aspects are not complied with by suppliers, leading to loss of business value. Non-substitutable and critical raw material suppliers may impact the business in case of any unforeseen disruptions.

### Mitigating Actions

- We are constantly looking for ways to reduce supply chain risk, such as by assessing potential substitute sources for essential or non-replaceable raw materials.
- The suppliers are required to abide by the Company's ESG requirements as part of the Supplier Code of Conduct.
- The Company has a high focus on developing quality products and the safety of consumers. The quality of raw materials for our production process is ensured by conducting periodic supplier audits.

### Magnitude

Moderate

### Likelihood

Possible

# Risk Management



## Risk - Occupational Health and Safety (OHS)

**Risk Description –** OHS is an integral part of our commitment to providing a safe and secure work environment for employees. Having an ineffective Health and Safety management system and programmes may cause many health and safety incidents.

| Impact | Mitigating Actions |
|---|---|
| A regular occurrence of health and safety issues will negatively impact the performance of the Company concerning worker well-being and safety. This will have an effect on the Company's reputation, brand image, and capacity to draw in and retain talent. | • The business maintains a robust Environmental Health and Safety (EHS) management system, comprising regular audits of its EHS procedures, both internal and external.<br>• Our Process Safety Management system's guiding principles serve as the foundation for both our safety procedures and risk assessment methodology, which unifies our approach to health and safety from the perspectives of working conditions and risk assessment.<br>• After potential risks are identified and safety incidents are evaluated, a thorough corrective action plan is established to prevent the occurrence of similar incidents in the future. |
| **Magnitude** | **Likelihood** |
| Minor | Possible |

## Risk - Ethical Clinical Trials and Animal Testing

**Risk Description –** Addressing risks associated with clinical trials and animal testing is critical to demonstrate our commitment to responsible research practices, especially around the ethical and safety-related concerns of trials on human subjects and animal testing. Adverse events related to research practices can cause delays in product development and could lead to financial losses and negative public perception.

| Impact | Mitigating Actions |
|---|---|
| Failure to comply with guidelines and regulations of clinical trials and animal testing can undermine the efficacy and safety of the Company's clinical trials. It may also have an adverse regulatory/legal impact, lead to financial damages and reputation loss and have a negative impact on participant's health and safety. Delays at any stage can also prolong the overall timeline for drug development, leading to increased costs. | • We comply complies with all relevant regulatory requirements governing clinical trials and animal testing. We have dedicated teams, responsible for ensuring compliance with these regulations, which involve obtaining necessary approvals, permits, and maintaining thorough documentation.<br>• We also implement robust quality control and safety measures throughout the research process. This involves monitoring and auditing the conduct of clinical trials, data collection, and analysis to ensure accuracy, reliability, and compliance with relevant standards.<br>• Long-term safety studies are undertaken for some of our innovative specialty products, post commercialisation, in order to evaluate and measure safety parameters over a longer time horizon.<br>• On certain projects, we collaborate with academic institutions, research organisations, and regulatory agencies to share knowledge, expertise, and resources. Such collaborations also enable collective efforts, checks and balances to enhance the quality and ethical standards of clinical trials and animal testing. |
| **Magnitude** | **Likelihood** |
| Moderate | Rare |

# Risk Management



## Risk - Business interruption/Operational inefficiencies

**Risk Description –** Possible disruptions or inefficiencies by natural disasters, regulatory hindrance, cyber security threats, or workmen shortages could have an impact on the manufacturing and supply chains.

### Impact

Business interruptions/operational inefficiencies can result in the loss of revenue, a surge in operational expenses, and, in extreme cases, damage to the company's reputation.

Additionally, delays in entering the market could have an impact on our competitiveness. Data breach cases could escalate legal and financial liabilities.

### Mitigating Actions

- 3-month planning for crucial raw materials to avoid stockouts - Keep safety stock for approximately three months for all critical products. When there is a supply delay, decrease lead time by transporting shipments through air and ensuring the availability of the product.
- Regular review by senior management and department-wise responsibility given to ensure adherence with relevant regulatory requirements and product launch timeframes.
- We keep a stock of essential spares at many sites to ensure uninterrupted availability.
- Install backup solutions like DG sets and tanker supplies to decrease the chances of power and raw material shortages.
- We raise new manpower requests during the budget to manage the shortage in manpower and evaluate the site regularly.

### Magnitude

API Business - Minor
Formulation Business - Moderate

### Likelihood

API Business - Likely
Formulation Business - Likely

## Risk - Intellectual Property (IP), Trademark, Technology, and Other Confidential Information

**Risk Description –** Possible threats to our intellectual assets include theft, unauthorised usage, or violation of patents, trademarks, and confidential data.

### Impact

Breach of valuable assets could lead to costly legal battles and erode the company's reputation. Further, stakeholder trust could be impacted if confidential data is compromised, impacting partnerships and customer confidence.

### Mitigating Actions

- Work with Drug Controllers to execute compliance and revoke manufacturing licenses of counterfeiters.
- Provide training for identifying potential market violations to the field force.
- We have set a dedicated team at the head office to manage field inputs and carry out actions deemed necessary.
- Inspecting new trademark filings periodically to recognise conflicts and avoid infringements.
- Setting up a standard operating procedure and framework, and a standard to safeguard our IP for branded products in important markets.

### Magnitude

Moderate

### Likelihood

Likely

# Risk Management



## Risk - Price, Cost & Margin Pressure

**Risk Description –** Market competition, revisions in the prices controlled by the government and changes in the costs or prices of raw materials and manufacturing expenses affect the business profitability.

| Impact | Mitigating Actions |
|---|---|
| Adverse effects on the overall financial performance and long-term business viability. | • We reinforce product portfolio with new and innovative products to be distinct to set apart from competitors and withstand pricing pressures.<br>• Cost-effective solutions such as<br>– Identify the feasibility of creating alternative vendors/sites for products to enhance production costs and reduce dependencies.<br>– Optimise the dependencies on sea and air transport in favour of cost-effective sea shipments to decrease transportation expenses.<br>– Explore other options such as usage of alternate fuels and automation to increase cost efficiency in manufacturing processes. |
| **Magnitude**<br>Major | **Likelihood**<br>Unlikely |

## Emerging Risks

At Sun Pharma, we take a structured approach to risk assessment by evaluating the likelihood, potential impact, and expected timeframe of risks. Emerging risks are reviewed at least once every three years to ensure timely mitigation and to avoid significant disruptions. This process is guided by our comprehensive risk management framework, which emphasises both probability and business impact.

We conduct analyses of emerging risks using internal and external data sources, including industry trends, market research, regulatory developments, and expert opinions, to identify and categorise emerging risks. This systematic methodology enables us to implement proactive mitigation strategies and safeguard business continuity.

We present below two of the emerging risks identified:

## Geopolitical Fragmentation

Sun Pharma faces elevated risks to its manufacturing facilities and customer operations located in regions experiencing heightened geopolitical tensions, particularly in the Middle East and Eastern Europe. Ongoing regional conflicts in countries such as Israel, Iran, Russia & Ukraine and sudden changes in regimes in countries like Bangladesh and Nepal—where the company has a presence—pose potential disruptions to business continuity and operational stability.

| Impact | Mitigating Actions |
|---|---|
| Sun Pharma operates globally, with manufacturing facilities and customers spread across multiple countries. Some of our key manufacturing sites are located in Israel, Russia, and Bangladesh—regions that have experienced escalating geopolitical tensions in recent years. These conflicts pose significant risks to our supply chain, potentially disrupting the movement of raw materials and finished goods, which can lead to delays or halts in production. | • To address potential geopolitical disruptions, Sun Pharma has implemented a comprehensive risk management and contingency planning framework. Our approach includes strategic planning, geographical diversification, supply chain & Inventory management, prudent resource allocation, and the cultivation of strong international partnerships to mitigate the effects of geopolitical fragmentation.<br>• Additionally, our corporate social responsibility initiatives and active engagement with local communities help build trust and goodwill, reducing political risk. By investing in healthcare infrastructure and community development programs, we strengthen our relationships with local stakeholders and enhance our resilience in volatile regions. |

# Risk Management



## Global Tariff Volatility

The US is a major market for Sun Pharma, and hence any increase in US import tariffs may potentially have a negative impact. Evolving global tariff policies are creating additional risks for traded goods. Higher tariffs on finished formulations and products routed through multiple jurisdictions are eroding margins, restricting product availability, and straining cross-border distribution models. In regions with complex trade dynamics, tariff volatility also heightens regulatory delays and operational uncertainty, challenging company's ability to ensure timely, cost-effective access to international markets. These compounding pressures make it harder to balance competitive pricing with reliable global supply.

Higher tariffs may also result in rising prices of imported active pharmaceutical ingredients (APIs) and critical intermediates, exerting sustained upward pressure on production expenses. This trend threatens to disrupt supply chain stability, raise overall manufacturing costs, and inflate drug pricing. In addition, higher input costs risk slowing down innovation cycles, including research and development efforts, as resources are diverted to manage operational expenses rather than growth and advancement.

### Impact

Tariffs raise production costs, squeezing profit margins and making it difficult to pass these costs to consumers in regulated and price-sensitive markets, thereby creating financial pressure. Additionally, tariff-related delays at ports, increased customs scrutiny, and logistical bottlenecks can disrupt the global supply chain. This affects the timely availability of raw materials, traded formulations, and finished products, potentially leading to stockouts, missed market opportunities, and reputational risks. Higher costs and procurement delays for specialised equipment and materials may hinder R&D activities, which could slow the development of complex generics, biosimilars, and novel formulations, ultimately impacting the innovation pipeline and long-term competitiveness.

Furthermore, tariff barriers may reduce the price competitiveness of both manufactured and traded products in key international markets. Regulatory delays and increased compliance burdens could further complicate market entry and expansion strategies, especially in emerging economies and regions with volatile trade policies.

### Mitigating Actions

- Sun Pharma is pursuing a multi-pronged strategy to mitigate the impact of emerging tariff-related risks. This includes diversifying exports of pharmaceutical products, traded formulations, and equipment across regions with lower tariff exposure, thereby reducing reliance on a limited set of markets. Simultaneously, the company is strengthening local manufacturing capabilities to enhance self-sufficiency and reduce vulnerability to international trade disruptions.
- In parallel, proactive monitoring of trade policies and regulatory developments is undertaken, along with advocacy efforts to stay ahead of potential changes. Strategic inventory buffers for critical inputs and traded goods are being established across global sites to ensure operational continuity. These initiatives are further supported by participation in collective tariff negotiations and policy-shaping efforts, reinforcing resilience against tariff-related challenges.

## Risk Culture

We recognise the significance of fostering a risk management culture across the Company, supported by a strong framework for timely risk assessment and mitigation. We believe that a holistic and resilient risk culture is essential for effective risk management. To enhance awareness, we provide focused risk training to our employees, helping them understand potential risks and the importance of timely identification and reporting for effective mitigation.

Our Information Technology Security Team and Company Secretary regularly disseminate information on various risks. We consistently strive to ensure that employees adhere to regulatory requirements.

As part of the familiarisation programme for Board Members, as outlined under Regulation 25(7) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, functional heads and senior executives deliver presentations to the Board on topics such as operations, functional overviews, business performance and opportunities, the risk management framework, and the regulatory landscape in which the Company operates.

Being a pharmaceutical company, we also acknowledge the importance of integrating risk criteria into product development and approval processes. We have established a reliable global quality standard that equips users with critical information for managing risk throughout a product's lifecycle, from development to disposal.