Risk Management Policy

GULBARGA Cement Limited

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RISK MANAGEMENT POLICY

1 Introduction

1.1 Preamble

Section 134(3)(n) of the Companies Act, 2013 requires that the report by the Board of Directors laid at the general meeting shall include a statement on the development and implementation of a risk management policy for the company.

Against this backdrop, Gulbarga Cement Limited ("GCL" or the "Company") has established this Risk Management Policy. This Policy lays down the principles and practices of the risk management system in GCL. The main principles of the GCL's Risk Management are as follows:

- Develop risk awareness
- Focus on material risks and sources that threaten business objectives
- Pro-active risk behaviour
- Dynamic, continuous risk assessment and responsiveness to changes
- Centralized risk coordination
- Integration in the reporting, controlling and planning procedures
- Continuous ongoing process based on self-assessment.

1.2 Definitions

a) Risk

Risk can be defined as a negative effect of uncertainty on the achievement of business objectives.

Material risks arise when earnings capacity is threatened or other important business objectives are prevented from being achieved. The framework of the Risk Management System is to ensure that the focus of the Company's business dealings is on optimising the critical success factors for achieving the business objectives as defined in GCL's Operating Plan.

Risk (R) is characterised and rated by two features:

i). Impact (I) as well as ii). Likelihood (L) and is expressed as $R = I \times L$

b) Impact

Impact is the potential damage/loss likely to be caused by a risk. The possible impacts can be subdivided into classes according to their severity.

c) Likelihood

The chance of something happening measured or determined quantitatively or qualitatively. The minimum likelihood for the risk reporting is 10% (relevant likelihood).

d) Risk owner

Risk Owner is a person with the accountability and authority to manage an identified risk. All the functional heads shall be risk owners with regard to their respective area of operations and the plants heads shall be risk owners of plant and regional marketing heads shall be risk owners for market operations.

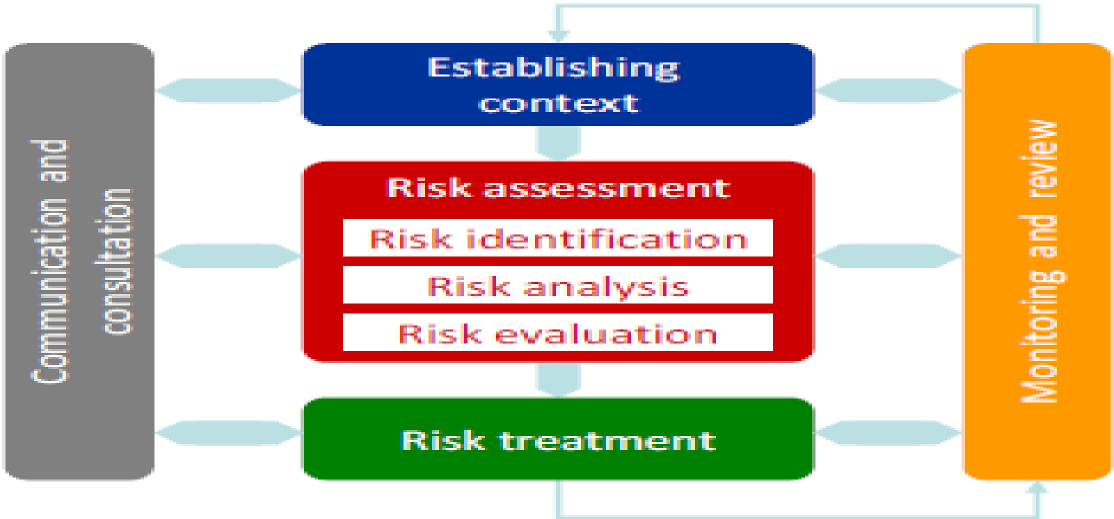
e) Corporate Risk Coordinator (CRC)

The person nominated by the management at the corporate office with such responsibilities as mentioned in this policy shall be Corporate Risk Coordinator.

2 Overview of the Risk Management System at Gulbarga Cement Limited

The basic principle for an effective risk management is the establishment and continuing evolution of appropriate risk awareness at all hierarchic levels of the organization. The early detection and cognizant handling of risk is the main objective of risk management. Explicit and effective risk management is a competitive advantage.

GCL has adopted the risk management process, comprising of five key activities as under:-



2.1 Organisation structure

For Risk Management at GCL, the organisation structure shall comprise:

- Plants
- Functions
- Markets

Risks shall accordingly be presented with:

- Total number of risks
- Grading of all active risks
- Visualization of all risks in an impact / likelihood portfolio

2.2 Roles and responsibilities in context of Risk Management (RM)

2.2.1 General Roles and Responsibilities within the Risk Management System

Board of Directors

The Board shall be responsible for framing, implementing and monitoring the risk management plan for the company. The Board shall also disclose in the Board's Report the progress regarding development and implementation of a Risk Management Policy for the Company, including identification therein of elements of risk, if any, which may threaten the existence of the Company.

Reporting, Controlling & Consolidation

The Chief Financial Officer ("CFO") is responsible for the coordination and monitoring of the risk management system and processes at GCL. The CFO shall submit the quantitative risk report highlighting the material risks, if any, to the Board of Directors from time to time.

2.2.2 Specific Roles and Responsibilities of the Management within the Risk Management System

Corporate Risk Coordinator (CRC)

The CRC is responsible for the risk assessment process throughout the functions, various plants and market. CRC is also responsible to proactively ensure proper reporting, completeness and timely delivery of quantitative and qualitative information related to risk and its status.

Risk Owner

The Risk Owner(s) shall be responsible for the identification and assessment of risks. The risk owner(s) shall also be responsible for the realization of actions to manage the risks (avoid, minimize, transfer of risk to a third party, etc.).

2.3 GCL Risk Atlas

The potential risk areas are organized in four main categories namely:

a) Strategic
b) Operational
c) Finance
d) Legal & Compliance

The Risk Atlas (given at Annexure-I) provides an overview of potential risk areas for GCL and facilitates the risk identification and analysis. It can undergo changes whenever new and not already described risk areas are identified and shall be updated accordingly.

3 Risk Management Process

The Risk Management is an ongoing activity. The risk assessment has to be performed on a continuous basis in order to manage efficiently the exposures. The results of the assessment and measurement shall be documented quarterly. It consists of a bottom up approach.

The Risk Management process involves the following phases:

- Risk identification and analysis
- Risk evaluation
- Risk treatment
- Risk controlling

Key questions that a risk owner must ask:

- What could happen (threat event)?
- If it happens, how bad could it be (threat impact – risk exposure)?
- How often could it happen (threat frequency / probability analysed)?

Analysng and assessing risks will answer these questions. The need for action depends primarily on the above assessment.

3.1 Risk identification and analysis

Risk is defined as the effect of uncertainty on business objectives. The purpose of risk management is to identify potential problems before they occur in order to plan and implement mitigating actions. For detailed methodology for Risk identification and analysis, please refer Annexure-II.

3.2 Risk Evaluation

GCL differentiates between two types of risk evaluations:

- **Quantitative** = monetary estimation of the potential risk
    - Primary and preferred approach at GCL
    - Close link to the finance data in the management reporting
    - "Measure a risk to manage it" crucial for a cost effective risk management and informed decision-making
    - Regular record and update of all risk information

- **Qualitative** = financial impact very difficult to evaluate because of insufficient data or information (e.g. Compliance or IT risks)
    - Secondary evaluation important for completion of the risk picture
    - Don´t ignore or underestimate "soft" risks e.g. negative press release, reputation

Detailed methodology for Risk Evaluation is captured in Annexure-II.

3.3 Risk Treatment

Risk treatment involves one or more options for the modification of the risk impact or the likelihood of occurrence. When selecting the most appropriate risk treatment alternative, all costs and efforts of implementation should be balanced against the benefits derived.

In general, the following approaches can be taken:

- Risk avoidance
  (i.e. not entering a business or back out of a deal)

- Risk reduction
  (reduction of the probability of occurrence i.e. adequate customizing of important systems or substitution of fixed costs with variable costs or contingency planning)

- Risk transfer
  (through insurance policies or appropriate clauses in contracts with suppliers, customers or third parties)

- Risk acceptance - bearing of risks
  (through cash flow, equity reserves or liquid reserves)

It is the responsibility of the Management to establish and determine the form of such a system to handle risks. Special attention should be paid to the cost of risk treatment or risk financing in the decision making process.

3.4 Risk Controlling

Risk controlling involves monitoring the implementation and progress of agreed actions, re-evaluation, and compliance with decisions. The cost of controlling a risk may be taken into account in determining what is reasonably practicable and should not be used as a reason for doing nothing.

In order to ensure that the implemented control measures remain effective, the following points should be considered:

- Clear accountability of responsibilities
- Effective communication of risk controls
- Regular review of proposed procedures
- Up to date training
- Up to date risk information and follow-up of changes in operating conditions

The Company acknowledges that despite best efforts by all concerned to manage risks there may be situations which may need to be managed as a crisis by the top management.

4 Risk Reporting and Timetable

The risk reporting to be presented shall comprise of the following:

- Quarterly quantitative risk reporting:
  The CRC shall, on quarterly basis, follow-up the major risks and accordingly prepare an action plan for the same.

- Quarterly qualitative risk reporting:
  The CRC shall follow-up the major qualitative risks and report critical "red" risks on a quarterly basis.

- Incidental-Ad hoc risk reporting:
  Functional Heads and Plant Heads are required to report ad hoc newly recognized, sudden and unexpected major risks (quantitative and qualitative) to the CRC. Thresholds and principles are identical to the quarterly reporting. Ad Hoc risk reporting, in the sense of an early warning system, is an important tool to avoid surprise losses and escalation of the risk exposures.

All risks related to fraud, corruption and anti-competition shall be reported ad-hoc, independently of the amount and the probability of occurrence.

The CFO shall prepare and present to the Board of Directors from time to time a Risk Management Report covering the major risks and action plan to mitigate the same.

Annexure – I

GCL Risk Atlas

Strategic	Operational	Finance	Legal & Compliance
Economic & Political Risks: ➢ Downturn in economy ➢ Change in govt. policies	**Procurement:** ➢ Price risk and supply risk	**Investment Projects:** ➢ Capex projects ➢ M&A	**Governance and Compliance issue** ➢ Disregard of Code of Conduct ➢ Conflict of interest ➢ Unethical practices ➢ Fraud & Illegal acts ➢ Bribery & Corruption
Market Risks – ➢ Competition ➢ Marketing & Selling ➢ Customer Dependency ➢ Industry Practices ➢ Development in Global Market	**Production –** ➢ Product quality issues ➢ Machinery breakdown ➢ Loss of assets due to fire ➢ Natural calamities etc. ➢	**Capital Structure:** ➢ Debt / Equity Mix	**Changes in legal environment:** ➢ Legislative & Regulatory
Merger or Acquisition	**Logistics and dispatch:** ➢ Availability of trucks/wagons ➢ Freight cost ➢ Delivery bottlenecks	**Financing:** ➢ Availability ➢ Structure ➢ Interest Rate ➢ Forex Risks	Competition Law violations
Reputational Risks ➢ Negative Publicity in Media ➢ Deterioration in brand image	**Environment:** ➢ Pollution, ➢ Contamination and sustainability	**Process Risks:** ➢ Accounting ➢ Reporting ➢ Compliance and Tax	
	Human Resource: ➢ Disregard of Health & Safety Guidelines ➢ Succession Planning ➢	**Receivables and Payables Management**	

	➢ High Attrition rate ➢ Discrimination and Harassment ➢ Sexual Harassment		
	Information Technology: ➢ Cyber Security Risks ➢ Business Continuity Risks ➢ Technology obsolescence		

<u>**ANNEXURE – II**</u>

Risk identification and analysis process

1.1 Risk and business objectives

The functional heads at Head Office and management of each plant / market will be responsible for identification and management of all major risks, hazards or situations threatening the business activities. Staff with appropriate knowledge / skills will be involved in identifying risks. A range of different risk identification tools or techniques suited to the specific local capabilities would support this phase e.g. brainstorming, structured interview or scenario analysis. Relevant and up-to-date information plays an important role in risk identification.

GCL Risk Atlas provides guidance with regard to possible risk areas (examples given for the different risk categories) and facilitates the risk analysis. The risk analysis process has to use systematically all available information of a specified event to determine the likelihood and the potential impact of occurrence.

1.2 What are the risks GCL is interested in?

The risk identification at GCL gives significant importance to one-off occurrences rather than the generic or normal business risks. In particular extraordinary or nonrecurring items affecting seriously the results should be the subject of the risk analysis and not all possible risks that might affect negatively the projected profit. The focus must be on those likely to affect essentially the success of the activities.

As an example, possible sales price or volume sensitivities deviating from Annual Operating Plan assumptions as such do not threaten the going concern of the operations. Pure market sensitivities or volatilities should not be reported as a risk. On the contrary, massive imports or a possible loss of a key customer with high contribution to turnover or entry of a new competitor should be notified, as these represent extraordinary occurrences independent from market trends.

Analogical energy price sensitivities are not the kind of operational risk necessary to be included in the risk map, but the exhaustion of local reserves or serious energy supply problems should be evaluated and reported. Whenever significant Government interventions threaten the business operations these risks must be notified.

A risk analysis has to go further than the presentation of normal operational or sensitivity risks and pure volatility risks. The attention should be turned to the record of definable single events with significant impact on the results and a relevant likelihood of occurrence (10% and above).

2. Risk Evaluation

2.1 Quantitative risk evaluation

At GCL the risk analysis and evaluation is based on bottom-up approach. In the bottom up approach the Risk Owner estimates the impact and the likelihood of occurrence of risks.

2.1.1 Risk distribution function

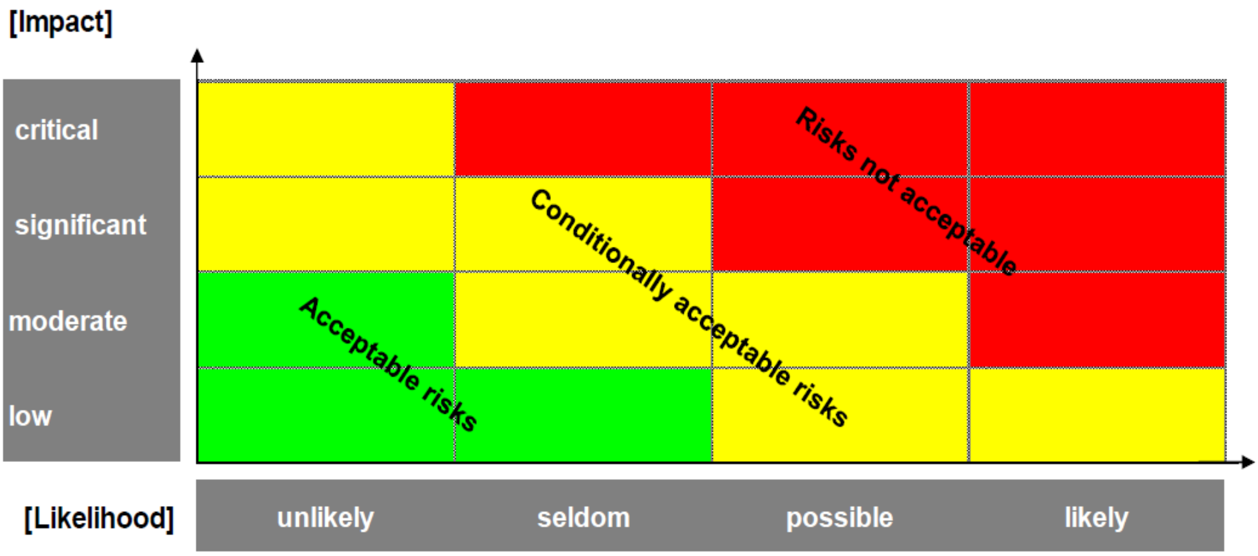
For the risk evaluation the general distribution function to be used is given below:

Formula: Impact x Likelihood = Expected value

The risk impact will be specified as absolute value.

Positive effects of management actions to reduce the risks have to be considered when calculating the possible impact and / or when estimating the likelihood.

The risk evaluation is to be done through a risk matrix (4 X 4) as the combination of the potential impact (in MINR) and the likelihood (%) of occurrence of an event.



Impact Class

MINR

Evaluation class	From	To
Critical	> 200	
Significant	> 100	200
Moderate	> 50	100
Low	0	50

Likelihood

Evaluation class	Probability
Unlikely	10% - 20%
Seldom	>20% - 40%
Possible	>40% - 60%
Likely	>60%

Threshold limit

For the purpose of reporting of risk, Expected Value of MINR 10 shall be applied as threshold limit.

Considerations and "Musts" when evaluating a risk

Provisions

All risks for which a provision has been made have to be factored when calculating Risk. Fully or partially made provisions for risks must be deducted from the estimated impact amount, to avoid double reporting of negative events.

Risk interdependences

In order to determine the total risk position, a particular consideration must be given to the correlations between single risks. Such interactions, for example, manifest themselves in either a reciprocal compensation or an increase in the risk exposure.

Explanation of the evaluation

It is compulsory to describe and explain comprehensibly the underlying calculation parameters for the notified impact and likelihood. Where available a document with the detailed calculation has to be submitted in addition to the normal "must" risk information.

Actions and risk treatment measures

All risks require an action for risk treatment (mitigation, reduction, prevention, transfer or sharing the risk with a third party).

The action is a "must" for all reported risks in particular when the risk is classified as "yellow" or "red".

If the risk evaluation leads to the decision not to treat the risk, the assumptions and reasons used for justifying or accepting the risk should be clarified.

2.2 Qualitative risk evaluation

For the presentation of a comprehensive overview of all substantial risks it has to be kept in mind that there are several risks which simply can´t be quantified or which can be subject to a very arbitrary estimation. These qualitative risks should not be underestimated or ignored. "Soft" and not directly measurable risks can sometimes unroll a more serious outcome for a company than properly quantified risks.

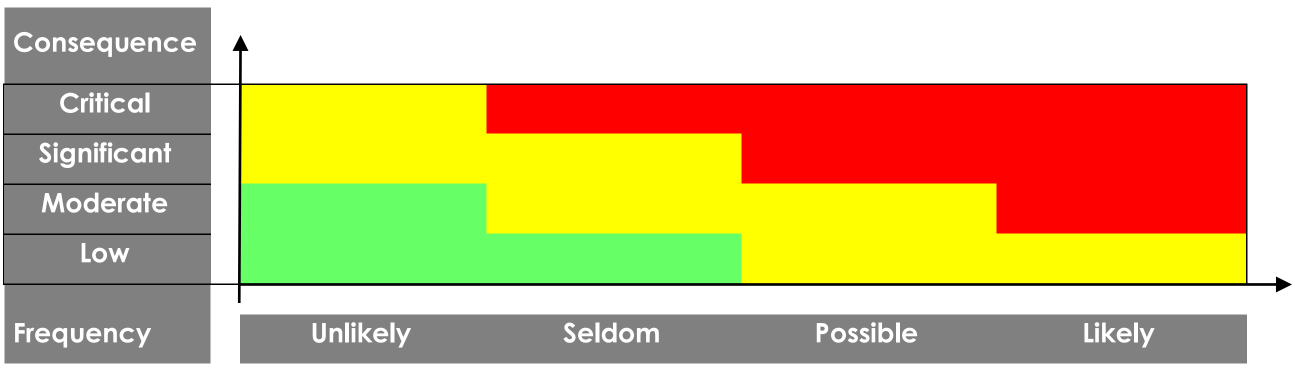
Some examples of qualitative risks are:

- Loss of reputation of the Company
- Negative press release
- Media campaigns
- Customer expectations on product quality/ Deterioration in brand image
- Governance and compliance issues
- Disregard of Code of Conduct
- Conflict of interest
- Unethical practices
- Fraud & Illegal acts
- Bribery & Corruption

- Human resources
- High attrition rate
- Intellectual property
- Discrimination and Harassment
- Sexual Harrassment
- Disregard of Health & Safety Guidelines
- Problems with Trade Unions
- IT related
- Infrastructure / systems
- Cyber / Security / Access
- Availability / Continuity
- Integrity / Controls

In the GCL Risk Atlas the specific risk categories are highlighted. General criteria for Qualitative risk evaluation, the possible impact (consequence) and the likelihood (frequency) of occurrence are described in below.

<u>General criteria for evaluation of Qualitative Risks</u>



General criteria for risk consequence

Stage	General	Loss of reputation and assets	Financial loss	Injuries to persons
Low	In view of the organisation's size, the risk is low. In the best case the risk is negligible, in the worst case, it results in minor property damage or additional costs	Criticism and complaints related to the business activities; allegations to certain practices.	The possible extent to loss is limited to frequent complaints.	Minor injuries to persons.
Moderate	The risk may result in damage to the property and / or additional cost; some operational functions can be interrupted by the event; partly delivery commitments cannot be met (delays).	Media campaigns, criticism by stakeholders or public discussions opposing the business activities, products and services of the Company.	The financial result is perceptibly affected, the risk results in a decrease in the OI/net income planned/forecasted.	Curable injuries to persons or worst case mild permanent health damage.
Significant	The risk may result in essential damage to property and/or additional cost; important operational functions are interrupted by the occurrence for a longer period; deliveries are not performed.	Officials come under criminal investigations; allegations of criminal acts, fraud, anti-competitive trade practices.	The financial result is affected significantly; due to the risk the OI/net income strongly decreases.	More severe health damage reducing the quality of life heavily.
Critical	The entire Company or Group is affected by the risk; in addition to substantial property damage and / or additional cost, important operational functions are interrupted for a longer period; customer move to competitors; threat of survival of the Company.	Disregard of Code of Conduct, of Corporate management and safety guidelines and policies; failure to respect principles or the public's sense of ethics; media campaigns causing loss of trust in business activities and the responsible management.	The risk reaches or surmounts the regular or expected level of the annual results.	Personal injuries resulting in death or very severe disability.

General Criteria for the risk frequency

Stage	General / Interpretation	Frequency
Unlikely	The risk cannot be ruled out, the risk occurrence can be considered improbable, if the foreseen precautionary measures or actions are taken and if regular mandatory checks are performed.	From one in hundred years up to once in ten years.
Seldom	The risk cannot be ruled out and is realistic; the risk is known based on own experience, benchmark with peers or product comparisons; there are precautionary measures in place considered suitable for the risk prevention.	From once in ten years up to once in five years.
Possible	The risk can be considered possible; comparison with peer groups/industries reveal that such type of damage occurs relatively often.	From one in five years up to once in two years.
Likely	The risk may occur several times within the reference period; the event forms part of the regular business activities.	From once in two years up to once a year.