PEARL ENGINEERING POLYMERS LIMITED

POLICY ON
RISK ASSESSMENT AND
MINIMISATION PROCESSES

I. Preamble

It is the responsibility of the Board of Directors of the Company to review the risk assessment and minimisation processes currently existing in the Company. Based on such review the Board is to make a mandatory disclosure of the risk assessment and minimisation processes/initiatives to the shareholders in the annual report of the Company.

To facilitate this review process the Top management group and every function / department of the company is to document the risk assessment and minimisation processes existing at various levels.

II. Types of Risks

Before discussing the process to be adopted to achieve the above it is important to recognise that risks exist at the following levels:

1. Enterprise level risks: These are high level risks afflicting the Company as a whole. The negative implications of such risks will have far reaching consequences towards the achievement of organisational goals. Some Enterprise level risks are common for all players in the industry, while some risks could be unique for the Company based on its business plans, strategic decisions and operational modalities.
2. Functional/ departmental level risks: These are risks afflict a function / a department in achievement of its departmental objectives. The negative implications of such risks could be substantial as they could have far reaching consequences in the management of Enterprise level risks.
3. Process level risks: These risks are the lowest level of risks being managed by process owners who are sectional heads/ Managers reporting into a departmental/ functional head. The negative implications of such risks can vary from negligible to very significant depending on the impact it would have in the management of functional risks.

Having recognised the levels of risk it is the responsibility of the Company's Management to:

Ensure that Organisation's strategic business objectives are clearly defined and communicated to all the function/ department heads. Ensure the existence of an appropriate mechanism to assess and minimise risks at all levels; Clearly define functional, sectional and process ownership, thus clearly defining risk management responsibility;

Develop a process for risk documentation and communication; Clearly defining the risk escalation protocols and responsibilities of various review and oversight bodies; Instigate reviews to assess the effectiveness of the risk management strategy; and Report the risk assessment and minimization procedures to the Board Members.

III. The Risk information Process Risks should be identified, recorded and scored at the process and functional levels before it is escalated to a Oversight Body. There are various Oversight Body existing who are playing / will play a role in risk management. The various existing Oversight Body for the Company are as follows:

Oversight Body	Role	Will Report to
Board of Directors	• To review critical Company / Enterprise level risks • To review the highlights of the Risk Management process	Share holders through the Management Discussion and Analysis.
Audit Committee	• To review all Enterprise level risks • To direct the approve all Risk Management initiatives of the Company	Board of Directors
Management Committee	• To review Critical Functional risks • To direct the risk management initiatives of the various functions as approved by the Audit Committee • To propose the Risk Management strategy to be adopted by the Company for various levels/functions	Audit Committee
Functional Heads	• To review process level risks for the process within the function • To review the function level risks as given in its mandate • To direct the risk Management initiatives of various Functional heads/ process as given in its mandate	Management Committee

IV. Responsibility of Manager and Function / process owner

Identifying & Recording of the Risk

- Each function/ department should identify and record risks to the achievement of their business objectives. This may be done by categorising and assessing business events (or factors). Events may have a negative impact, a positive impact or both. Events with a potentially negative impact represent risks, which require risk owners assessment & response.
- Events and the attendant risks could arise from any aspect of the business and as such the review should consider all aspects of the business including
  - Strategic

- Resource management (Financial and those having indirect financial implications such as people, utilisation of assets, etc.)
- Operational (Within operational the following)
    - Supply Chain/ Capacity Management
    - Marketing/ Sales/ Distribution Management
    - Supplier Management
    - Human Resources Management
    - Information Technology Management
    - Outsourcing Management
    - Project Management
    - Crisis Management
- Statutory compliance related

- A representative list of events and its categorisation is given in the Appendix 1. The events/factors, which you feel are relevant for your function/ process, should be assessed to find out potential risks.

- Each function should then record the risks so identified on the Template 1 called "Identifying and Analyzing Risk".

Assessment & Prioritising of the Risk

- The probability and impact of each risk should be indicated by 1-5 scores in the relevant columns in the template. The Tables 1 & 2 in Appendix 2 give an indication of how these scales should be applied.
- The objective is to identify the key risks; therefore each process owner and function/ department should prioritise the risks identified.

Communicating the Risk

- Each function/ department should return the completed template of "Identifying & Analysing Risk" to the OVERSIGHT BODY to which it reports as given on Page 2 with a copy to Chairman & Managing Director.

V. Appendix 1: Event Categories

Internal Factors

Infrastructure • Availability of assets • Capability of assets • Access to capital • Complexity • Mergers/acquisition	Personnel • Employee capability • Health & safety • Judgement • Security practices • Sales practices • Fraudulent Capability	Process • Capacity • Design • Execution • Suppliers/dependencies
Technology (Data) • Acquisition	Technology (System) • Selection	

• Maintenance • Distribution • Confidentiality • Integrity • Data availability & Capacity	• Development • Deployment • Reliability • System availability & Capacity	

External Factors

Economic • Market Capacity • Credit ➢ Issuance Process ➢ Default ➢ Concentration • Liquidity ➢ Market ➢ Funding ➢ Cash flow • Market ➢ Prices ➢ Interest rate ➢ Unemployment ➢ Indices ➢ Exchange rate ➢ Equity valuation	Business • Brand/trademark • Competition • Consumer Behaviour • Counterparty • Fraud • Industry Standards • Ownership Structure • Publicity • Product relevance	Natural Environment • Monsoon / draught • Emissions, effluents and waste • Energy • Fire • Natural Disaster
Technological • Electronic commerce • External data • Emerging technology	Political • Governmental changes • Legislation • Public policy • Regulation	Social • Demographics • Corporate Citizenship • Environmental Stewardship • Privacy

Please note the above list is representative and other events if applicable should be considered.

VI. Appendix 2: Risk Impact & Probability Scales

Risk Probability

Risk probability is a measure of the likelihood that the consequences described in the risk statement will actually occur and is expressed as a numerical value. Risk probability must be greater than zero, or the risk does not pose a threat. Likewise, the probability must be less than 100 percent, or the risk is a certainty-in other words, it is a known problem. The risk probability may be subjectively defined wherever it is difficult to quantify the same. The table below demonstrates the risk level score for qualitative and quantitative probabilities.

Table 1: Risk Probability Scoring

Risk Level Score	Risk Probability

	% Range	Description
1.	0 – 25	Rare – Event may occur only in exceptional circumstances
2.	25 – 50	Unlikely – Event could occur at some time
3.	50 – 75	Moderate – Event should occur at some time
4.	75 – 100	Almost Certain – Event is expected to occur in most circumstances

Risk Impact

Risk impact is an estimate of the severity of adverse effects, the magnitude of a loss, or the potential opportunity cost should a risk be realized. Risk impact can either be measured in financial terms or with a subjective measurement scale. The financial impact might be longterm costs in operations and support, loss of market share, short-term costs in additional work, or opportunity cost. The highest and the lowest financial impact can be identified across the company and then mapped to a risk level score to arrive at a uniform risk impact scale as is given bellow:

Table 2: Risk Impact Table

Risk Level Score	Criterion	Financial Impact (Rs Crores)	Time Impact (Delay in weeks)	Performance Impact
1	Low	< 0.05	1	Low impact on performance
2	Medium	0.05 to 0.2	2	Medium impact on performance
3	High	0.2 to 1	5	High impact on performance
4	Critical	> 1	>5	Critical impact on performance