RISK MANAGEMENT POLICY

TEXTILE RECYCLING INTERNATIONAL
Return, Renew, Reuse, Recycle

CONTENTS

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Return, Renew, Reuse, Recycle

1. OBJECTIVES, SCOPE AND DEFINITIONS

1.1 WHAT IS RISK MANAGEMENT?

Risk management is the process by which risks are identified, evaluated, assigned owners, managed and reported on an ongoing basis. The purpose of implementing a risk management framework is to ensure that risk management is undertaken on a consistent basis across the organisation by providing a structure for reporting and evaluating risks and monitoring remediation activities. A key principle of risk management is not to eliminate risk but to ensure that risks are managed in line with the risk tolerance agreed by the executive. It is acknowledged that measured risk taking is integral to conducting business.

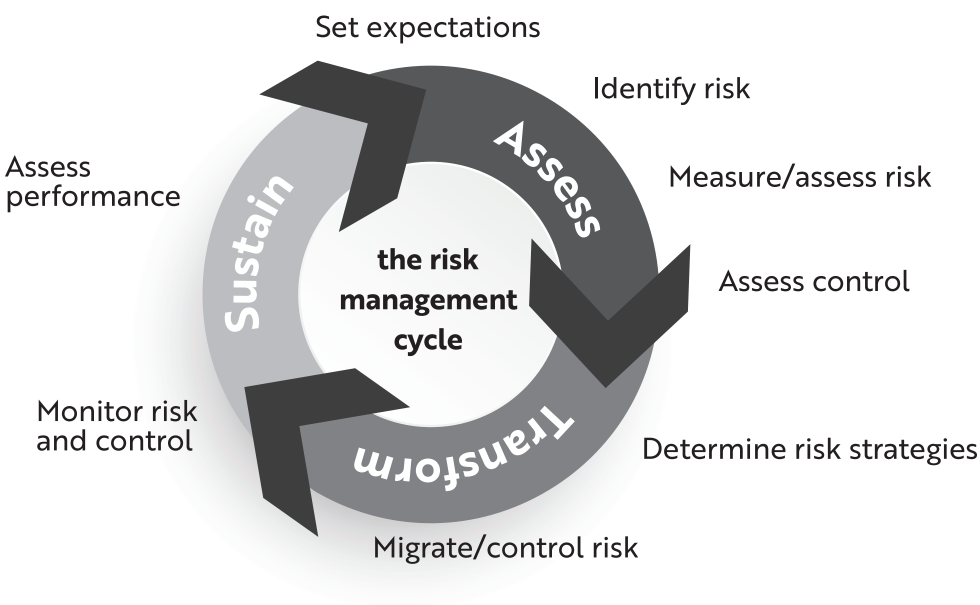
1.2 WHAT ARE THE BENEFITS OF A RISK MANAGEMENT FRAMEWORK?

An effective risk management framework will enable Textile Recycling International ('TRI') to define its appetite for risk and decide the most appropriate approach for managing risk. The key benefits of an effective framework are to:

- Foster a shared understanding of risks across TRI;
- Focus resources on tackling the issues that impact stakeholder value;
- Manage risks that may prevent TRI from achieving its objectives, or exploiting opportunities;
- Support TRI strategic planning and budgeting process by identifying where there are opportunities and potential exposures; and;
- Establish and maintain good governance.

1.3 RISK MANAGEMENT IS A BUSINESS AS USUAL ACTIVITY

One of the most common pitfalls of risk management is that risk identification and assessment is treated as a sporadic once-a-year compliance activity, rather than a commercial day to day process. Risk management is not a form filling exercise, rather, its principles should be embedded within the business and its activities. The iterative cycle of risk management is depicted in the diagram below:



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Return, Renew, Reuse, Recycle

1.4 WHO IS RESPONSIBLE FOR RISK MANAGEMENT?

Risk management is relevant and applies to all employees of TRI. This policy document defines roles and responsibilities across the group.

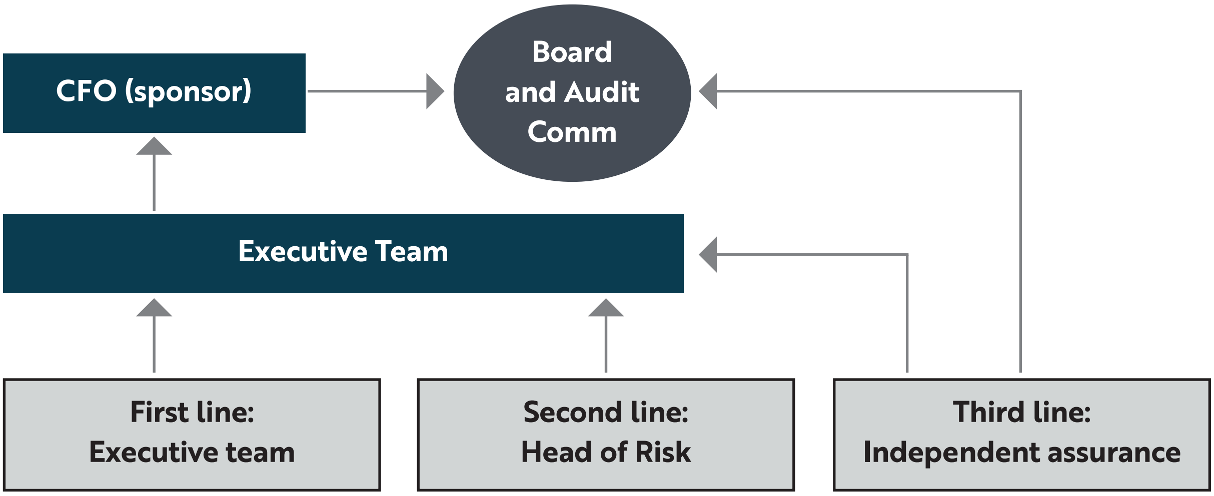
1.5 KEY DEFINITIONS

Team	Definition
Risk	Risks are potential causes of failure to protect existing assets, managing potential liabilities or achieving future growth objectives.
Risk crystallisation	The occurrence of a risk
Inherrant risk	The likelihood of the risk crystallising, assuming that there are either no mitigating actions or controls in place or that these controls do not work as intended. Refer to section 4.1 for detailed guidance.
Residual risk	The likelihood of a risk crystallising assuming that the mitigating actions and/or controls are operating effectively. Refer to section 4.1 for detailed guidance
Risk impact	The impact of the risk crystallising. Refer to section 4.1 for detailed guidance.
Risk score	The product of residual risk and risk impact.
Control	An activity which either prevents or detects a risk.
Preventative control	An activity designed to prevent a risk from crystallising.
Risk appetite	The chosen level of risk TRI is prepared to accept.
Leading indicator	A measure that may indicate that the likelihood or impact of a risk is increasing or that it may increase in the near future or that a risk may crystallise.
Risk status	A risk status is assigned by the risk manager in conjunction with the Executive to prioritise which risks require attention by risk owners.

RISK MANAGEMENT POLICY

2 ROLES AND RESPONSIBILITIES

Risks are reviewed on an ongoing basis and are captured in a risk register, identifying the risk area, the likelihood of the risk occurring, the impact if it does occur and the actions being taken to manage the risk to the desired level. The Board's role is to consider whether, given the risk appetite of the Group, the level of risk is acceptable within its strategy.



2.1 THE BOARD'S RESPONSIBILITIES

- Overall responsibility for overseeing the Group's risk management and internal control process
- Determines the Group's risk appetite
- Ensures appropriate and robust systems of risk management and internal controls are in place to identify, manage and mitigate risks to the overall viability of the Group.

2.2 AUDIT COMMITTEE'S RESPONSIBILITIES

- Assessing the scope and effectiveness of the Group's internal controls and risk management systems
- Agreeing the scope of the internal audit and external audit functions, and reviewing their work

2.3 THE SPONSORS RESPONSIBILITIES

- Provides executive sponsorship for the risk management programme
- Reports to the Board and AC on risk

2.4 SENIOR LEADERSHIP TEAM'S RESPONSIBILITIES

- Primary responsibility for day-to-day risk management
- Identify, assess, monitor, manage and mitigate risks and exploit opportunities
- Embedding risk management and internal controls as business as usual
- Ensuring corrective actions to mitigate risks and address control deficiencies
- Self-certification of operation processes and controls
- Prepares reports for the audit committee and the programme sponsor
- Must be satisfied that control or mitigation procedures are working

2.5 HEAD OF RISK

- Head of Risk, including oversight of:
  - Functions: Finance (internal controls), HR, Security (tech)
  - Groups: Commercial, IT, Operations

- Establish appropriate policies, provide guidance, advice and direction on implementation
- Monitor the first line of defence

2.6 INDEPENDENT ASSURANCE

- Provide independent assurance that risk is being appropriately managed
- Carried out by parties such as internal auditors & external auditors
- Identify process improvements and efficiencies

3 RISK CATEGORISATION

When risks crystallise their impact can be felt in a number of different areas, including:

- The reputation of TRI (Brand)
- Customer experience (website downtime, stock outs, faulty products)
- Financial implications – for example an increase in costs or a failure to maximise revenue
- Accuracy of financial statements
- Employee satisfaction
- Compliance/legislation

Risks are classed as either Existential, Operational and Emerging and are ranked on a scale of 1-5 for likelihood and impact (mitigated and unmitigated) with a combined score between 1 (1x1) and 25 (5x5).

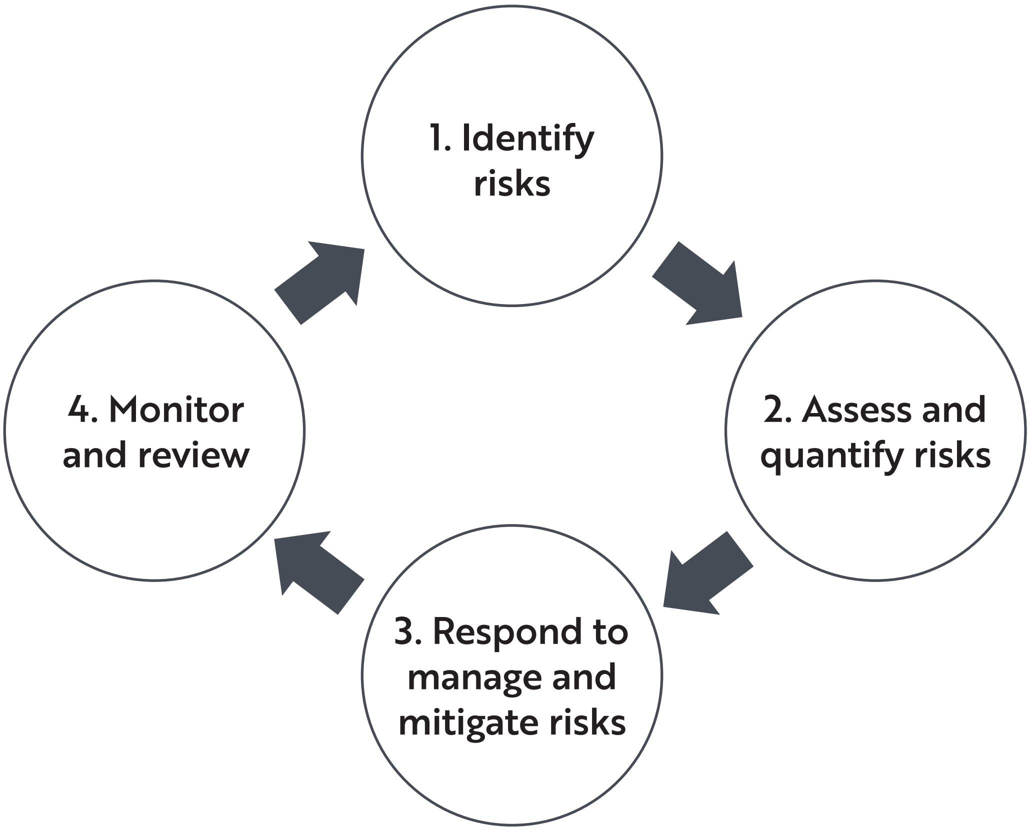
3.1 RISK GROUPINGS

Once identified, the Group categorises risks into seven areas:

- Economy, market and business environment risk;
- Financial risk;
- Regulatory
- Asset risk;
- Operational risk;
- Tech infrastructure ; and
- Competitive risk.

4 RISK IDENTIFICATION, EVALUATION AND MEASUREMENT

We recognise that effective risk management is critical to enable us to meet our strategic objectives and to achieve sustainable long-term growth. A four-step process has been adopted to identify, monitor and manage the risks to which the Group is exposed:



The table below sets out what is meant by each of the first three steps noted above and provides guidance on the activities associated with each step.

RISK MANAGEMENT POLICY

TEXTILE RECYCLING INTERNATIONAL
Return, Renew, Reuse, Recycle

Step	Description	Activity
Risk identification	A top-down and bottom-up approach is used to identify principal risks across the business. Whilst the Board has overall responsibility for the effectiveness of internal control and risk management, the detailed work is delegated to the Executive Team.	Identify key value drivers of the business and the associated events and scenarios. These will quickly become starting points for identifying and considering interactions relevant to risk. Risk can be identified in a number of ways, including through the course of day to day operations. Other formats for identifying risk include: • Risk workshops • Risk committees • Third party risk assessments
Risk evaluation	Risks and controls are analysed and evaluated to establish the root causes, financial impact and likelihood of occurrence. The Group categorises risks into seven areas: • economy, market and business environment risk; • financial and compliance risk; • asset risk; • operational risk; • Tech infrastructure • regulatory; and • competitive risk;	Consider each of the risks and determine what the impact will be on the Group if the risk crystallises. It is recognised that a risk may impact more than one area, and all such areas should be considered, although for monitoring and reporting purposes it may be easier to attribute risks to a primary area. The likelihood of the risk crystallising is also estimated. The five point rating scale for impact and likelihood is described later in this section. As with the risk identification step, a risk workshop or committee may be an effective forum for evaluating risk.
Risk measurement	Measuring risk is based around determining the likelihood of a risk crystallising and the expected impact if it did. Combining these two factors drives a risk measurement, often referred to as a risk score.	Likelihood and impact should each be measured on a five point scale. The tables below provide additional guidance on the criteria to be used when assessing likelihood and impact. The overall risk score is determined by multiplying the risk likelihood by the risk impact.
Respond to and mitigate risk	The effectiveness and adequacy of existing controls are assessed. If additional controls are required to mitigate identified risks then these are implemented and responsibilities assigned.	Evaluate in detail the controls in place and assess how the control reduces the likelihood of the risk occurring.

RISK MANAGEMENT POLICY

TEXTILE RECYCLING INTERNATIONAL

Return, Renew, Reuse, Recycle

The product of residual risk likelihood and risk impact, i.e. the risk score, is plotted on a 5x5 matrix which is colour coded to illustrate the severity of the risk. Risks should be considered both before and after mitigating controls have been taken into account.

Example:

ALL RISKS MITIGATED

	Extremely unlikely	Unlikely	Likely	Very likely	Existential
Existential	0 (0%)	0 (0%)	0 (0%)	0 (0%)	7 (6%)
Major	7 (6%)	6 (5%)	2 (2%)	0 (0%)	0 (0%)
Significant	9 (7%)	8 (6%)	1 (1%)	1 (1%)	0 (0%)
Moderate	24 (19%)	24 (19%)	5 (4%)	0 (0%)	0 (0%)
Low	18 (14%)	11 (9%)	2 (2%)	0 (0%)	0 (0%)

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Return, Renew, Reuse, Recycle

4 RISK MEASUREMENT SCORING

The criteria to be used for measuring *risk likelihood* are:

Scale	Description	Probability of occurrence
5	Certain	Will occur at some point, bit time scale uncertain
4	Very likely	Is occurring at present or is expected to occur in the next 12 months
3	Likely	Is expected to occur at least once within the next 1 to 3 years
2	Unlikely	Expected to occur once in a 3 to 5 year period
1	Extremely unlikely	Is not expected to occur

The criteria for measuring risk *impact* are:

Scale	Description	Financial	Reputational	Operations/Customers	Regulatory
5	Existential	If occurs, would have the potential to end or seriously impair our ability to continue to trade, unless we make changes to our business model and strategy			
4	Major	> £5 million loss	Considerable media attention, long term impact on reputation. Legal action.	Major service disruption. Majority of customers affected. Stock challenges for the majority of SKUs	Removal of license
3	Significant	Between £2.5m and £5m loss	Short term impact on public perception. Threat of legal action	Significant service disruption. Up to 25% of customers impacted. Up to 25% of stock impacted.	Warning/ public censure/ penalties
2	Moderate	Between £0.5m and £2.5m loss	Contained internally, very little media coverage	Limited service disruption. 10% or less of customers impacted.	Procedural comment or minor breach of internal procedures
1	Low	<£0.5 loss	Contained internally	Minimal impact. Less <5% of customers impacted.	Minor breach requiring corrective action

5 RISK REGISTER

Each risk noted in the register will include a risk owner. The risk owner is responsible for the monitoring and management of the risk, the mitigating activities in place to manage the risk, and leading indicators which can be used to monitor the likely crystallisation of the risk. These indicators should be clearly defined, measurable and wherever possible based on existing information.

6. MONITORING RISK

6.1. Sources of assurance

A risk may be mitigated by a control or specific mitigating action. Management can obtain assurance that the control or mitigating action is effective through:

- Management's own self-assessment of the risk;
- A review by internal audit Head of Risk;
- A review by external audit; or;
- A review by an independent specialist.

6.2. Group risk monitoring

It is the risk owner's responsibility to monitor changes to a risk. Any changes to a risk should be reported to the Senior Leadership Team as soon as possible so that the risk register can be updated and the risk evaluated.

Once every six months a scheduled review of all risks should take place to ensure all risks are up to date.

The Board will review risk on a six-monthly basis.

6.3. Changes in risk scores or new risks

If management become aware of any significant changes in the likelihood or impact of a risk, or if a new risk is identified that should be recorded in the risk register, they should notify the Senior Leadership Team as soon as possible.

6.4. Crystallisation of risks

If a risk crystallises the Senior Leadership Team should be notified immediately. If the risk has a risk score above 10 the Chief Financial Officer (or another sponsor) should be notified immediately.

7 INTERNAL CONTROLS

The Board acknowledges its responsibility for establishing and maintaining the Group's system of risk management and internal controls and it receives regular reports from management identifying, evaluating and managing the risks within the business.

The system of internal controls is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The Audit Committee will review the system of risk management and internal controls through reports received from management, along with others from internal and external auditors. Management continues to focus on how internal controls and risk management can be further embedded into the operations of the business and on how to deal with areas of improvement which come to the attention of management and the Board.

The Group has internal controls and risk management systems in place in relation to its financial reporting processes and preparation of consolidated financial information. These systems include policies and procedures to ensure that adequate accounting records are maintained, and transactions are recorded accurately and fairly to permit the preparation of financial statements in accordance with IFRS. The internal control systems include the elements described below.

Element	Basis of assurance
Risk management	Whilst risk management is a matter for the Board as a whole, the day-to-day management of the Group's key risks resides with the Senior Leadership Team and is documented in a risk register. A review and update of the risk register is undertaken twice a year and reviewed by the Board. The management of identified risks is delegated to the SLT.
Financial reporting	Group consolidation is performed on a monthly basis with a month-end pack produced that includes an income statement, balance sheet, cash flow and detailed analysis. The month-end pack also includes KPIs, and these are reviewed each month by the SLT and the Board. Results are compared against the Plan or Reforecast, and narrative provided by management to explain significant variances.
Budgeting and forecasting	An annual Plan is produced, and monthly results are reported against this. The Plan is prepared using a bottom-up approach, informed by a high-level assessment of market and economic conditions. Reviews are performed by the SLT and the Board.
Delegation of authority and approval limits	A documented structure of delegated authorities and approval for transactions is maintained. This is reviewed regularly by management to ensure it remains appropriate for the business.
Segregations of duties	Procedures are defined to segregate duties over significant transactions, including procurement, payments to suppliers, payroll stock, and discounts/refunds. Key reconciliations are prepared and reviewed on a monthly basis to ensure accurate reporting. Key transactional controls are maintained within a separate 'Internal controls framework document'.

RISK MANAGEMENT POLICY

8 KEY CONTACTS

• Neil Wilson (CFO) – neil@textilerecyclinginternational.co.uk