



Zuari Agro Chemicals Limited (“Company”)

Risk Management Policy

Risk Management Policy

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Risk Management Policy

A. Purpose

Risk Management is achieved by implementing a suitable set of controls in both policy and practice. These controls may include policies, standards, guidelines, procedures, technologies and/or processes to define and explain instructions to users or other affected parties. This Risk Management Policy sets forth the guidance for the Company to maintain and ensure ongoing compliance with corporate risk management practices and risk tolerance levels as established by the management.

B. Scope/Applicability

This policy applies to all the employees and associates of the Company. This includes all users, information systems and paper files at the Company and approved third-party facilities.

C. Policy Statement

Risk assessment is the process of identifying risks, assessing and understanding those risks, and prioritizing risks. A formal risk assessment will be performed each year to identify threats / risks to the Company; to determine the risk of these threats occurring; and to recommend appropriate safeguards and countermeasures to reduce both the likelihood of threat occurrence and the effects produced if the threats are realized.

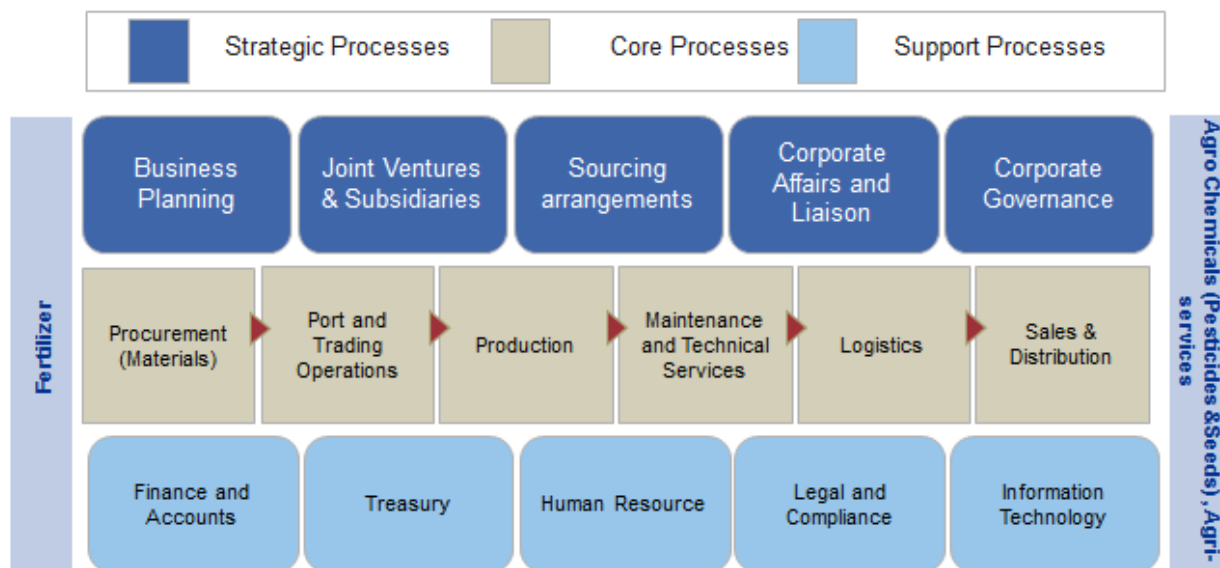
Company's goals for risk management are that risks are identified; risks are documented, understood and managed within tolerances established by management. Risk-acceptance decisions should be consistent with strategic business objectives, and should be explicit and communicated such that the expected return compensates for the risk involved.

In circumstances where the accepted risk of a particular course of action cannot be adequately mitigated, concerned risk owner may ask for a "Management Risk Acceptance Memorandum". Such a memorandum will document the requestor's business justification, for the increased risk and exposure it presents to the Company.

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D. Coverage

Coverage of Risk Assessment shall include the following:



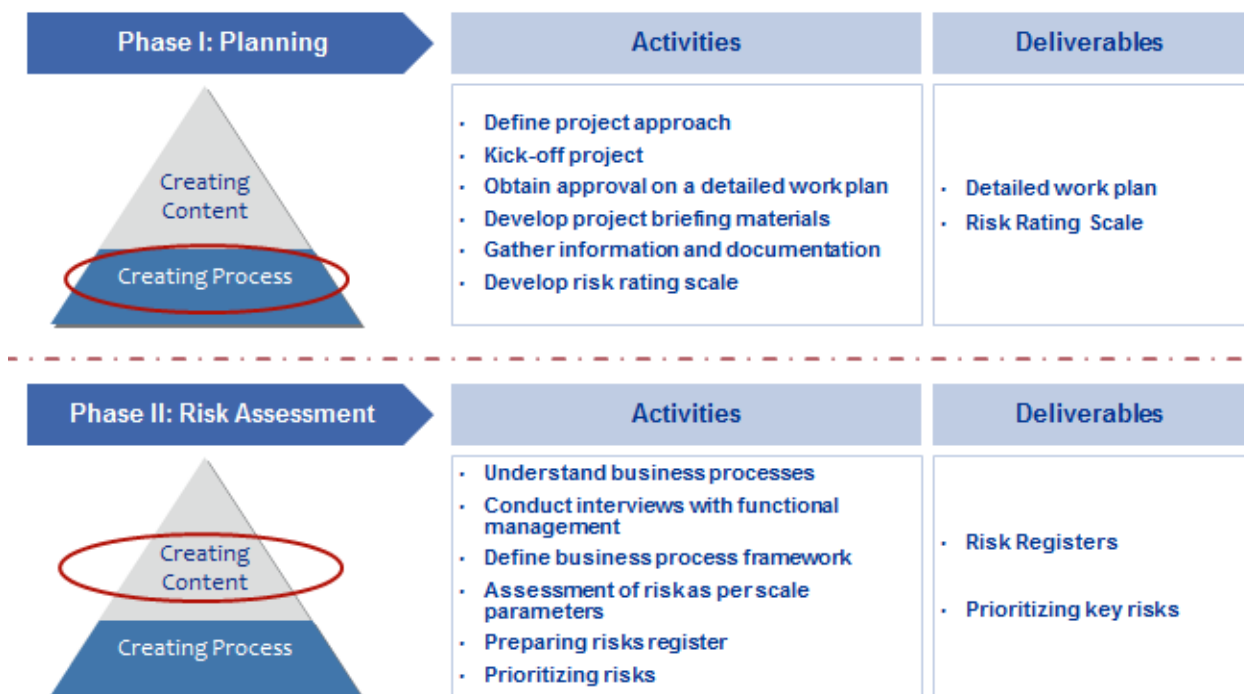
E. Risk Management Process

Approach for Risk Assessment involves the following steps (identified in consultation with KPMG):

- a. Define Risk measurement scale for the Company.
- b. Identification and assessment of operational risks with the individual Operating Managers and Functional Heads.
- c. Risk measurement as per measurement scale discussed and approved by senior management. The rating scale comprising financial, operational and regulatory criteria was used to identify –
 - i. Risks which are key at Inherent level and Residual level,
 - ii. Risks which are key at Inherent level and non-key at Residual level.
- d. Risk prioritization: Prioritized risks to be reviewed by the Corporate Management Committee, Risk Management Committee and Audit Committee of the Board. Risk mitigation strategies to be documented and monitored periodically by management.
- e. Risk monitoring: Management process established for bi-annual evaluation of key risks in light of internal and external business changes. In order to facilitate this, management needs to –
 - i. Establish key risk indicators and metrics for key and non key risks in order to ensure risk levels are within established thresholds
 - Identify critical data points and data sources,
 - Collate data over specific period of time, and

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- Analyse data to develop thresholds.
 - ii. Assess the adequacy and operating effectiveness of mitigating controls.
 - iii. Review of updates to risk register by respective functions as a result of bi-annual in-house review to identify and evaluate new risks, if any.
 - iv. Periodical review of updates to risk register and risk monitoring system by outside agency
- f. The outcome of these risk reviews to be periodically reviewed by Risk Management Committee and reported to the Board of Directors and Audit Committee.



Detailed process for Risk Assessment is as under:

a) Establish the Context

The key step here is to chart out objectives of risk management process. It involves understanding the nature of risk and its associated factors (external/ internal)

External risks involve risks which are beyond the control of the organization. An indicative list is as follows:

- Slowdown in economic growth of the Country
- Fluctuations in the foreign currency exchange rate risk
- Threat to business continuity in the eventuality of disasters like riots, war with enemies, uncertainties of nature like floods, earthquakes, drought etc

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- Unfavourable changes in government policies or lack of political support

Internal risks involve inability to perform despite favorable conditions prevailing in the market. An indicative list is as follows:

- Key Man risk, i.e. sudden/ unplanned/ long / permanent absence of the key managerial personnel
- Noncompliance / violation of various laws applicable to the Company
- Use of obsolete technology
- Inability to anticipate and meet customer requirements
- Financial risk

b) Risk Identification

Risk identification sets out to identify an organization's exposure to uncertainty. Risks are being identified keeping in mind the market in which the company operates, the legal, social, political and cultural environment in which it exists, as well as the development of a sound understanding of company's strategic and operational objectives, including factors critical to its success and the threats and opportunities related to the achievement of these objectives.

The process owners of each business process identify the different type of risks that effects/ may affect their business process. The risks identified are categorized as:

- Environment Risk
- Business Interruption Risk
- Legal Non Compliance Risk
- Operational Risk
- Investment Risk
- Efficiency Risk
- Profit Risk
- Asset Health Risk
- Subsidy Risk

c) Risk Analysis

The risks that are being identified are displayed in a structured format in the Risk Registers. The Risk Registers facilitate the description and assessment of risks. The maintenance of Risk Registers is the responsibility of the Internal Audit Department. The same are updated/ reviewed basis the ^{9.8} inputs received from the divisional heads.

Organization has drafted the Risk Framework and Risk Registers. Each risk identified is further classified as Key Risk or Non Key Risk based on the ratings as per following

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risk measurement scale (will need to be modified annually and to be pre-approved by Risk Management Committee).

Impact	1	2	3	4	5
	Insignificant	Minor	Moderate	Major	Severe
Strategic - Fertilizers					
Impact on Profit	<1%	>1% (2 Cr)	>3.5% (8 Cr)	>7% (16 Cr)	>10% (23 cr)
Basis: Average YoY % change in actual sales volume in 2010-11 and projected profit till 2012-13; Value basis: PBT in 2010-11 of 239.4 Cr					
Impact on Sales/Turnover (MT)					
- Indigenous Fertilizers	<1%	1-3%	3.5-7%	7-10%	>10%
- Traded Fertilizers	<1%	1-5%	5-10%	10-15%	>15%
Basis: Management discussion					
Business Interruption					
Stream days lost (excluding annual shutdown)	-	<7 days	7-15 days	>15 days	>15 days
No. of business interruptions	-	-	1	>2	>2
Basis: Management discussion					
Environment, Health and Safety					
Environmental	-	-	-	-	Any instance of environmental damage
Health and Safety	-	Single injury	Multiple injuries	Single fatality	Multiple fatalities
Other Strategic					
Reputation	Localised complaints	Repetitive public complaints	Localised negative media coverage	1. Nationalised negative media coverage 2. Disruption of customer / investor confidence	1. Nationalised negative media coverage 2. Disruption of customer / investor confidence
Availability to attract, train and retain talent	LM: 1-3%	LM: 3-5%	SM: 1-2% MM: 2-3% LM: 5-7%	SM: 2-3% MM: 3-4% LM: 7-9%	SM: >3% MM: >4% LM: >9%
Basis: Average attrition over last 3 years					
Compliance					
Prosecution for FCO, Weights and Measures Act and Packaged Goods Act	NA	NA	Single compounding per statute	Double Compounding per statute	Any prosecution
Prosecution under any other act	NA	NA	NA	NA	Any prosecution of key personnel
Fine/ penalty / penal interest (excluding Income Tax)	-	<1 Lac	1-5 Lacs	5-7.5 Lacs	>7.5 Lacs
Probability	1	2	3	4	5
	Unlikely	Rare	Moderate	Likely	Almost Certain
	Theoretically possible, but not expected to occur	Unlikely to occur at anytime in the foreseeable future	Likely to happen in the next 3 - 5 years	Highly likely to happen in the next 2-3 years	Certain to happen in the next 12 months

All the risks are reviewed by the members of Risk Management Committee and ratings are decided based on the consensus of the members. In case of any conflict, final rating is decided by the majority votes.

d) Risk Evaluation

When the risk analysis process has been completed, it is necessary to compare the estimated risks against risk criteria which the organization has established. The risk criteria may include associated costs and benefits, legal requirements, socio-economic and environmental factors, concerns of stakeholders, etc. Risk evaluation is used to make decisions about the significance of risks to the organization.

A concerned person has been assigned against each risk, who will be responsible for monitoring and mitigating it.

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Way forward are the control measures which management would be taking to mitigate the risks.

e) Risk Treatment

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Risk treatment is a process of selecting and implementing measures to modify the risk. Risk treatment may include any of the below mentioned measures:

- i. **Accept:** The committee members may decide to go forward with the existing risk as it is. No mitigation plan may be drafted against such risk as either these risks are governed by the external factors which are not directly under organization's control or the cost of implementing the mitigation plan is higher than the implication of the risk.
- ii. **Transfer:** The risk may be transferred to a third party, wherever needed by taking the insurance cover.
- iii. **Reduce:** The members may agree to draft a mitigation plan against each risk so as to reduce the impact of the same on the organization.

f) Risk Reporting and Communication

- Head Internal Audit organizes the workshop consisting of all Divisional Heads and Department Heads for analyzing the risk registers and concludes on the risk ratings.
- Basis the inputs received in workshop, the key risks are discussed in Risk Management Committee.
- Subsequent to the discussion in Risk Management Committee, the key risks are presented in the Audit Committee and Board (if needed).

Glossary

- a. **Risk:** Risk is the chance of something happening that will have an impact on achievement of the company's objectives. Risk is measured in terms of assessments of likelihood of an impact arising from an event.
- b. **Risk Management:** Risk management is the culture, processes and structures which are directed towards realizing potential opportunities whilst managing adverse effects.
- c. **Risk Management Process:** Risk management process is the systematic application of risk management policies, procedures and practices.
- d. **Inherent Risk:** Risks before mitigation strategies and controls are put in place.
- e. **Residual Risk:** Risk that remains after mitigation strategies and controls are put in place.
- f. **Key Risk:** Key risks are the risks which are significant for the company w.r.t operations/ efficiency/ profits/ legal compliances and remains key risks at inherent and residual level.
- g. **Non Key Risk:** Non-Key risks are those which are key risks at inherent level but non key at residual level.

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- h. **Risk Management Committee:** Organization has framed a Risk Management Committee comprising of the <Members of Audit Committee>, Managing Director / WTD (if applicable), Chief Financial Officer, Compliance Officer and Divisional Heads. Company Secretary shall be Secretary to the Committee and Head - Internal Audit / Management Assurance shall be Permanent Invitee to the Committee.

Document Change History and Revision Control

The history of modifications and changes to this document are reflected in this section. All changes, updates, revisions, or comments should be documented and reflected in this section.

Version	Sections Revised	Description of Revisions	Changed By	Date
1.0	All	Initial Document Creation	Amit Gupta	