Balmer Lawrie & Co. Ltd.

Risk Management Policy

I. Overview

Clause 49 of the amended Listing Agreement as amended till date, which relates to requirements of Corporate Governance, stipulates the following on the above subject :-

Quote

The company shall lay down procedures to inform Board members about the risk assessment and minimization procedures. These procedures shall be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework.

Unquote

SEBI had vide its Circular No.SEBI/CFD/DIL/CG/1/2004/12/10 dated 29th October, 2004 directed revision in Clause 49 of the Listing Agreement *inter alia* incorporating the above requirement. Thus, in terms of the amended Listing Agreement, it is incumbent on the Company, being a listed company, to have a Risk Management Policy that would set out the following:

1. Adoption of a Risk Assessment / Identification Policy
2. Implementation of Risk Assessment, Evaluation & Minimization Procedures
3. Review of the Procedures for controlling risks through a properly defined framework

II. Policy Objective

The expression “Risk” is perceived differently by different persons and there are many definitions of the term. In common perception, Risk connotes an exposure to adversity or danger; the happening of uncertain events which could have a materially adverse impact or consequence on the operational and / or financial results of the Company. Risk Management contributes to good corporate governance by providing reasonable assurance to the Board and the management that the organizational objectives would be achieved within a tolerable degree of risk.

Since no business is risk-free, the Company is committed to ongoing and proactive recognition of risks, assessing their possible impact and initiating action to mitigate such impact. With this objective in view, the Board of the Company at its Meeting held on 31 January 2006 had approved a broad Risk Management Policy covering the Strategic Business Units [SBUs] of the Company.

While laying down the Policy, it was expected that the SBUs of the Company would bring in various micro-initiatives to further consolidate the Policy. Keeping to the fore these expectations and the experience post adoption of the above Policy, it is felt that some revisions in the Policy framework are called for to enhance effectiveness thereof, noting that the underlying objectives are minimization of losses and maximization of opportunities in all business spheres viz. operational, financial, intellectual, human resource, legal, social and environmental. Hence the requirement for this revised Policy.

III. Areas of Concern

The Company has a diverse business portfolio spanning Manufacturing and Services sectors. The very diversity of the SBUs offers as much challenge as they are areas of concern. The diversity underpins the need for an equitable and effective Risk Management Policy.

IV. Application

It is clarified that this Policy applies as much to each of the SBUs and the departments constituting the SBUs, as to the employees deployed in the SBUs including the Corporate Office of the Company. The Policy requirements delineated herein covers the 3 focal areas set out under Paragraph **I** above.

V. Risk Identification & Assessment

Risk identification / assessment is concerned with identifying / assessing the probable risks and their material effects on the business goals / objectives of the Company in the changing and dynamic environment, both internal as well as external.

Broadly, Risk Identification / Assessment would cover the types of risk as delineated in **Annexure I** to the Note.

The Risk matrix mentioned at Annexure I is to be taken as illustrative and not exhaustive. Therefore, the probable risks and their material effects on the business goals of the Company – *including potential threats to operations and assets, degree of exposure [frequency and severity], analysis of potential liability and an assessment of the non-diversifiable (i.e. unavoidable and cannot be eliminated by diversification) risks* – require to be identified and assessed <u>on a continuing basis</u> by the SBUs including Corporate Head Office. The Risk Identification Reporting System is to be a **4-tier model**:

a) In the first stage, the SBU head and General Manager [Finance] for corporate head office would have a Risk Identification Report prepared by the team assigned for the purpose vide Sl. VI [2] below.

b) In the second stage, the Risk Identification Report prepared under (a) above be forwarded to the concerned Director in charge of the SBU {Director (Finance) for corporate Head Office) with his comments & observations on the findings of his team.

c) At the third stage, the concerned Director would then assess and evaluate the findings in the Risk Identification Report received at (b) above, add his comments & observations and forward the same to the Managing Director.

d) At the Fourth and final stage, based on the assessment of the Reports received as per (c) above, the overall **Risk Identification Report** for the entire Company would be compiled by Managing Director and submitted to the Board of Directors.

The report at stage (a) should be submitted to the concerned SBU Head / General Manager [Finance] within 15 days of the end of every quarter. The report at stage (b) shall be submitted to the concerned Director within 30 days of the end of the quarter. The report at stage (c) would be submitted half yearly within 45 days of the end of each **half-year.** On the basis of the above reports presentation to the Board vide (d) is to be made by the Managing Director on an annual basis each financial year.

VI. Risk Evaluation & Minimization

1. Internal Risk Minimization by the SBUs including the Corporate Head Office is, primarily, to be achieved through compliance with the approved Delegation of Authority, Purchase Procedure Document and other manuals of the Company.

   Distribution and limiting of internal risk concerning procurement of materials and services is achieved by compliance with the above documents. The guiding principles of purchase are procurement of right quantity, right quality and at right price, at the right time and from the right source. Various other requirements either as to propriety / transparency or conducive to sound internal controls, are to be achieved through compliance with the Delegation of Authority.

   Internal Risk mitigation is also to be achieved by adherence to the other Policies and Rules laid down by the Company including Conduct, Discipline & Review Rules (CDRR), Credit Control Manual, Accounting Manual, Forex Risk Management P olicy, Project Control Manual, Standard Operating and Maintenance Manuals. Also important for the SBUs is to operationalise appropriate Knowledge Management Systems to prevent obsolescence and having a sound Security System to safeguard the resources, records and assets of the Company.

2. Risk minimization / containment is to be achieved by the SBUs including Corporate Head Office by way of responding promptly to and controlling the potentially damaging developments / incidents lying on the risk matrix, to hedge against or minimize the probable damage and prevent the effects from spreading. In the interest of convenience, each of the SBU head and General Manager [Finance] for Corporate Head Office would require to position such designated officers or a team of officers preferably from different disciplines, as they deem fit, who would in addition to their existing assignment, also in relation to their respective domain

- Keep close surveillance of the key risk factors,
- Gather requisite market intelligence,
- Make reports,
- Maintain their own data-base,
- Hold brain storming sessions to foresee, apprehend & identify *key risk factors* and
- Report the same to the Head of the Business Groups including the Functional Heads at the Corporate Office from time to time, which would be on quarterly basis.

3. Internal Audit aims at bringing to light departures from Policies and control mechanisms to minimize errors and plug leakages. A well-established Internal Audit mechanism is in place in the Company. It is mandated that the Internal Audit Reports during the course of Audit would focus on internal checks of business processes, evaluate the effectiveness of the control systems and provide recommendations in the interest of better Risk Management. These Reports should be placed to the Audit Committee from time to time.

4. To prevent / contain the adverse impact of material potential risk factors and to prevent recurrence of damaging incidents / disasters, a suitable guideline/ policy on the needs of insurance of insurable assets requires to be drawn up by the SBUs / Corporate Office in consultation with Director [Finance]. Such Policy needs to be reviewed from time to time.

5. Referring to the Human Resource Risks, it would essentially be the objective and role of the HR Department to carry forward Risk Minimization efforts by

    - Imparting Training & Development programmes to mitigate the risk of Knowledge / Skill obsolescence.
    - Laying down transparent and fair Performance Management / Measurement norms together with requisite Performance Incentives to maintain commitment of the workforce.
    - Harmonizing industrial relations with a view to ensuring a high performance-oriented work culture.

6. As a matter of generality, projection of how *Key Financial Ratios* would change depending on changes in environment or other key parameters such as demand projection or market share or how the capital structure including profit & reserves would change offer a general measure for evaluating financial risk.

7. Risk assessment and minimization would, thus, cover three phases –

    - **Assessment** – Evaluate the level of risks, based on probability and the significance of their potential impact.

    - **Prioritization** – Evaluate risks based on proximity / potential of damage.

- **Response** – Deal with risks deemed as high by taking appropriate corrective-action.

The **Risk Assessment & Minimization Report** would originate in the same manner as the Risk Identification Report and would in a like manner be presented to the Board annually.

VII. Review of Risk Management Policy

Review of this Risk Management Policy -- including compliance with internal controls under various functional areas – is to be undertaken by the Managing Director with the views of the other whole time Directors from time to time so as to ensure effectiveness of the policy. Such review would be made with the presentation of the Risk Identification Report mentioned in V(d) above and Risk Assessment & Minimization Report mentioned at Sl. VI above -- unless a more frequent review is deemed necessary. The recommendations arising out of the review are to be placed to the Board for effecting / implementing changes. The essential part of the review mechanism would be

- Submission of Risk Report to the Board on an annual basis to highlight fresh risks as well as Action-taken Reports on previously identified risks.
- Monitoring the implementation of Risk-mitigation Action Plan(s) to ensure sensitivity to detection of risks, flexibility in response.
- Evaluating success of the Risk-mitigation Action Plan(s)
- Overall Review of the Risk Management Policy and modification of policy from time to time arising out of the review.

29 May 2008

Annexure I

RISK MATRIX

Product-related Risks	Strategic Risks
• Loss of Market share • Surplus manufacturing capacity leading to depressed pricing • Substitution & Obsolescence of existing Product lines • Low Technology / Low entry-barrier(s) • Changing Customer Preference	• Investments in core competence • Transactions involving substantial payments towards Goodwill, Brand equity or Intellectual Property • Intellectual Property Right protection • Possibility of drop in Brand value
Market-related Risks	**Operational & HR Risks**
• Competition with larger companies & Multinationals • Competition with Private sector and Unorganized sector • Saturation of markets • Product Differentiation by competitors requiring counter-action • Single / A few Customer-dominated business line resulting in monopsonic pricing affecting bargaining power both in terms of pricing as well as in quantity allocation • Un-remunerative pricing policies adopted by major participants in the Industry • Industrial Recession / Cyclical slow-down of the economy • Dwindling Exports	• Lack of level playing field with other manufacturers / suppliers / service-providers in the non-PSU sectors. • Cost competitiveness • High operating costs in certain product lines and / or thin margins • Lower utilization of capital equipment owing to market saturation • Higher Compliance costs inter alia emerging from developments in environmental laws which could affect handling / manufacture / emission / disposal of some products • Insurance cover on Fixed Assets including Buildings, Plant & Equipment • Fire / Explosion / Accidents / Pollution problems / material effluents • Material theft / pilferage • Acts of terrorism & other violence or force majeure conditions • Non-registration of trade names or trade marks • Volatility of Input costs & fuel prices • Erratic availability of inputs • Exodus of professionals and shortage of skilled manpower within the organization

	• Remuneration package not matching the Industry or the risk profile of the job • Sustenance of ethical practices by agents, dealers & distributors • Significant Labour problems • Employee Liability coverage
Financial Risks • Material default in financial obligations to & by the company including substantial non-payment against sales • Foreign exchange exposure and steps to limit material adverse exchange rate movement • Exposure to strategic investments without matching revenues • High borrowings with related debt cost • Working capital cycle risk including credit risks • Risks in Receivables Management • Contingent Liabilities [including liabilities relating to pending Law suits and losses due to Force Majeure situations] • Non-adherence to Accounting Standards and other Prudential norms	**Compliance Risks** • Adoption of new policies, laws or regulations by the Government on environmental and other matters and the impact thereon. • Adverse change in Customs Regulations & Port Policies • Contractual compliances / possibility of infringement of contracts or third party intellectual property rights. • Implications of Law suits • Public or product Liability claims of a substantial nature, including a judgment or order in the nature of strictures on the working of the Company • Non-compliance of any regulatory or statutory requirements including labour laws • Materially important show cause, demand, prosecution notices and penalty notices