

RISK POLICY

Background

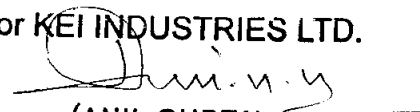
As per the revised Corporate Governance, it is the responsibility of the Board of Directors of the Company to review the existence of risk assessment and mitigation processes in the Company. Based on such review the Board is to make a mandatory disclosure of the risk assessment and mitigation processes/initiatives to the shareholders in the annual report of the Company.

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

Before discussing the process to be adopted it is important to identify the risks element as per the nature of business undertaken by the company. In specific terms risks are of the following nature:

1. **Entity 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 Entity 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 that 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 entity level risks.

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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.

In view of the above, the management has identified a few external and internal risks perceived by the business groups in the recent past and also based on various developments and activities viewed by the businesses and organizations in the current scenario. The following identified risks are business specific. The management is of the view that each business groups and organisations should review the risks expressed below as a part of their business activity:

EXTERNAL AND INTERNAL RISK COVERAGE

<u>S.NO</u>	<u>External Risks</u>
ER 1	Political
ER 2	Macro Economic Environment
ER 3	Currency
ER 4	Commodity
ER 5	Interest Rate
ER 6	Investments
ER 7	Reputation
ER 8	Talent Pool
ER 9	Trade And Other Regulation
ER 10	Legal
ER 11	Terrorism
ER 12	Competition (New entrants/Substitute products)
ER 13	Technology
ER 14	Customers
ER 15	Suppliers

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<u>S.NO</u>	<u>Internal Risks</u>
IR A	STRATEGIC:
1	Technological Development
2	Evolving Standard
3	Customer Needs
4	New Products
5	Investments
IR B	OPERATIONAL:
6	Market Identification
7	Product Design & Developments
8	Demand Creation
9	Selling & Channel Management
10	Product Delivery
11	Customer Support And Maintenance
IR C	SUPPORT PROCESS:
12	Human Resources
13	Information Technology
14	Funding
15	Accounting
16	Legal/Regulatory Development
17	Research & Development
18	Facility Management

The above identified risks have been defined in simple language for easy understanding and applicability in respective business groups and organizations. The definition is mentioned here under:

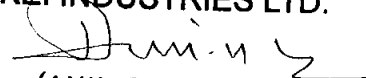
EXTERNAL RISK:

ER 1 POLITICAL - The political risk emerges from change of i) Government ii) Legislation iii) Public Policy iv) Regulation.

ER 2 MACROECONOMIC ENVIRONMENT- The risk emerges from adverse i) Market Capacity ii) Credit iii) Liquidity iv) Financial / Capital Market.

ER 3 CURRENCY - Volatility in the exchange rate has an impact on Company's export / import business. Therefore our company undertake liability management transaction and other structured derivatives exchange rate risks.

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ER 4 COMMODITY - Volatility in the commodities prices viz. Copper, Aluminium, Nickel etc. has an impact on prices of cables, house wires and stainless steel wires manufactured by the Company. In order to protect from the fluctuation in base metals prices, KEI intend to hedge its exposure in copper, aluminium, nickel etc. by entering into Futures and Options transactions available at London Metal Exchange (LME).

ER 5 INTEREST RATE - Any volatility in money and capital market affects rate of borrowing and that has an impact on Company's business activities and exposure.

ER 6 INVESTMENTS - A liquidity risk is the risk that a corporate or firm, though solvent either does not have sufficient financial resources available to enable it to meet its obligations as they fall due, or can secure them only at excessive cost. It is basic business risk faced by corporate irrespective of its industry location. Liquidity is an important dimension to the ongoing viability of any organization. Ability of a corporate to bear liquidity risk is linked to the amount of capital it possesses and the losses it can absorb. Their, liquidity risk is defined as the risk of a firm's / corporate ability to meet commitments in a timely and cost effective manner while maintaining assets and inability to pursue profitable business opportunities and continue as a viable business due to a lack of access to sufficient cost effective resources.

ER 7 REPUTATION- Risk of significant negative public opinion that result in a critical loss or risk of an unexpected loss in revenue due to the impact upon the reputation. This may arise because of failure to fulfill the customer/ client requirement on time / defaulted in deliverables / failure of regulatory compliance /environmental unfriendliness etc.

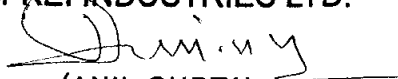
ER 8 - TALENT POOL – Risk of being unable to retain and attract human resources at requisite levels with in organization, which could adversely affect the ability of the organization to meet customer requirements, internal functional needs and legal / statutory mandates. The risk is the manifestation of factors such as inadequate/in attractive compensation, excessive work load, monotonous work routines/assignments and low employee morale.

ER 9 – TRADE AND OTHER REGULATION / LEGAL - Risk that trade are probably faced, documented or legally enforceable and Risk of failure to comply with the regulations that may invite penalty and litigation and even closing down of business or loss of revenue.

Risk that contracts are probably documented or legally enforceable and Risk of failure to comply with the regulations or act that may invite penalty and litigation and even closing down of business or loss of revenue. The liability of carrying any business activities and its mitigation process inbuilt in the contracts / agreements to safe guard any unforeseen liability.

ER 10 - LEGAL - Risk that contracts are probably documented or legally enforceable and Risk of failure to comply with the regulations or act that may invite penalty and litigation and even closing down of business or loss of revenue. The liability of carrying

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any business activities and its mitigation process inbuilt in the contracts / agreements to safe guard any unforeseen liability.

ER 11 – TERRORISM- Acts of hostility committed by anti-social elements/groups resulting in disruption of normalcy with in the environment in which the organization operates and thereby limiting its ability to function and deliver in the normal course.

ER 12 - COMPETITION- Risk of loss of business on account of advantageous/superior pricing, technology, services, facilities, quality, variety and / or relationship offered by rival organizations operating in the same or similar line of business.

ER 13 -TECHNOLOGY- Electronic commerce, external data, emerging technology Risk of becoming costly or obsolete or outdated due to technology / product change.

ER 14 - CUSTOMERS- The risks in this case could be two fold:

- i) Inability to retain existing (and key) customers owing to unsatisfactory performance of contractual commitments, competition, blemished customer relationship.
- ii) Concentration of revenue on limited customers

ER 15 - SUPPLIERS- The risks in this case could be two fold:

- i) Inability to procure as per requirements and / or on desirable terms with existing vendors.
- ii) Dependence on sole vendors/limited number of vendors

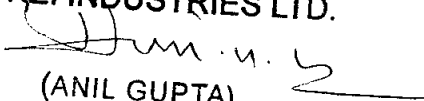
INTERNAL RISK:

IR A STRATEGIC: The strategic risk covers basically three aspects of business needs and growth 1) Technological Development 2) Evolving Standard 3) Customer Needs 4) New Products 5) Investments.

Risk of becoming obsolete or outdated in technology/product change is a matter of concern in the existing business model. Therefore to keep pace with the business growth and demand it essential to have an automatic and perpetual business development process in the organization. The development process and evolving standard is mapped to the customer needs and new products in the current scenario and which is followed by investments. Inability to identify customer needs leads to wrong investment and also jeopardize development process.

IR B OPERATIONAL: The operational risk comprises of a) Baseline (internal controls) b) Awareness (Governance structure / Policy / Process / Maps) c) Monitor (Clear vision / comprehensive indicators /Escalation triggers/ Consolidated Reporting / dedicated business line staff /Implementing training) d) Quality (Risk – based economic model / Set quantitative goal for improvement) e) Integrate (Full, linked set of tools /

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Cross function risk analysis. The term operational risk is defined as the risk of direct or indirect loss resulting from inadequate or inefficient internal process, people and systems or from external events. Two broad categories of operational risk are operational failure risk and operational strategic risk, the first one is internal and the second one is external. In this context, the risks under this head are 1) Market Identification 2) Product Design and Development 3) Demand Creation 4) Selling and Channel Management 5) Product Delivery 6) Customer Support and Maintenance

IR C SUPPORT PROCESS: The support process of a business basically covers 1) Human Resources 2) Information Technology 3) Funding 4) Accounting 5) Legal/Regulatory Development 6) Research and Development 7) Facility Management.

Human Resources- The success of an organization may hinge on small team of key players. Their exits, ageing and rouge trading on their part may cause operational risk.

Information Technology- Inability to match the requirement of business needs will result in risk. Therefore a constant up gradation plan is desirable which meets the existing business process and activities in a structured manner.

Funding- The success of a project is ability and strength of the organization to arrange fund at right time and cost. Inability to arrange the required funding at low cost and right opportunity is a threat and risk.

Accounting- Control and Compliances of business activities are monitored through this method. Inadequate control and compliances are converted in to risk.

Legal - Risk that contracts are probably documented or legally enforceable and Risk of failure to comply with the regulations or act that may invite penalty and litigation and even closing down of business or loss of revenue. The liability of carrying any business activities and its mitigation process inbuilt in the contracts / agreements to safe guard any unforeseen liability. Inability to comply with regulatory matters are equally carrying risk.

Research & Development: Inability to keep pace with the change in business / product results in risk. Therefore a perpetual research and development process essentially reduces risk factor.

Facility Management: The biggest risk in "Facility Management" is the operational risk. Generally when facility management for customers through SLA based contract is signed to provide service and which will not affect client's business operations. Any bottleneck arising during that period affecting operating facility ie emergency, disaster, power failure, war, riots, earth quake, and environmental hazards can lead to violation of clauses of contract resulting in to a risk scenario.

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RISK MITIGATION PROCEDURE:

The company has in-house developed a process of generating certificates in the system from each business group and organization at the end of each quarter. The certificates have been designed specific to business units and organisations after discussions with business groups and organizations and implemented for action. The processes were defined taking into account the following objectives:

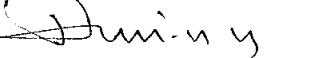
- a) Achieve reliability in financial reporting
- b) Effectiveness and efficiency of operations
- c) Robust internal controls
- d) Compliance with applicable laws and regulations, and
- e) Safeguard of assets

The process certification is designed in such a way that it will provide the Audit Committee a succinct but accurate report on the internal process control mechanism in order to enable the Audit Committee to evaluate the efficiency of the internal control system, perception of risk within the organization, compliance of applicable laws and mitigation mechanism. The certificates contain process of each business activities from commencement till completion/closure of each business process cycle. In case of organisations, the certificates reflect the control and compliance process.

The certificates are generated quarterly by each business groups and organisations. The process activities are certified by the business and organisations heads each quarter. Thereafter the process certificates are routed through Internal Audit Organisation for verification and authentication. Internal Audit function is to review the authenticity and correctness of the certificates. The certificates are placed in the Audit Committee each quarter for review. The process certificates are backed /supported by 'Event Based' activities in each business process. The above identified risks are mapped in the process certificates generated each quarter.

Apart from this, a committee has been instituted to review the set of risks and risk mitigation strategy once in 6 months. The committee is comprised of BU Heads and heads of the support functions.

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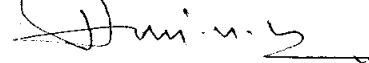

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Risk Profiling and Addressing Authority

Risk Profiling	Risk caused by	To be addressed by
Strategic: External	External factors e.g. <ol style="list-style-type: none"> 1. economic conditions, war, terrorism 2. natural hazards. 3. competition, 4. market changes. 5. political and country risks 6. alliance risk 	BU Heads on a case by case basis.
Strategic: Internal	Internal factors e.g. organization structures, internal politics, Inappropriate strategies, succession planning etc.	BU Head and IIR in consultation with Contact Director
Operations	<ol style="list-style-type: none"> 1. Risks arising for failures to comply with operational policies and procedures on a daily basis, e.g. maintenance, supplier selection, quality 3. Risks arising from variations in the quality and availability of the Company's personnel, e.g. recruitment, training, remuneration, development, etc. 4. Risks associated with computer and communications hardware, software and data, e.g. obsolescence, security, availability, access, back-up, etc. 	BU Head / Organization Head
Finance	Risks arising from failure to manage financial aspects, e.g. credit (customers), liquidity (availability of cash) and market risk exposures (foreign exchange fluctuations) and to provide complete, accurate and meaningful financial reports for internal and external users	Organization Head/ Controller
Compliance	Risks arising from non-compliance with existing laws and regulations or the potential adverse impact of a change in rules and regulations, e.g. Health & Safety, Environmental, Labour Laws, Concession and Permit requirements, etc.	Organization Head

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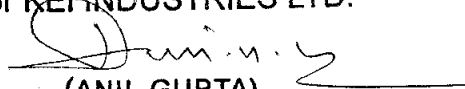
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Risk Polarization and Mitigation Authority

Polarization	Impact	Likelihood	Mitigation Authority and periodicity
Scale 1	Disastrous	Probable	<u>Critical</u> Should be reported to the Board and addressed in consultation with the Board and Risk Analysis Team with sense of urgency
Scale 2	Significant	Highly Possible	<u>High Risk</u> BU Head in consultation with the Risk Analysis Team must evaluate if the impact can be reduced and frame immediate mitigation plan
Scale 3	Moderate	Possible	<u>Moderate risk</u> BU Head in consultation with the CEO to monitor periodically to ensure severity is under control and does not increase. CEO to highlight the risk and mitigation mechanism to Risk Analysis Team
Scale 4	Minor	Remote	<u>Low risk</u> BU Heads / Organization Heads to put an action plan in place and follow up implementation.

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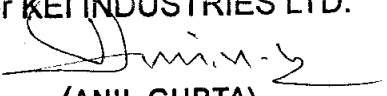


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Seite 5	Negligible	Unlikely	<u>Negligible risk</u> Not urgent to deal with BU Heads / Organization Heads to put an action plan in place and follow up implementation.

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