JAYASWAL NECO INDUSTRIES LIMITED

RISK MANAGEMENT POLICY

Preamble

The Board of Directors of Jayaswal Neco Industries Limited (JNIL) has adopted the following policy and procedures with regard to Risk Management. Through Risk Management, the Company expects to proactively identify potential critical problems for the Company's business and be able to take appropriate measures that are considered the most optimal.

Risk management is an attempt to identify and manage threats that could severely affect or be detrimental to the organization. Generally, this involves reviewing operations of the organization, identifying potential threats to the organization and the likelihood of their occurrence, and then taking appropriate actions to address the most likely threats.

Purpose

Clause 49 VI of the Listing Agreement states as under:

A. "The company shall lay down procedures to inform Board members about the risk assessment and minimization procedures.
B. The Board shall be responsible for framing, implementing and monitoring the risk management plan for the company.
C. The company through its Board of Directors shall constitute a Risk Management Committee. The Board shall define the roles and responsibilities of the Risk Management Committee and may delegate monitoring and reviewing of the risk management plan to the committee and such other functions as it may deem fit.
D. The majority of Committee shall consist of members of the Board of Directors.
E. Senior executives of the company may be members of the said Committee but the Chairman of the Committee shall be a member of the Board of Directors."

Hence this policy has been framed to ensure efficient and effective assessment and management of risk in the achievement of the objectives of the Company on a ongoing basis.

Risk Strategy:

JNIL recognizes that risk is an integral and unavoidable component of business and is committed to managing the risk in a proactive and effective manner.

The Company believes that the Risk cannot be eliminated. However, it can be:

- Transferred to another party, who is willing to take risk, say by buying an insurance policy or entering into a forward contract;
- Reduced, by having good internal controls;
- Avoided, by not entering into risky business;
- Retained, to either avoid the cost of reducing risk or in anticipation of higher profits by taking on more risk, and;
- Shared, by following a middle path between retaining and transferring risk.

JNIL is a Company engaged into diversified business products. The Company has two divisions namely **i) Foundry Division and ii) Steel Plant Division.**

In today's challenging and competitive environment, strategies for mitigating inherent risks in accomplishing the growth plans of the Company are imperative. The common risks inter alia are: Regulations, Competition, Business risk, Technology obsolescence, Investments, retention of talent and expansion of facilities.

Business risk, inter-alia, further includes financial risk, political risk, fidelity risk, legal risk.

For managing Risk more efficiently the company would need to identify the risks that it faces in trying to achieve its objectives. Once these risks are identified, the need would be to evaluate them to see which of the risks will have critical impact on the Company and which of them are not significant enough to deserve further attention.

As a matter of policy, these risks are assessed and steps as appropriate are taken to mitigate the same.

Risk Management Framework

Objectives must exist before management can identify potential events affecting their achievement. Enterprise risk management ensures that management has in place a process to set objectives and that the chosen objectives support and align with the entity's mission and are consistent with its risk appetite.

JNIL seeks to adopt systematic approach to mitigate risks associated with accomplishment of objectives, operations, revenues and regulations. The Company believes that this would ensure mitigating steps proactively and help to achieve stated objectives.

The Company has constituted a **Risk Management Committee** with the defined roles and responsibilities. The Committee will submit its periodic report to the Board about the measures taken for mitigation of Risk in the organization.

JNIL believes that the activities at all levels of the organization, viz., Enterprise level; Division level; Business Unit level; are considered in the risk management framework. All these components are interrelated and drive the Enterprise Wide Risk Management with focus on three key elements, viz.,

(1) Risk Assessment
(2) Risk Management
(3) Risk Monitoring.

Risk Assessment

Risks are analyzed, considering likelihood and impact, as a basis for determining how they should be managed.

Risk Assessment consists of a detailed study of threats and vulnerability and resultant exposure to various risks.

To meet the stated objectives, effective strategies for exploiting opportunities are to be evolved and as a part of this, key risks are identified and plans for managing the same are laid out.

Risk Management and Risk Monitoring

In the management of Risk the probability of risk assumption is estimated with available data and information and appropriate risk treatments worked out in the following areas:

1. **Economic Environment and Market conditions**

2. **Fluctuations in Foreign Exchange**

3. **Political Environment**

4. **Competition**

5. **Revenue Concentration**

6. **Inflation and Cost Structure**

7. **Technological Obsolescence**

8. **Financial Reporting Risks**

9. **Risk of Corporate accounting fraud**

10. **Legal Risk**

11. **Quality and Project Management**

12. **Environmental Risk Management**

13. **Human Resource Management**

In principle, risks always result as consequence of activities or as consequence of non-activities. Risk Management and Risk Monitoring are important in recognizing and controlling risks. The entirety of enterprise risk management is monitored and modifications made as necessary.

Risk mitigation is an exercise aiming to reduce the loss or injury arising out of various risk exposures.

The objective of the JNIL's Risk Management Policy is to manage and ultimately to achieve a substantial reduction in JNIL's risk exposure and maintain it at an acceptable levels. To achieve this objective in the long term, the following key policies, processes, controls and activities are to be adopted and performed, with some of these activities already functional:

- a Risk Management process, which involves developing mitigation plans for the key risks the company is likely to face;
- identify, maintain, and periodically review Risk Categories for classification of risk;
- regular reporting to the Board and the Audit Committee by the Risk Management Committee of the key strategic, operations, reporting and compliance risks the company is facing or likely to face, the level of risk and the processes implemented to manage each of these key risks;
- Risk Management Committee to identify the risks impacting the company's business, document the process of risk identification, risk minimization, as a part of a risk management policy or strategy;
- a planning process involving the preparation of business plans, budgets and rolling quarterly forecasts;
- analysis of financial performance and significant balance sheet items including comparisons with prior periods;
- a comprehensive internal audit program designed to review the quality and effectiveness of internal processes, procedures and controls;
- half year and annual audit performed by the external auditor;
- management review of the balance sheet and internal control environment;
- review of financial performance compared to budget and forecast;
- Business Conduct Panel to monitor and receive reports concerning instances of non-compliance with the set standards and policies;
- monitoring of the company's liquidity and the status of renewals of finance facilities;
- maintaining an appropriate insurance program;
- maintaining policies and procedures in relation to treasury operations;
- issuing and revising standards and procedures in relation to environmental and health and safety matters including a program of safety audits across the company;
- implementing and maintaining training programs to promote risk aware culture throughout JNIL;
- litigation reporting;
- delegation of authority, procedures requiring significant contracts, capital expenditure and other items to be approved at the appropriate levels; and
- detail accounting policies and procedures with ongoing monitoring to ensure consistent application.

The company considers that a sound framework of risk management policies, procedures and controls is fundamental to good corporate governance.

Disclaimer Clause

The Management cautions readers that the risks outlined above are not exhaustive and are for information purposes only. Management is not an expert in assessment of risk factors, risk mitigation measures and management's perception of risks. Readers are therefore requested to exercise their own judgment in assessing various risks associated with the Company.

****