



RISK MANAGEMENT POLICY

of

VESUVIUS INDIA LIMITED

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1. INTRODUCTION

Vesuvius India Limited ("Vesuvius") assesses all Risks at both pre and post-mitigation levels. Such assessment looks at the actual or potential impact that a risk may have together with an evaluation of the currently assessed probability of the likelihood of it occurring. Vesuvius has determined the Risk Mapping Plan and Procedures after analysing its Top 7 Risks while keeping the options open for identifying new Risks and adverse Effects or Scenario which may have an impact on the business of Vesuvius.

Vesuvius will perform a full risk mapping exercise every year in accordance with this Risk Management Plan and Procedures and any improvements to the Plan which the Board of Directors may implement from time to time. The Risk Mapping procedure will include

- **A Presentation of the Top 7 identified Risks** with a rating of Pre and Post-mitigation arrangement plan for any risks identified from the mapping procedure as being RED or high-scoring AMBER. A brief narrative explanation of the reasons for any new Risk identified in the current year's procedure clearly stating the reasons for such Risk and the manner in which the new Risk has been sufficiently mitigated.
- **Reviewing the baseline for Risk Identification** at the time of considering the Annual Business Plan, long term objectives and strategies and any possible factor impacting business continuity, competitive advantages, regulatory environment etc .
- **Monitoring and Review of Risks** on a quarterly basis.

2. BACKGROUND

The Companies Act, 2013 and the Corporate Governance requirements of the Listing Agreement with Stock Exchanges require that Vesuvius have a Risk Management Policy encompassing a Risk Management Plan for identifying, assessing, monitoring and mitigating significant risks which may threaten the existence of Vesuvius. The process should identify:

- the nature of each risk,
- its possible impact in terms of value,
- the likelihood of occurrence,
- ownership of the risk
- regular monitoring and review of risk and
- steps to be taken to mitigate the risk.

3. RESPONSIBILITY

The process of identification and mitigation of risks needs to be in place throughout the year, accompanied by regular review and monitoring. The Stock Exchanges also place a responsibility on the Board of Directors of Vesuvius to review regularly the effectiveness of their systems of internal controls.

Responsibility within Vesuvius for operating systems of risk management and internal controls is organised as follows:

- The Vesuvius Board sets the general policy on internal controls and risk management.
- The Managing Director and his senior management team have direct responsibility for ensuring that the business functions they manage have developed and maintained adequate and appropriate systems of risk management and internal controls, recognising that those systems of controls can provide only a reasonable but not absolute assurance against material misstatement or loss. They are also responsible for monitoring those systems of internal control to ensure that they remain appropriate and effective and in compliance with the Risk Management Policy of Vesuvius.

- Internal Control and Risk Management is reviewed by the Managing Director and CFO at Internal Review meetings.
- The Board reviews the performance of the risk management and internal control system and forms an opinion as to whether the system is operating properly prior to signing off the Annual Accounts.

Through the above structure, the Board's responsibility for reviewing the effectiveness of Vesuvius internal controls is discharged by a combination of its regular reviews of specific key risk areas during the year, together with an annual assessment. This annual assessment involves risk identification and assessment of the effectiveness of the mitigating internal controls.

In addition, executive management believe that the identification, appropriate management and subsequent monitoring of business risk is a key prerequisite to the success of Vesuvius.

4. RISK IDENTIFICATION AND RISK MAPPING PROCESS

For a business to be run effectively and profitably, management have to be in a position to make informed judgements as to the risks encountered and the appropriate methods of dealing with those risks.

Corporate risks should be discussed at the highest level of management within a business and this is normally done as part of the annual strategic review and budget processes. The risks concerned will be those inherent in the resources and processes of the business, or else likely to arise from new business objectives or changes in external factors. It is not necessary to directly formalise the consideration of risks, although this may be helpful to ensure that all risks are covered and to ensure that the risks identified have all been considered when internal control objectives are considered.

After risks have been identified, management will consider how the resources of the operating unit are to be applied in managing those risks. Essentially there are four ways of dealing with a risk:

- accept it, together with any potential adverse consequences; or
- monitor it and establish a form of insurance to mitigate against any negative effects; or
- identify and evaluate the mitigating controls and if necessary, strengthening these controls in order to eliminate the risk or reduce it to acceptable levels; or
- Avoid it by discontinuing the relevant activities or
- Transferring the risk to another party (outsourcing some activities)

One of the key decisions in this process is the cost of each particular method or combination of methods of mitigating a risk.

Normally, the review of risk management is undertaken prior to finalising the annual budget in order that the Budget reflects the perceived level of business risks. Internal Audit will facilitate this review.

The Vesuvius Risk Mapping model is structured to provide senior management, including the Board, with a means by which a periodic review can be made on risk exposure around Vesuvius and how significant risk areas are being managed. The risks included in the model are those most likely to impact on all businesses of Vesuvius.

Each generic risk is scored by management dependent upon their assessment as to whether, and to what extent, the risk impacts financially on their businesses. The categories of generic risk factors so far identified are:

- A. Market-related
- B. Operational
- C. Financial

- D. Health, Safety and Environment
- E. Compliance and Regulatory Risk

5. Risk rating methodology

Each of the risks managed at VIL has been assessed at both pre and post-mitigation levels. The assessment takes in to account a number of factors:

- Impact
- Probability
- Adequacy of the Mitigations
- Risk Appetite
- Risk Direction (increasing or decreasing)

There are two components of each risk being Impact Classifications and Probability. Each component is to be scored on a range of 1 (low) to 6 (high). The scores of impact and Probability are then multiplied to arrive at the Risk Exposure Score and placed in **Risk Matrix and accordingly are placed under Green, Amber or Red category.**

Risk Appetite rating was introduced in 2019. Risk Appetite represents the amount of risk at a broad level, an entity is willing to accept in pursuit of value. It reflects the entity's risk management philosophy, and in turn influences the entity's culture and operating style.

Each risk that is managed will have to be assessed at both pre and post-mitigation levels. The assessment looks at the actual or potential impact that a risk may have, together with an evaluation of the currently assessed probability of it occurring.

The Risk Matrix for rating the Scoring Tables are :

Impact Classifications

Impact Category Score	Impact Category	Impact
6.	Catastrophic	Guidelines by category as follows: FINANCIAL: Catastrophic financial loss (Rs 30 million). REPUTATIONAL: Catastrophic effect on reputation (e.g. international adverse media coverage > 1year). LEGAL & COMPLIANCE: Directors convicted of corporate manslaughter, fraud etc. STRATEGIC INITIATIVES: Catastrophic effect on Vesuvius strategic initiatives.
5.	Major	Guideline by category as follows: FINANCIAL: Major financial loss (Between Rs 20 million to Rs 30 million). REPUTATIONAL: Major effect on reputation (e.g. international adverse media coverage short term). LEGAL & COMPLIANCE: Directors charged with corporate killing, fraud etc. STRATEGIC INITIATIVES: Major effect on Vesuvius strategic objectives.
4.	High	Guideline by category as follows: FINANCIAL: Moderate financial loss (Between Rs 10 million to Rs 20

		million). REPUTATIONAL: Moderate effect on reputation (e.g. national adverse media coverage). LEGAL & COMPLIANCE: Prosecution resulting in moderate fine. STRATEGIC INITIATIVES: Moderate effect on Vesuvius strategic initiatives.
3.	Moderate	Guideline by category as follows: FINANCIAL: Minor financial loss (Between Rs 0.50 million to Rs 10 million). REPUTATIONAL: Minor effect on reputation (e.g. local reputation damage). LEGAL & COMPLIANCE: Prohibition notice. STRATEGIC INITIATIVES: Minor effect on Vesuvius strategic initiatives.
2.	Minor	Guideline by category as follows: FINANCIAL: Insignificant financial loss (Between Rs 0.25 million to Rs 0.50 million Trading Profit). REPUTATIONAL: Insignificant effect on reputation. LEGAL & COMPLIANCE: Improvement notice. STRATEGIC INITIATIVES: Insignificant effect on Vesuvius strategic initiatives.
1.	Insignificant	Guideline by category as follows: FINANCIAL: Insignificant financial loss (Between 0 to Rs 0.25 million Trading Profit). REPUTATIONAL: Insignificant effect on reputation. LEGAL & COMPLIANCE: Improvement notice. STRATEGIC INITIATIVES: Insignificant effect on Vesuvius strategic initiatives.

Probability Definitions

6.	Extremely Likely	90 – 100%
5.	Highly Likely	70 – 90%
4.	Likely	50 – 70%
3.	Possible	25 – 50%
2.	Unlikely	10 – 25%
1.	Highly Unlikely	0 – 10%

The Risk Assessment/Scoring Tables with the identified significant risks and generic risks will be set out each year. In addition, senior management must complete, in respect of their operational areas, a brief summary of:

- The risk pre- mitigation arrangement with indication of the risk score
- The Residual risk after mitigation arrangement with indication of the revised risk score and its plans to manage and mitigate each of these risks.

Risk Appetite

Appetite Score	Appetite Category	Appetite
1.	Minimal	Willing to accept only the smallest amount of risk necessary for business to take place.
2.	Averse	Preference for options that are lower risk and only have a potential for limited reward.

3.	Cautious	Willing to accept some limited downside risk in certain circumstances that include opportunity.
4.	Flexible	Willing to consider all potential options despite greater inherent risk.
5.	Open	Willing to accept a high level of downside risk where there are significant opportunities.

Adequacy of Controls

ASSESSMENT	DEFINITION
Acceptable	No further mitigations are required.
Adequate	Further mitigations are required.
Unacceptable	Immediate action is required to mitigate the probability and/ or the impact.

6. Identified Top Risks

The Identified **Top 7 Risks** (not in order of ranking) which are perceived to be the most significant business risks are:

1. Business Interruption
2. End Market Risks
3. Raw Materials
4. Attraction and Retention of Staff
5. Health Safety and Environment
6. Product Failure/ Quality and Failure to Secure Innovation
7. Regulatory Compliance

7. Risk Manager

The Managing Director will be ultimately responsible for risk identification, risk evaluation/assessment, risk mitigation and reporting.