

## THERMAX LIMITED

### RISK MANAGEMENT POLICY

#### INTRODUCTION

Thermax believes that risk is inherent to any business activity; business opportunity and risk are two sides of a coin. The assuming of risk is what makes it possible for a business to be able to create and sell its goods and services and thus create value for its stakeholders. The gaining of competitive advantage requires a business to assume one or more risks connected with that advantage. Therefore, the company recognizes the need for the company's risk management policy to provide the framework for effectively dealing with uncertainties and associated risk and opportunities. Hence, instead of being focused solely upon total elimination of risk, the policy provides a framework for controlled risk-taking for achieving the company's strategic objectives.

Risk is a consequence of uncertainty. The company mitigates the risks it faces by improved prediction and by developing responses to deal with events that cannot be foreseen. The company evaluates risk both, at the individual transaction level and also aggregated by various dimensions (customers, geography industry, etc.). At a transaction level, the company has processes to prevent the risk of unauthorised or inappropriate actions and decisions.

Risk assessment and risk management are the responsibility of the company's management. The management develops a robust and holistic top down view of key risks facing Thermax and manage those risks strategically to increase the likelihood of organization's objectives being achieved . It is the management's responsibility to deploy a range of risk mitigation and management strategies. These include segregation and delegation of authorities, standardisation of processes, planning, performance reviews, and transferring risk to business partners, insurance and hedging.

#### The Risk Management Framework

The Risk Management Framework at Thermax Group comprises essentially of the following two elements:

***Risk Management structure*** i.e. the roles and responsibilities for implementing the risk management policy; and

***Risk Management process*** that helps identify, prioritize and manage risks in the Company

## **Risk Management Structure**

### **BOARD OF DIRECTORS**

The Board of the company has supreme oversight responsibility for enterprise-wide management of risk. It discharges this responsibility by focusing upon the most significant risks and periodically reviewing the exposure to those risks. The Board also bears in mind the impact upon the risk portfolio of every significant strategic decision. Annually, the Board considers the overall risk exposure of the company and, in particular, addresses pan-business segment risks. This review is based upon the management's risk assessment and mitigation processes and is a significant component of long term strategic and annual business plans.

The Board focusses particularly on environment, health & safety risks and others that result from significant shifts in the business environment. The collective wisdom of the Board is particularly useful in assessing the last of these risks and the appropriate response to them.

One of the most important factors in risk consciousness is the leadership to set the right tone. The Board is responsible for defining the culture expected in the organisation and demonstrating it by its own conduct.

### **RISK MANAGEMENT COUNCIL**

The management has constituted a Risk Management Council which comprises all the business segments and corporate function heads. The Council is chaired by the Chief Financial Officer. The Council meets at least once a quarter to assess the risks facing the businesses and the mitigation measures taken. In particular, it is responsible for identifying developments in the environment or in internal operating processes that could materially affect the profile of risks.

The Council is well placed to identify and develop response to new risks arising from interactions between different kinds of risks. It is also responsible for breaking a business or a function silo approach to risk by providing a forum for identifying those risks that span different businesses and functions.

## **COMMITTEES OF THE BOARD**

The Board of Thermax believes that each committee of the Board takes responsibility for oversight of the risks within its remit -

**Audit Committee** - The Committee is responsible for oversight of compliance and financial reporting risks. It also oversees the external and internal audit functions, ensuring their independence from management influence.

**Nomination and Remuneration Committee** – The Committee oversees the risk of a poor-performing board by enabling the meeting of their governance obligations by board members and recommending fair remuneration to them.

The HR function reports to this committee; the Committee also oversees risks related to human resources, including non-compliance with ethical guidelines.

**Borrowing and Investments Committee** - This Committee is responsible for oversight of leverage, interest rate and currency risks.

**Strategic Business Development Committee and International Investment Committee** - These Committees are responsible for oversight of strategic risks at sub-business segment level and for the management of international investment risks. The International Investment Committee also oversees compliance risk in international subsidiaries.

**The Innovation Council** - This Council is responsible for oversight of research and development and of technology risk.

**Risk Management Committee** – In order to comply with the listing agreement, the company has constituted a Risk Management Committee of the Board of Directors. This Committee is responsible for coordinating the overall risk management processes

between different board committees. It meets twice a year and receives reports from the Risk Management Council.

## **Risk Management Process**

The Risk Management Process works at two levels in the Company. (a) At Sub-Business segment level and (b) at Corporate level.

The key elements of Risk Management process are

Risk Identification and assessment

Risk Measurement, mitigation and monitoring

Risk Reporting

Risks and opportunities are identified at Sub-Business segment level. They are evaluated and prioritized on the basis of impact (financial/non-financial effect), velocity (how fast a risk event takes place) and vulnerability (level of preparedness).

In respect of each prioritized risk, response and mitigation plan is prepared. These risk response and mitigation plans are submitted on quarterly basis to Risk Management Council.

The Risk Management Council at Corporate level reviews such reports aggregating and prioritizing the risks at Thermax Group level. A report on such prioritized risks, response and mitigation plan is submitted to the Risk Management Committee on a quarterly basis.

The Committee reports annually to the Board on its working and assists the Board in identifying existential risks and reviewing the mitigation and elimination plans for those.