Tuticorin Alkali Chemicals and Fertilizers™

RISK MANAGEMENT POLICY

Framework

This framework describes the management's accepted policies and procedures with regard to Risk Management. It defines the authority and responsibilities of various executives involved in the risk management activities.

The Company acknowledges the need for constant amendments to the framework, based on the changes in the operating environment, and actively encourages executives to provide recommendations for revisions, in case of need, through the prescribed amendment procedures.

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Policy Purpose and Coverage

Purpose

This document specifies the risk management framework, which defines the core set of activities and deliverables required to manage risks effectively by Tuticorin Alkali Chemicals and Fertilizers Limited (hereafter termed as "The Company" or "TFL").

The objective of this framework is to:

- Provide foundation for a comprehensive risk management methodology.
- Basis for evaluating and improving risk management practice.
- Guide the management of different types / categories of risks.

This document shall also be used as the basis for enhancement by the Risk Management Committee of the various processes followed for risk identification, evaluation and mitigation followed by TFL.

Applicability

The framework applies to all the employees, contractors, vendors, service providers, partners, affiliates, and third parties. This includes all users, information systems, hardware, software, data, media, and paper files of TFL and approved third party facilities.

Coverage

The framework broadly encapsulates the following activities:

- Risk identification
- Risk assessment
- Developing mitigation plans
- Monitoring risk and implementation of mitigation plans
- Risk reporting.

Risk Management Policy

Policy statement

a. Risk Assessment

Risk assessment is the process of identifying risks, assessing and understanding those risks, and

prioritizing risks. A formal risk assessment will be performed on an ongoing basis (at least quarterly) to identify threats to the Company; to determine the risk of these threats occurring; and to recommend appropriate safeguards and countermeasures (mitigation plans) to reduce the likelihood of occurrence of the threat and the impact if the threats occur. Risk assessment should be performed for TFL as an entity.

b. Risk Management

Risk management uses the output of risk assessment process and implements mitigation plans to reduce the risks identified to an acceptable level. This framework provides a foundation for the development of an effective risk management program for TFL.

TFL's goals for risk management are that risks are identified; risks are documented, understood and managed within limits established by management. Risk-acceptance decisions should be consistent with strategic business objectives and should be explicit and communicated such that the expected return compensates for the risk involved.

c. Business need

Risk management, by virtue of the relationship between risk and reward, has become a crucial business need as the industry grapples with the dynamic challenges of:

- Catering to varying customer needs
- Innovating to keep ahead of the curve
- Tapping new markets and opportunities
- Managing changes in policy and regulatory environment
- Generating profit on a sustainable basis and
- Ultimately creating wealth and enhancing shareholder value

Investors and stakeholders today, place a premium on enterprises that are able to demonstrate risk awareness and the ability to effectively manage risks. This deepens the relationship between risk and reward and further intensifies the requirement for an effective risk management framework.

Benefits of Risk Management

A sound Risk management framework:

- Helps in attainment of business and thus management objectives;
- Avoids surprises;
- Improves stability and quality of earnings;
- Enhances growth and return on investment by more informed exploitation of risk opportunities and managing/ allocating resources;
- Identifies specific synergies and risk arbitrages;
- Reassures stakeholders such as investors, financial institutions, analysts, rating agencies, regulators and the press that the business is well-managed.

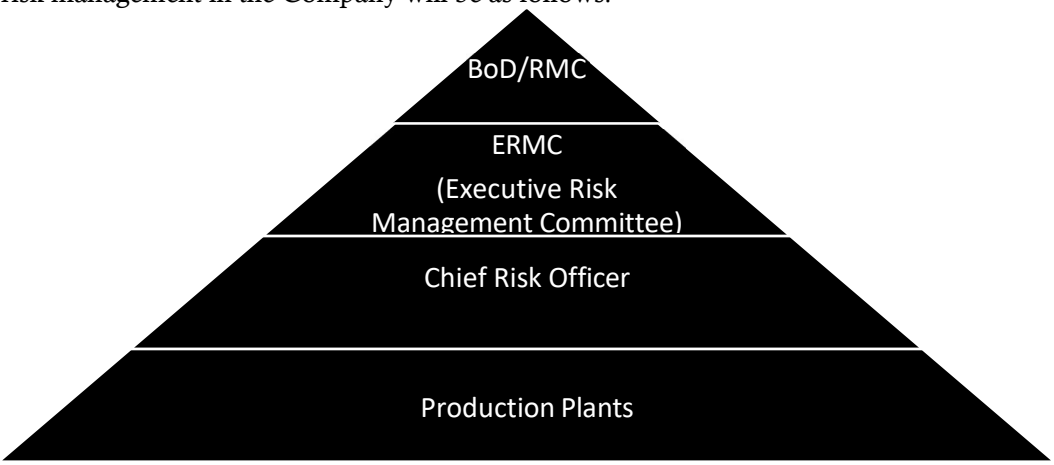
Risk management at the Company will have the following elements:

- General Risks
- Risks associated with industry and environment in which it operates
- Risks associated with management and operations
- Regulatory risk compliance
- Overall risk management framework and guidelines.

These will form the actual framework for managing risk to meet business objectives. This framework seeks to provide the basis for a common understanding of risk and mitigation parameters and the mechanisms to achieve them.

Risk Management – Organization

Risk management will be carried out through oversight at different levels of the organization from the Board of Directors (BoD) to members of the operating team. The overall structure of risk management in the Company will be as follows:



The BoD will be responsible for managing risk at an overall level. The BoD will form a Risk Management Committee (RMC) of Directors which will be delegated with the authority to manage risks. The RMC will meet as frequently as necessary but at least a minimum of three times a year. Chairman cum Director, Managing Director, Independent Director, COO & Plant Head will be present in all RMC meetings. The Divisional Heads (Finance, Corporate Affairs, Marketing, Technical, Company Secretary), Chief Risk Officer and WTD (if he is not a member of RMC) will be present in all RMC meetings. RMC will report to BOD on a half yearly basis.

The Executive Risk Management Committee (ERMC) as shown in the matrix above will consist of Chief Risk Officer (Plant Head), Invitees to the RMC, Company Secretary, Functional Heads from Technical (including Production & Engineering), Projects, Legal, HR, IT, Secretarial, other Corporate Services, Commercial, Marketing & Distribution and Finance. ERMC will meet every quarter and will thoroughly review the "risk assessment and risk management" as described under Policy Statement.

The Board, through RMC, will directly perform the following roles:

- Delegation of authority to the ERMC initially and then review of powers on a yearly Basis
- Reviewing the work of the ERMC at every RMC meeting, for providing directional guidance, if any, on the risk function of the Company
- Reviewing conflict issues if the ERMC was unable to resolve them.

Role & Responsibilities of ERMC

Primarily the ERMC will be responsible for:

- Identification of risks
- Assessment of risks and categorizing those risks
- Preparing mitigation plan for identified risks
- Monitoring risk on an ongoing basis

1. **Risk identification/updation**

Process objectives:

Proper identification, updation and presentation of risks

Owner:
CRO and Divisional / Functional / Departmental Heads

Key input:
Risk register

Activities:

a. On a quarterly basis, all the department heads will review the validity and relevance of existing risks, for which they are assigned as risk owners. Further, they will critically review the operating and business environment related to their functions to identify emerging risks, which may lead to a deviation from laid down objectives or strategic plans.
b. Department heads shall identify/ update risks with regard to government policies, competitor actions, business environment, environmental impacts, technological changes, labor workforce, social impacts and health and safety either through internal resources or consultants.
c. There may be risks which could emanate because of changes in the internal or external environment within which the Company operates. These risks are to be identified by the department heads during the normal course of business and assessed using the impact and the likelihood parameters and thresholds that have been defined.
d. Department heads shall communicate the updated status of existing risks and emerging risks identified to the Chief Risk Officer on a quarterly basis, or on an immediate basis if the situation warrants.

2. Risk assessment

Process objective:
Appropriate evaluation and assessment of existing and emerging risks

Owner:
Executive Risk Management Committee (ERMC)

Key input:
Updated status of existing risks and emerging key risks identified by risk owners

Activities:
Post review of relevance of existing risks and identifying emerging risks, the department heads with the guidance of Chief Risk Officer shall evaluate or assess the risks. The risks will be assessed on a twofold criterion - impact and likelihood.

Impact

- Impact (or consequence) refers to the extent to which a risk event might affect the enterprise.
- Impact assessment criteria include financial, reputational, regulatory, employees and customers. Enterprises typically define impact using a combination of these types of impact considerations, given that certain risks may impact the enterprise financially while other risks may have a greater impact to reputation. In the subsequent paragraphs these impact assessment criteria have been defined.
- When assigning an impact rating to a risk, assign the rating for the highest consequence anticipated. For example, if any one of the criteria for a rating of 5 is met, then the impact rating assigned is 5 even though other criteria may fall lower in the scale.

Likelihood

- Likelihood represents the possibility that a given event will occur.
- Likelihood has been expressed using qualitative terms (frequent, likely, possible, unlikely, rare), as a percentage probability, or as a frequency.
- The magnitude of impact of an event (should it occur), and the likelihood of the event and its associated consequences, are assessed in the context of the existing controls. In

determining what constitutes a given level of risk the following scale is to be used for likelihood and impact

Levels	Likelihood	Impact
5	Very High Likelihood	Very High impact
4	High Likelihood	High impact
3	Moderate Likelihood	Moderate impact
2	Low Likelihood	Low impact
1	Very Low Likelihood	Very low impact

Once the 'Likelihood' and 'Impact' for each of the identified risk are determined the mitigation plans will arrive driven by its categorization of, viz., share, remove, reduce, retain, monitor, 'reduce/remove' and 'monitor/share'.

3. <u>Developing mitigation plans</u>

Process objective:

To ensure timely and appropriate assessment of risks and designing of mitigation plans

Owner:

Risk Owners guided by CRO/Invitees to the RMC/Company Secretary

Key inputs:

Key risks with assessment details

Activities:

1. The third stage of the risk management process is risk handling. Based on updated risk register, the CRO will engage in discussions with functional heads and risk owners to determine a series of actions to align risks with the Company's risk appetite and risk tolerance levels, to reduce the potential impact of the risk should it occur and/or to reduce the expected frequency of its occurrence.
2. The following categories will facilitate developing action plans:

REMOVE

This strategy is for those risks which have high (4) or very high (5) Likely hood and high (4) or very high (5) Impact. The mitigation plan should aim at removing the risk totally through business process modifications.

REMOVE and/or REDUCE

This strategy is for following types of risks

1. Those risks that have moderate (3) likelihood combined with high (4) or very high (5) impact.
2. Those risks that have high (4) and very high (5) likelihood combined with moderate (3) impact.

The mitigation plans should aim to remove the risk through business process modifications to a possible extent based on cost effectiveness and /or to considerably reduce the frequency of occurrence through actions such as reliability improvement, constant situation monitoring/ assessment, business process modifications, real time data through use of IT etc.,

REDUCE

This strategy is for following types of risks

1. Those risks that have moderate (3) likelihood combined with moderate (3) impact.
2. Those risks that have high (4) and very high (5) likelihood combined with low (2) and Very Low (1) impact.

The mitigation plans should aim to considerably reduce the frequency of occurrence and impact, through actions such as reliability improvement, constant situation monitoring/assessment, business process modifications, real time data through use of IT, etc.

MONITOR

This strategy is for those risks that have moderate (3) likelihood and very low (1) or low (2) impact. The mitigation plans should focus on continuous monitoring to prevent or reduce the frequency of occurrence, review of SOPs/business processes, cost effective reliability improvements, etc.

SHARE

This strategy is for those risks that have very low (1) or low (2) likelihood and moderate to very high (3,4,5) impact. In many cases it will be difficult to find cost effective mitigation plans for such risks. The mitigation plans should primarily focus on continuous monitoring to prevent the occurrence and implementing loss minimization systems and procedures, including taking appropriate financial loss. Coverage Insurance Policies from reputed Insurance Companies.

RETAIN

This strategy is for those risks that have very low (1) or low (2) likelihood and very low (1) to low (2) impact. The mitigation plans focus on Effective management of risks as and when they happen in line with Company's risk appetite.

Based on risk response strategies determined above, ERMC shall identify and design appropriate risk handling measures (mitigation plans) to manage enterprise risks at an acceptable level. The risk owners are the primary members to generate options / suggestions. They will also determine the extent of such action plans and timelines for completion under the direction of ERMC. Mitigation plans will be prioritized according to the risk content. An annual risk calendar will be prepared at the beginning of each financial year for monitoring purposes.

Risk Owners should recognize the cost of implementing mitigation plans and wherever possible, alternative options will be evaluated to find the most cost-effective option to handle risks. In circumstances where action plans have a long implementation timeframe, consideration is given for interim options.

4. **Monitoring risk mitigation plans and risk status**

Process objective:

To ensure appropriate implementation of risk mitigation plan and monitoring of risks.

Owner:

Executive Risk Management Committee

Key inputs:

Updated risk register submitted by risk owners reviewed by ERMC which in turn will be presented to RMC for advice, guidance and consent for continuation of the mitigation activities.

Activities:

1. Chief Risk Officer / ERMC shall collate the updated risk register from all risk owners and convene quarterly ERMC meetings. ERMC will (i) track the implementation progress of all agreed mitigation plans, (ii) review the updated risk register and validate revised status of existing risks, emerging risks and the impact & likelihood

assigned to such risks and (iii) review and validate mitigation plans for all on going risks. The minutes of the ERMC meetings, the decisions of ERMC, updated risk register, the status of the activities in risk calendar and the actions taken on directions given will be presented by CRO during RMC meetings.

2. The Risk Management Committee shall review the comprehensive risk data submitted, deliberate in detail, advice and guide for course correction wherever required and validate the risk register.
3. The important decisions taken during the RMC meetings are communicated the risk owners through the respective divisional heads.
4. ERMC shall finalize the Risk Calendar once in the beginning of a year at the first ERMC Meeting.

5. <u>Risk reporting</u>

Process objective:

Appropriate and timely reporting of mitigation measures

Owner:

Company Secretary, Chief Risk Officer and Risk Owners

Key input:

Approved risk reports / registers

Activities:

1. Periodic reporting on risks is required to determine whether the impact or likelihood of the risk is increasing or decreasing and to ensure continuing alignment of organizational resources to priorities.
2. On a quarterly basis, CRO obtains the updated risk register from various departments and the same is discussed and finalised in the ERMC meetings.
3. RMC meets at least three times a year and the finalized risk register and other risk information are presented for deliberation, validation, guidance and consent.
4. Post discussion and finalization of risk register, CRO shall consolidate the top 10 risks along with mitigation plans and timelines identified based on risk ratings assigned and submit the same to Chairman of RMC for submission to the BoD twice a year.
5. In addition to finalized Risk Register, a risk dashboard, containing relevant data for the period such as: notable risk events; new risks identified; risk breaches, mitigation plans achieved, mitigation plans not achieved for which timelines have crossed and a summary of risk management governance activities during the period will also be presented to BoD on a half yearly basis.
6. The following is the summary of various risk management reports to be submitted

Report name	Submitted to	Timelines
Risk dashboard	BoD / RMC	Half Yearly
Top 10 risks	BoD / RMC	Half Yearly
Review of all risk information and finalized risk register	RMC	At least three times a year
Updated risk register (separately highlighting items mentioned below)	ERMC	Quarterly
Implementation status of agreed mitigation plans	ERMC	Quarterly

Risk Calendar	ERMC	Once in the beginning of a year
Reasons for non-achievement of timelines set	ERMC	Quarterly
Revised mitigation plans, timelines and reasons for revisions	ERMC	Quarterly
Updated risk rating for existing risks	ERMC	Quarterly
Emerging risks	ERMC	Quarterly

Reviewed by the Risk committee at its meeting held on 04th August 2023

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