

Makers Laboratories Limited

RISK MANAGEMENT POLICY

BACKGROUND

Across industries and organizations, there is now a recognition that risks are no longer hazards to be avoided, but, in many cases, opportunities to be embraced. Risk, therefore, needs to be understood, priced and managed. In this context, Enterprise Risk Management (ERM) has emerged as important business trend. ERM is a structured and disciplined approach aligning strategy, processes, people, technology and knowledge for evaluating and managing uncertainties faced by an enterprise. Business needs should, therefore, seek to analyze critical risks and balance them with business objectives for improved returns and to drive value.

OBJECTIVE

In order to enhance stakeholder value and improve Corporate Governance, a structured ERM approach has to be introduced in the Company. This policy seeks to define a process for adoption so that a structured, disciplined and consistent risk strategy, providing guidance for risk activity within the Company by embedding ERM within the culture of the business. This Policy will more than meet the mandatory requirement of Risk Management under Clause 49 of the Listing Agreement.

RISK MANAGEMENT PROCESSES

1. Risk Strategy:

- a. A risk strategy will be framed to minimize the risk and to align further to the objective of the company.
- b. Corporate Management Team (CMT) will be responsible to initiate benchmarking efforts in external similar industries to ensure that risk factors identified are exhaustive action plans drawn are realistic and implementation rate is adequate.
- c. The Company has appointed CFO as its Risk Champion.
- d. Risk Champion shall define risk taking capacity or risk appetite considering the Company's existing business processes.
- e. Risk Champions shall identify controls, which are existing, to mitigate identified risk. For the purpose Risk Champion would interview management personnel and review operations/documents, as may be necessary, to identify and evaluate existing controls.
- f. Existing controls will be validated for existence and effectiveness and will be matched against specific risk, to ascertain residual risk. If the residual risk is beyond the risk appetite, action points for reducing residual risk to acceptable level will be developed.

- g. Action points/risk response will be developed for top risk. Risk response will range between avoidance, sharing, reduction or acceptance.

2. Formulation of Risk Processes:

- a. CMT will define and recommend a risk appetite, risk strategy, key performance indicators/success measures and a monitoring process for implementation/feedback in order to embed Enterprise Risk Management (ERM) in the business culture.
- b. CMT shall validate existing risk processes and formulate new risk processes, wherever necessary. CMT along with CFO and Internal Audit Department, will be responsible for formulating the said risk processes.
- c. In order to facilitate risk management activities for the future, the Company will initiate efforts to prepare manuals for critical procedures in all functional areas such as finance, materials and sales, information technology, cGMP etc. All these manuals would be made ready by March, 2015.
- d. All company personnel have a responsibility for maintaining good internal control and managing risk in order to achieve personal, team and corporate objectives. Hence, it is essential that every responsible person in the organisation is aware of the risk they are empowered to take, risk which needs to be avoided and needs to be reported upwards.
- e. In order to enhance risk structure, the Company will have a document of delegated powers in order to define responsibilities and authorities at various levels of management.

3. Identification and Assessment of Risks:

- a. CMT shall consider all relevant questions for identification and assessment of risks.
- b. Process owners of each key processes undertake detailed study and prepare a list of potential risk. Internal Auditors will facilitate process owners for identification of risk through interviews with process owners and by reviewing process documents for validating and acceptance and adequacy of risk identification mechanism.
- c. Risk Champion will review and assess various risk/opportunities for each key process of the business, whether internal or external. An understanding of the objectives and associated critical factors will be gained through a review of business plans. External factors covering aspects of risks such as economy, technology, natural environment, political and social risk and internal factors covering risk of infrastructure, personnel and process technology will be covered through interviews with management personnel at all levels.

4. Quantification of Risks:

- a. All risk and opportunities emanating from the review will be quantified for inherent impact and likelihood of using pre-defined scale of measurement and an inherent risk exposure will be worked out at the company, division and business levels, as detailed below:

| <u>Impact</u> | <u>Likelihood</u> |
|---------------|-------------------|
| Insignificant | Rare |
| Minor | Unlikely |
| Moderate | Moderate |
| Major | Likely |
| Catastrophic | Almost certain |

All efforts would be made for mitigating risks between moderate and certain likelihoods and moderate and catastrophic impacts.

- b. All the significant recurring and abnormal risks and opportunities identified and grouped, as above, would be presented before CMT in order to gain acceptability and to arrive at a consensus score for likelihood and impact and to establish accountability for risk mitigation.

5. Monitoring/Reporting Process:

- a. A risk register providing all details of risk and action plans will be maintained by both chief internal auditor and CFO so that tracking is done at the corporate level.
- b. Internal Audit Department for consideration with CMT will develop reporting templates for reports to Board.
- c. Internal Audit Department, in consultation with CMT will evolve an audit plan based on the nature of risk.
- d. Risk management is a continual activity. For ease of implementation and convenience, risk review will be carried out on quarterly basis and reports also will be tabled before audit committee periodically for subsequent action.

6. Training:

- a. To ensure widespread understanding, Chief Internal Auditors/CFO would make a presentation before the CMT as also operational/business unit managers to elucidate and clarify the concept of risk management.
- b. Internal Audit Department in consultation with CMT will assess and define training requirements for company's personnel, including process owners and Risk Champion.

- c. CMT and Chief Internal Auditor would undertake training programme for its business/operational managers to acquaint them with the risk management concept, define their requirements thereunder, clarify process to be adopted in future and to keep them abreast of the latest technology/knowledge in existence globally.

7. Legal Compliances:

In order to ensure an appropriate legal compliance, the following procedure will be followed:

- a. Presently, under the Certification Procedure in place with the Company the applicable laws of land have already been identified for various functions.
- b. The functional heads furnish Certificates of Compliance to the Corporate Counsel & Company Secretary which is based upon the Certification given by operational heads responsible for Compliance within their function. The Company Secretary places the Compliance Certificate before the Board of Directors.
- c. The Internal Auditor of the Company will undertake a Due Diligence as part of their Internal Audit Programme that the Certification at the operating level and functional level is being adhered to.
- d. The Chief Internal Auditor would prepare a report of non-compliance for every function and send copy of the report to the Company Secretary along with action plans with responsibility and time frame for implementation. This will also be tabled before the Board.