

MILLAT TRACTORS LIMITED

Enterprise Risk Management Framework

1. POLICY STATEMENT	2
1.1. RESPONSIBILITY	2
1.2. POLICY REVIEW	2
1.3. KEY PRINCIPLES ON RISK MANAGEMENT	2
2. RISKS	3
2.1. OPPORTUNITY	3
2.2. UNCERTAINTY	3
2.3. HAZARD	3
2.4. RISK APPETITE	3
2.5. RISK TOLERANCE	3
3. CONTROLS	3
4. RISK MANAGEMENT PROCESS	4
4.1. STEP 1: IDENTIFICATION	4
4.2. SOURCES OF RISK	5
4.3. STEP 2: ANALYZE	5
4.4. STEP 3: RESPOND	7
4.5. STEP 4: MONITOR	8
4.6. STEP 5: REPORT	8

1. Policy statement

Enterprise Risk Management enhances an organization's ability to effectively manage uncertainty. It is a comprehensive, systematic approach for helping all organizations, regardless of size or mission, to identify events, and measure, prioritize and respond to the risks challenging its most critical objectives and related projects, initiatives and day-to-day operating practices.

Millat Tractors Limited (the Company) defines risk as any potential event which could prevent the achievement of an objective. It is measured in terms of impact and likelihood. Risks arise as much from the likelihood that an opportunity will not happen, as it does from the threat or uncertainty that something bad will happen.

The Company's policy is to identify, analyze and respond appropriately to all risks. The risk responses selected are determined by the appetites and tolerances for risks. These will vary over time according to the specific business objectives, for example strategic, operational or asset protection.

The effectiveness of risk management and control measures will be regularly reported to and acted upon by the Board. In addition, periodic independent review on the effectiveness will be conducted.

1.1. Responsibility

The Board is responsible for the Enterprise Risk Management Framework. The Senior Leadership Team under the leadership of the Chief Executive Officer is responsible for implementing the strategy, culture, people, processes, technology and structures which constitute the Enterprise Risk Management Framework.

1.2. Policy Review

This policy and underlying principles will be reviewed annually by the Board, to ensure its continued application and relevance.

1.3. Key principles on risk management

- In order to achieve the Company's objectives, risks are to be considered and managed enterprise-wide
- Risk management is integral to the strategic planning process, business decision making and day-to-day operations
- Risks are identified, analyzed, responded to, monitored and reported on, in accordance with the Company's policy and risk management framework
- Continuous monitoring by management is imperative

2. Risks

Risks are uncertain future events which could influence the achievement of the Company's business objectives. Risks can be viewed from three perspectives:

2.1. Opportunity

Risk of lost opportunity or something beneficial not happening

2.2. Uncertainty

Risk of not meeting expectation

2.3. Hazard

Risk of loss or something detrimental happening

Following parameters also need to be considered:

2.4. Risk appetite

Risk appetite is defined as the risks that the Company is in business to take, based on its corporate goals and its strategic imperatives.

2.5. Risk tolerance

Risk tolerance represents the threshold of risk that the Company considers acceptable, based on its capabilities to manage identified risks.

Risk appetites and tolerances will vary according to the balance of opportunity, uncertainty or hazard which differing risks represent.

3. Controls

Control encompasses all of the Company's possible responses to risk, whether viewed as opportunities, uncertainties or hazards. These controls are responsibilities of the Company's staff and are designed to provide reasonable assurance regarding achievement of the Company's business objectives.

In determining risk responses, the Company must first assess whether to accept, exploit, mitigate, transfer or avoid the risks. In the case of exploit, mitigate or avoid, controls will need to be put in place.

There are three main categories of controls:

- Preventive controls – Responses to stop undesirable transactions, events, errors or incidents occurring
- Detective controls – Responses to promptly reveal undesirable transactions, events, errors or incidents so that appropriate actions can be taken
- Corrective controls – Responses to reduce the consequences or damage arising from crystallization of a significant incident

In determining the types of controls to be implemented, following factors need to be considered:

- The Company's business objectives
- The Company's capabilities and skills
- Appetite and tolerance for any given risk
- Time horizon
- Financing / cost effectiveness
- Alignment with other initiatives of the Company and overall business direction

In ensuring the effectiveness of controls, the following factors are essential:

- Control framework is overall responsibility of Board of Directors
- Management's philosophy and operating style
- Delegation of authority and responsibility
- Continuous staff development]

4. Risk Management Process

The Company's Enterprise Risk Management Process comprises the following steps:

- IDENTIFY key risks
- ANALYSE the potential impact and likelihood of risks
- RESPOND to risks by considering existing controls as well as selecting, prioritizing and implementing appropriate actions
- MONITOR the external and internal environment for potential changes to risks and ensure that risk responses continue to operate effectively
- REPORT on risks and the status of risk response adopted

4.1. STEP 1: Identification

Systematically and continuously identify risks faced in meeting objectives

For each business objective, it is necessary to identify the key risks that might impede the achievement of the respective business objectives. Risk identification should be performed as part of all major decision making processes, as shown below:

- Major decision level
 - Group strategy planning
 - Business Unit operating plans
 - Core processes
 - Investment decisions
 - Personnel plans
- Process or system changes
- Collective and individual assessment of risks
- New projects
 - Project team planning
 - Project paper presentation and discussion

4.2. Sources of risk

Risks identified are categorized by sources to facilitate the determination of root cause and subsequently to assign responsibility for responses. The following list represents the Company's key sources of risk.

- Direction and decision making
- Political influence
- Human capital
- Management Information System
- Fraud, theft and malicious acts
- Economic
- Regulatory / License
- Natural events
- Environment, Health and safety
- Suppliers
- Product
- Finance
- Network
- Location
- Technology
- Dealers
- Competitor
- Processes etc.

4.3. STEP 2: Analyze

Once the risks have been identified, the likelihood of the risk occurring and the potential impact if the risk does occur are assessed using the risk rating table below.

Likelihood Rating				
1	2	3	4	5
Unlikely	Low probability	Possible	Highly probable	Almost certain

Risk Impact Rating				
1	2	3	4	5
Financial – direct loss or opportunity costs of:				
Rs. 1 million – Rs. 10 million	Rs. 10 million to Rs. 25 million	Rs. 25 million to Rs. 50 million	Rs. 50 million to Rs. 100 million	Greater than Rs. 100 million
Operational – Milestone missed by				
< 1 week	1-4 week	1-3 months	3-6 months	More than 6 months
Regulatory				
Regulatory breach with minimal consequences and readily rectified	Regulatory breach with minimal consequences but which cannot be readily rectified	Regulatory breach with material consequences but which can be readily rectified	Regulatory breach with material consequences but which cannot be readily rectified	Large scale action, material breach of legislation with very significant financial or reputational consequences
Strategic / Organization wide				
Minimal impact on strategy. Minimal reputational sensitivity	Minor impact on strategy; minor reputational sensitivity	Moderate impact on strategy; moderate reputational sensitivity	Major impact on strategy; major reputational sensitivity	Failure to meet key strategic objective; organizational Viability threatened; major financial overrun
Personnel - Loss of managerial staff in 1 year:				
< 5	6-10	11-15	16-20	>20

This can be summarized in a risk ranking matrix as below:

	Consequences				
	1	2	3	4	5
Likelihood					
Almost certain	Low	Medium	High	High	Extreme
Highly probable	Low	Medium	Medium	High	High
Possible	Low	Low	Medium	Medium	High
Low probability	Low	Low	Low	Medium	Medium
Unlikely	Low	Low	Low	Low	Medium

Table of management action

Risk score		Required action
9-10	Extreme	Immediate action required by Board of Directors
7-8	High	Senior management action plan needed
5-6	Medium	Specific monitoring or procedures required, management responsibility must be specified
2-4	Low	Manage through routine procedures. Unlikely to need specific application of resources

4.4. STEP 3: Respond

Once risks have been analyzed, appropriate risk responses can be determined to mitigate risk to an acceptable level within reasonable costs. Risks can be dealt with in various ways. The risk response options encompass all possible management response to risk, whether viewed as opportunities, uncertainties or hazards. The risk response options and examples of activities under each option are outlined below:

- **Accept** – Informed decision to accept both the impact and likelihood of risk events
- **Mitigate** – Steps taken to reduce either the likelihood of an occurrence or impact or both; such as:
 - Monitoring budgets / forecast
 - Defining accountability
 - Ensuring adequate skills
 - Improving staff morale
 - Implementing Business Continuity Plan
- **Transfer** – Steps taken to shift loss / liability to third parties, such as:
 - Insuring
 - Outsourcing
 - Back to back warranty
 - Diversification
 - Hedging
- **Avoid** – Steps taken to prevent the occurrence of hazards, such as:
 - Ceasing activity
 - Divestment
 - Changing objective
- **Exploit** – Steps taken to leverage opportunities, such as:
 - Mergers and acquisitions
 - Expanding business portfolios
 - Influencing public perception
 - Renegotiating contracts
 - Reorganizing / restructuring
 - Creating innovative products

4.5. Step 4: Monitor

The monitoring and review of the risk profile and the risk response plans is a continuous process. The purpose of the review is to:

- Provide assurance that risks are being managed as expected;
- Assess whether the risk response plans remain relevant; and
- Ensure that the risk profile anticipates and reflects changed circumstances and new exposures.

Risk monitoring consists of a combination of regular communication, periodic reviews or audits and evaluation by independent executives at appropriate levels at the Company. Assurance techniques include:

- Periodic / random testing of controls, risks and control environment
- Quality assurance reviews
- Post-implementation reviews
- Performance appraisals

Risk response should be measured in terms of efficiency and effectiveness. Efficiency measures the cost of implementing risk management responses in terms of time, money and resources, whereas effectiveness measures the relative degree to which the responses reduce the impact or likelihood of the risk occurring.

To maximize efficiency and effectiveness of risk responses, monitoring and reporting should be integrated with existing business processes and reporting as far as possible.

4.6. Step 5: Report

The policy, design and framework for enterprise risk management is driven by the Board and managed by the enterprise risk management team.

The reporting structure ensures that risk response gaps are addressed and the risk responses are operating effectively under changing conditions. Enterprise Risk management activities should be monitored and reported upwards through the Company as illustrated:

- **Board of Directors**
 - The company's risk profile should be managed by the Board
 - Actions to address key risks should be directed by the Board
 - Effectiveness and progress of actions taken should be monitored
 - State of risk management framework
 - Major incident and issues
- **Management**
 - Results / Key Performance Indicators
 - Commentary on major events in period
 - Major incidents and issues
 - Areas of focus where risks are changing adversely

- New risk exposure
- Progress on actions to address key risks
- **Executives / Operational staff**
 - Commentary on major events in the reporting period
 - Areas of focus where risks are changing adversely
 - Progress on actions to address key risks