BEML Ltd.

Bengaluru

Risk Management Policy

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Introduction

Established in 1964 as a Public Sector Undertaking for manufacture of Rail Coaches & Spares Parts and Mining Equipment at its Bangalore Complex, BEML Ltd (formerly Bharat Earth Movers Limited) has come a long way in serving the needs of the nation. BEML operates as a Multi-Technology, Multi-Location Mini Ratna Category – I company under the Ministry of Defence offering high quality products for diverse sectors of economy such as Coal, Mining, Steel, Limestone, Power, Irrigation, Construction, Road building, Aviation, Defence, Metro and Railways. The company is structured along 3 business verticals for associated equipment manufacturing – viz Mining and Construction, Rail & Metro and Defence & Aerospace. Further, the company has two Strategic Business Units namely Trading Division and International Business Division.

The company is exposed to dynamics of multiple industries that it operates in and has to compete in an extremely competitive market which requires the organisation to further fast-track on its growth path in a sustainable manner. The company's status as a listed public sector entity requires the company to accept the added responsibility of having the character of a model organisation which is open to ideas, fiercely competitive and yet ethical in its professional dealings with sound corporate governance and transparent procedures. Being a mini-Ratna public sector enterprise, the organisation is further bestowed with the added responsibility of adopting international leading practices among the CPSEs. The company has been endowed with the responsibility to act as a catalyst in the growth story of economy and country. The company acknowledges its aforementioned responsibilities and is determined to serve as a flag bearer in the industry landscapes that it operates in.

In its endeavour to attain sustainable growth, the company consistently and constantly scans its external and internal business environment. Over the last decade the Indian economy has transformed and thus has been a source of both opportunities and risks for companies. While BEML has been successful in grabbing the opportunities, it has not been complacent about the risks associated with it. The dynamic risk landscape presents unique challenges for all organisations and has to be managed strategically. Risks can originate both internally and externally and a robust risk management framework is necessitated to effectively manage risks in a manner that helps company achieve its business objectives. Thus, company has incorporated risk management as one of the critical success factors.

BEML recognizes the benefits of an integrated approach to risk management as it understands that the company is exposed to a number of external and internal risks which may affect its financial and non-financial results. This creates the need for Enterprise Risk Management (ERM) system to ensure minimal effect of the risks on BEML. Further, regulatory requirements such as DPE guidelines on Corporate Governance, Companies Act 2013 and Clause 49 requirements of the listing agreement have been mandated upon the company. BEML acknowledges the growing importance of enterprise risk management in current business environment and strives to develop a mature risk management framework which can help it drive its business imperatives by guiding decisions pertaining to optimal resource allocation and response strategy while facing or managing risks. Further, the organisation intends to impart a greater level of awareness with regard to organisation wide risk management, thereby ensuring wider participation and thus creating a sustainable risk aware culture at the organisation.

With this in perspective and to ensure reasonable assurance over the attainment of its business objectives, BEML has decided to adopt a holistic risk management policy so as to guide their risk management activities. This document shall further be reviewed and updated periodically at a pre-determined interval to ensure its relevance and effectiveness.

1.1 Risk Management Policy Philosophy

BEML recognizes that it is exposed to a number of uncertainties, which are inherent in the multiple industrial landscapes that it operates in. The dynamic nature of economy exposes the company to various external and internal risks which may affect its financial and non-financial results.

BEML has developed Risk Management Policy to enable BEML to consider the risks in developing the high level strategies and objectives. This shall further help BEML to manage risks in day to day operations to achieve those objectives.

1.2 Scope of the Policy

The policy guidelines are devised in context of the organization's growth objectives, its business and strategy plan, global ERM standards and leading ERM practices. The **Scope of the Policy** shall cover:

- All functions at corporate office
- All manufacturing divisions across the country
- All business verticals and strategic business units
- All projects within India
- All events, both external and internal which shall have significant impact on the business objectives of the organization

1.3 Objectives of the Policy

The objective of this policy is to ensure sustainable business growth with stability and to promote a pro-active approach in identifying, evaluating, reporting and managing risks associated with the business. In order to achieve the key business objectives, the policy establishes a structured and disciplined approach to Risk Management in order to manage risk related issues. The specific objectives of the Risk Management Policy are:

1. To enable visibility and oversight of Board on risk management system and material risk exposures of the company.
2. To ensure all risks across the organisation are identified and evaluated through standardized process and consolidated across the organisation to identify the key risks that matter to the organisation to enable risk prioritization.
3. To ensure mitigation plans for key risk are agreed upon, assigned to risk owners and reviewed on a periodic basis

4. To ensure that risks are reported at all levels in the organisation as per their relevance and significance.
5. To ensure that risk governance structure is aligned with organisational structure and risk profile of the company with well-defined and delineated roles, responsibility and delegation of authority.
6. To enable transparency of risk management activities with respect to internal and external stakeholders.
7. To enable compliance to appropriate regulations, wherever applicable, through the adoption of leading practices.

1. Risk Governance

A well-defined risk governance structure serves to communicate the approach of risk management throughout the organisation by establishing clear allocation of roles and responsibilities for the management of risks on a day to day basis. In order to develop and implement an Enterprise Risk Management framework, BEML shall constitute a Corporate Risk Committee (CRC) to be supported by Risk Cell. CRC shall discuss all the risks reported by risk owners, identify the key risks and report them to the Risk Management Committee (RMC). Risk Management Committee will ensure that risk management activities are undertaken as per the policy. Risk Owners shall report all the risks from their respective areas to the CRC.

The main objective of the CRC shall be to provide an enterprise wide view of key risks within the organization to the Risk Management Committee. The CRC meetings shall be convened by CRO, who is responsible for establishment and implementation of risk management process effectively. CRO shall appoint Risk Owners from all relevant functions and verticals at BEML and Risk Owner would be responsible for establishment and implementation of risk management process effectively in their respective functions.

The diagram below outlines the governance structure for BEML –

Risk Governance Structure

Note: The CRO shall be the convener Corporate Risk Committee meetings and shall nominate the other members of the CRC as and when the requirement for more departments' representation arises beyond the CRC in place at the time. The senior most member of the CRC shall chair the meeting.

Incase if ED / CGM is not available for any function/vertical then next senior most employee shall take that responsibility in CRC.

2.1 Risk Governance Structure

2.1.1 Risk Management Committee

Constitution of Risk Management Committee

- Director – Defence Business
- Director – Finance
- Director – Rail & Metro Business
- Director – Mining & Construction Business
- Director – Human Resources

The Risk Management Committee has the key role in ensuring enterprise wide risk management and aligning the strategic objectives with the organization's key risks in order to achieve intended outcomes. The Senior Most Director will head the Committee and Company Secretary shall be the convener of the committee.

Role and Responsibilities of the Risk Management Committee:

- Review and approve the risk management policy and associated practices of the company.
- Ensure that appropriate systems are in place to manage the identified risks, so that the organizations assets and reputation are suitably protected.
- Ensure that responsibility and authorities are clearly defined and adequate resources are assigned to implement the Risk Management Policy.
- Review the key risks reported by the Corporate Risk Committee (CRC) and approve remedial mitigation decided by CRC for key risks.

2.1.2 Corporate Risk Committee

Constitution of CRC:

The CRC shall constitute of CRO and senior stakeholders from different business verticals and key functions. The CRO shall be the convener for CRC meetings and shall nominate the other members of the CRC as and when the requirement for more departments' representation arises beyond the CRC in place at the time. The senior most member of the CRC shall chair the meeting.

Note: Please refer Annexure 3 for current composition of CRC

Role and Responsibilities of CRC:

The CRC shall have the key role of identifying the key risks, suggest mitigation measures, monitoring and supervising the implementation of the Risk Management Policy and maintain enterprise wide view of the key risks faced by the organization.

- Review the organization's risk profile periodically
- Review and assess the current & planned approach to manage key business risks

- Assess and evaluate the key risks anticipated and associated mitigation measures for the organization and suggest new mitigation measures as necessary.
- Ensure that effective risk mitigation plans are in place and the results are evaluated and acted upon.
- Report the key business risks faced by the organization and their mitigation plans to the RMC
- In case of exigencies / emergent conditions, ensure that the RMC is apprised about the same
- Assist the Risk Management Committee in overseeing and monitoring the development and implementation of the Risk Management Policy.
- Assist the Risk Management Committee in decision making for risk management responses for identified key risks.

2.1.3 Chief Risk Officer

The Chief Risk Officer (CRO) shall be the Department Head (Corporate Planning) who will work with members of CRC in establishing and implementation of risk management process effectively in their areas of responsibilities.

Roles and Responsibilities of the CRO:

- Establishing and managing the implementation of risk management policy
- Designing and reviewing processes for risk management.
- Communicating with the RMC regarding the status of risk management and the key risks faced by the organization.
- Shall play the role of convener in CRC meetings.
- Validating that the risk management policy is implemented in each vertical/ function and that all significant risks are being recognized and effectively managed in a timely manner and conduct reassessment of the same, if required.

2.1.4 Risk Cell

Risk Cell shall support CRO in handling Enterprise-wide Risk Management. The members of the Risk Cell shall be appointed by CRO.

Roles and Responsibilities of the Risk Cell:

- Assist the CRO in organizing CRC meetings.
- Collate and record the risks and their mitigation plans in the risk register as reported by the Risk Coordinators.
- Consolidate risks register for perusal of CRO on regular basis and for discussion with CRC.
- Guide the Risk Coordinators in carrying risk management activities in their respective areas.

2.1.5 Risk Owners

Risk Owners shall be GMs of respective functions/verticals as nominated by CRO in consultation with CRC on time to time basis depending on the organisational structure and business imperatives so as to ensure that risks pertaining to all critical and significant functions/verticals are captured while identifying, assessing and managing risks. Their name shall reflect as the owner of the respective risk register.

Role and Responsibilities of Risk Owners:

Risk Owners should ensure that all the risks within their respective functions are identified, assessed, monitored and managed effectively to ensure that risk management practices are implemented. They should also ensure that processes utilized are in compliance with the entity's enterprise risk management policies.

- Ensure that risks for their respective functions/verticals are identified and assessed
- Ensuring that the risk assessment is done as per the risk assessment framework
- Ensuring risks are managed on a daily basis
- Ensuring risk registers are maintained and updated on a monthly basis
- Facilitate the identification and implementation of risk mitigation and treatment plans as has been reviewed and approved by the Corporate Risk Committee
- Reporting the risks along with assessment and mitigation of the respective function to the CRO

2.1.6 Risk Coordinators

Risk Coordinators shall be appointed by risk owners within their function/ area of responsibility (one or more than one) to assist in the risk management activities.

Role and Responsibilities of Risk Coordinators:

- Assisting the Risk Owner in initiating risk identification and assessments within their area of responsibility
- Taking timely inputs from Risk Owners
- Timely updating and maintaining the risk register for functions as per the inputs from Risk Owners.
- Coordinate with Risk Cell for risk reporting

2.2 Risk Reporting Structure

BEML shall have three line of risk reporting structure:

<u>First Line of Reporting</u>

- The Risk Owners shall prepare risk registers and share it with CRO and risk cell on Quarterly Basis for discussion in CRC.

Second Line of Reporting

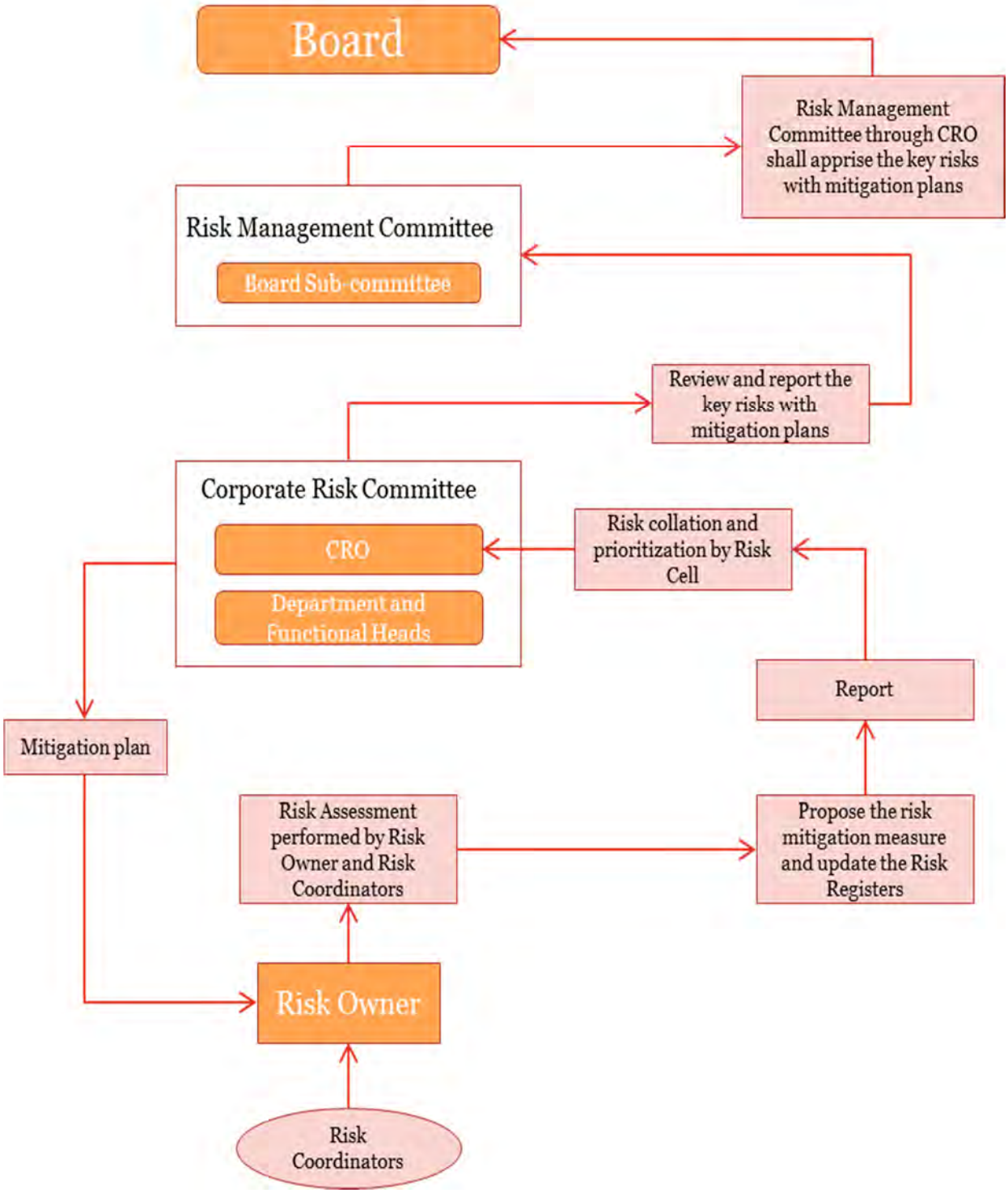
- The Chief Risk Officer along with the other members of the CRC shall quarterly review the risks and decide upon the key risks which shall be reported to the Risk Management Committee.
- Based on CRC inputs for the mitigation plan, Risk Cell shall record it in the risk register and share the key risks with their mitigation plans to the CRO. CRO shall inform the concerned risk owner for the implementation of the mitigation plans.
- CRO shall consolidate the key risks based on the discussion of CRC which shall be reported to the Risk Management Committee on bi-annual basis.

Third Line of Reporting

- The Risk Management Committee along with Chief Risk Officer shall bi-annually review the key risks and respective mitigations decided by the CRC.
- Chief Risk Officer shall annually apprise the board on the key risks faced by the organization and the mitigation measures taken.
- Chief Risk Officer shall also apprise the Board for decision on any new/emerging risks faced by the organization in case of exigencies/emergent conditions.

The Diagram below summarizes the Risk Reporting Structure:

Risk Reporting and Escalation Process



3 Risk Management Approach

Risk Management as a process shall enable the organization to identify, assess and treat risks. It is the responsibility of everyone in the organization viz. Board, Management Team and all BEML personnel. Risk Management applies to all functions, verticals and operations within the organization.

In BEML, risk management is iterative. An iteration of the risk management process is triggered when e.g.:

- The business develops a new goal, undertakes a project or investment or considers its strategy for coming years
- Conditions exterior to BEML change significantly, e.g. regulatory or legal changes, major changes in competitive landscape, changes to key partnerships etc.
- Periodic requirements for risk reviews as required by Governing documents, Contracts, legislation or other sources

The primary objective(s) of establishing a Risk Management Process is to ensure that:

- Risks faced by the organization shall be identified and recorded in the risk register, enabling the top management to take a comprehensive view of the same

- Risks identified shall be assessed, mitigated, monitored and reviewed on an ongoing basis.

The Risk Management Process is depicted below:

3.1 Risk Identification

Risk identification sets out to identify an organisation's exposure to uncertainty. This requires an in-depth knowledge of the organisation, the market in which it operates, the economic, legal, regulatory, social, political, technological and cultural environment in which it exists, as well as the development of a sound understanding of its strategic and operational objectives, including factors critical to its success and the threats and opportunities related to the achievement of these objectives.

Risk identification shall be approached in a methodical way to ensure that all significant activities within the organization have been identified and all the risks flowing from these activities defined.

The following methodologies can be used to identify risks:

- Brainstorming
- Surveys / Interviews/Working groups
- Experiential or Documented Knowledge
- Risk Lists - Lessons Learned
- Historical risk event information

Please refer Annexure 1 for risk register template.

3.1.1 Risk Categorisation

All the risks that have been identified shall be categorised under the following risk categories - Strategic, Operational, Reporting and Compliance risk.

- **Strategic Risk** - Risk of loss resulting from business factors. These risks adversely affect the achievement of strategic objectives and may impair overall enterprise value.

- **Operational Risk** - Risk of loss resulting from inadequate or failed processes, people and information systems.

- **Reporting Risk** - Risk of inadequate internal or external reporting due to wrong financial as well as non-financial information in the reports

- **Compliance Risk** - Risk of loss resulting from legal and regulatory factors

3.1.2 Risk Classification

All the risks that have been identified shall be further classified into following types to help BEML in prioritizing the risks

- **Asset Risk-** Risk of loss resulting from depreciation, under-utilisation or loss of control over physical assets of company

- **Competition Risk –** Risks pertaining to the external competitors of the company such as entry of new competitors, FDI etc

- **Compliance Risk -** Risk of loss resulting from legal and regulatory factors, such as strict privacy legislation, compliance laws, and intellectual property enforcement

- **Contract Risk –** Risks pertaining to the contracts signed with client and sub-contractors

- **Contractor/ Vendor Risk –** Risks originating from company's relationship and dependence on third party vendors, contractors or outsourcing partners

- **Environmental Risk –** Risks having implications on the environment, weather, pollution or risks arising due to changes in environment

- **Expense Risk –** The risk of a change in value caused by the fact that the timing and/or the amount of expenses incurred differs from those expected, e.g. assumed for pricing basis.

- **Financial Risk -** All risks which have a financial implication such as adverse movements in foreign exchange rates, capital expenditure etc.

- **Foreign environment risk -** The risk arising due to exposure to foreign laws, regulation and socio-political environment

- **Litigation Risk -** Risk of loss arising out of litigations against or litigation initiated by the company

- **Market Risk –** Risks pertaining to external market factors such as demand uncertainty, price volatility etc

- **People Risk -** Risks (like attrition) that are part of the personnel related processes of the company such as recruitment, skill sets and performance measurement

- **Process Risk/ Execution Risk –** The risk arising due to lack of adequate process or inadequate execution of defined processes

- **Project Risk –** Risks which impacts the execution of any project resulting in time and cost overrun

- **Regulatory/Political Risk -** The risk arising due to change in regulatory policy of the country
- **Reporting Risk** - Risk of inadequate internal or external reporting due to wrong financial as well as non-financial information in the reports

- **Reputation Risk** – Risks having implications on the brand and reputation of the company

- **Technology Risk –** Risks originating from usage and deployment of technology in the organisation in its operations and management such as product obsolescence because of technology gap

3.2 Risk Assessment

Risk assessment allows an entity to consider the extent to which potential events have an impact on achievement of objectives. Management should assess events from two perspectives – likelihood and impact.

Risk rating is the result of the product of impact and likelihood of occurrence of a risk with the consideration of controls in place.

The risks identified will be evaluated by their likelihood and impact parameters as per the following methodology:

Impact Area	Parameter	1	2	3	4	5
		Insignificant	Minor	Moderate	Major	Significant
Growth	Turnover growth	Impact less than INR 100 Cr	Impact of INR 100-200 Cr on Target revenue	Impact of INR 200-400 Cr on Target revenue	Impact of INR 400-600 Cr on Target revenue	Impact greater than INR 600 Cr on Target revenue
	Gross Operating margin	Impact less than INR 10 Cr	Impact of INR 10-20 Cr on Target revenue	Impact of INR 20-40 Cr on Target GOM	Impact of INR 40-60 Cr on Target GOM	Impact greater than INR 60 Cr on Target GOM
Efficiency of Asset use	Average no of Days of inventory	Impact less than 5 days on targeted inventory days	Impact between 5-10 days on targeted inventory days	Impact between 10-20 days on targeted inventory days	Impact between 20-30 days on targeted inventory days	Impact greater than 30 days on targeted inventory days
	Average collection period of Trade receivables	Impact less than 5 days on targeted trade receivables days	Impact between 5-10 days on targeted trade receivables days	Impact between 10-20 days on targeted trade receivables days	Impact between 20-30 days on targeted trade receivables days	Impact greater than 30 days on targeted trade receivables days
R&D and CAPEX projects	Design and Development of planned products and execution of CAPEX projects	Development before 15.02.16	Development before 28.03.16 after 15.02.16	Development before 15.03.16 after 28.02.16	Development before 31.03.16 after 15.03.16	Development delayed beyond 31.03.16

Impact Area	Parameter	1	2	3	4	5
		Insignificant	Minor	Moderate	Major	Significant
Initiatives for growth	Increase in vendor base	More than 4 % growth in vendor base	3-4 % growth in vendor base	2-3 % growth in vendor base	1-2 % growth in vendor base	Less than 1% growth in vendor base
	Export growth	No growth in exports	0-5 % impact on target growth	5-10 % impact on target growth	10-15 % impact on target growth	15% impact on target growth Supply of equipment to one new country
Quality Management	External failure cost (warranty cost)	Impact less than 0.02 % on EFC as % of sales	Impact of 0.02-0.04 % on EFC as % of sales	Impact of 0.04-0.06 % on EFC as % of sales	Impact of 0.06-0.11 % on EFC as % of sales	Impact of 0.11 % on EFC as % of sales
Compliance	Non-compliance to legal and regulatory requirement	Insignificant or no impact	Warning show cause legal notice	Statutory Penalty	Statutory Penalty	Summon by any court to any official
Human Resource	Employee Attritions	Attrition less than 1 % at key positions/ skill levels	Attrition between 1-3 % key positions/ skill levels	Attrition between 3-4% key positions/ skill levels	Attrition between 4-5 % key positions/ skill levels	Attrition more than 5 % key positions/ skill levels

In case, the rating based on different parameters are different, higher of the two or more ratings should be considered as the final risk rating.

E.g. For a particular risk, Impact rating is 3 based on the Compliance parameter and 2 based on the Premium parameter, the final impact rating should be taken to be as 3.

Estimate Likelihood of occurrence:

To assess the likelihood, the following classification matrix should be considered:

Likelihood Rating: Determination of risk occurrence		
Risk Measurement Score (Likelihood)	**Classification**	**Likelihood**
1	Rare	Has not occurred / can occur in exceptional cases
2	Unlikely	Event has occurred remotely in past / is not expected but may happen
3	Possible	Periodic occurrence OR (<1 per year) / Event has possibility to occur in the year
4	Likely	Annual occurrence / Event to occur very likely
5	Almost Certain	More than once in a year/ It is almost certain that event will occur

Risk Exposure:

The risk assessment methodology adopted defines risk exposure as a product of Impact (rating) of the risk and the Likelihood of occurrence (rating) of the risk.

3.3 Risk Mitigation Strategy

There are four common strategies for treating risk. There is no single "best" response strategy, and each risk must be considered on its own merits. Some risks may require a combination of strategies and multiple responses, whereas others may need only one strategy with a single response.

- **Risk avoidance/ termination:** This involves doing things differently and thus removing the risk (i.e. divestments). This is particularly important in terms of project risk, market risk or customer risk but often wishful thinking in terms of the strategic risks.

- **Risk reduction/ mitigation:** Reduce or Treat the risk. This is the most widely used approach. The purpose of treating a risk is to continue with the activity which gives rise to the risk but to bring the risk to an acceptable level by taking action to control it in some way through either:
    - Containment actions (lessen the likelihood or consequences and applied before the risk materializes) or;
    - Contingent actions (put into action after the risk has happened, i.e. reducing the impact. Must be pre-planned)

- **Risk acceptance/ retention:** Accept and tolerate the risk. Risk Management doesn't necessarily mean risk reduction and there could be certain risks within the organization that it might be willing to accept and continue with its operational activities. The organization shall tolerate such risks that are considered to be acceptable, for example:
    - a risk that cannot be mitigated cost effectively;
    - a risk that opens up greater benefits than loss
    - uncontrollable risks

It's the role of CRC to decide to tolerate a risk, and when such a decision is taken, the rationale behind it shall be fully documented. In addition, the risk shall continue to be monitored and contingency plans shall be in place in the event of the risk occurring.

- **Risk transfer:** Transfer some aspects of the risk to a third party. Examples of risk transfer include insurance and hedging. This option is particularly good for mitigating financial risks or risks to assets.

    a) The following aspects shall be considered for the transfer of identified risks to the transferring party:
        - Internal processes of the organization for managing and mitigating the identified risks.
        - Cost benefit of transferring the risk to the third party.

    b) Insurance can be used as one of the instrument for transferring risk.

3.3.1 Risk Reduction/ Mitigation Process

If the risk treatment mechanism selected is risk mitigation or risk transfer for an identified risk than the next step shall be to review and revise existing controls to mitigate the risks falling beyond the risk appetite and also identify new and improved controls.

Risk Mitigation Process:

Identify controls

New control activities are designed in addition to existing controls post assessment of risk exposure at current level to ensure that the risks are within the accepted risk appetite.

Control activities are categorized into Preventive or Detective on the basis of their nature and timing:

- Preventive controls – focus on preventing an error or irregularity.
- Detective controls – focus on identifying when an error or irregularity has occurred. It also focuses on recovering from, repairing the damage from, or minimizing the cost of an error or irregularity.

Evaluate Controls

The controls identified for each risk event shall be evaluated to assess their effectiveness in mitigating the risks falling beyond the risk appetite.

Implement Controls

It is the responsibility of the CRC to ensure that the risk mitigation plan for each function is in place and is reviewed regularly.

3.4 Risk Monitoring & Review

The Risk Management Committee is the key group which shall work on an ongoing basis within the risk management framework outlined in this policy to mitigate the risks to the organization's business as it may evolve over time.

3.4.1 Risk Monitoring

As the risk exposure of any business may undergo change from time to time due to continuously changing environment, the risks with their mitigation measures shall be updated on a regular basis.

The following process shall be followed:

Quarterly

1. The risk owners shall review and report the status of risks and treatment actions to the CRO.
2. Any new or changed risks shall be identified and escalated, if deemed necessary to the Chief Risk Officer (CRO).
3. The CRO along with the other members of the Corporate Risk Committee shall identify the key risks to be put up in the Risk Management Committee meet.
4. The Corporate Risk Committee shall monitor and supervise the development and implementation of the Risk Management Policy and maintain enterprise wide view of the key risks and their mitigation measures faced by the organization.
5. The Corporate Risk Committee shall report the key risks and their mitigation plans to the Risk Management Committee on bi-annual basis.

Bi-annually

1. The Risk Management Committee shall bi-annually review the key risks faced by the organization and the mitigation measures taken.

3.4.2 Risk Review

Effective risk management requires a reporting and review structure to ensure that risks are effectively identified, assessed and appropriate controls are in place. Regular audits of policy and standards compliance shall be carried out and standards performance reviewed to identify opportunities for improvement. It shall be remembered that BEML operates in dynamic environment. Changes in the organization and the environment in which it operates must be identified and appropriate modifications made to risk management practices. The monitoring process shall provide assurance that there are appropriate controls in place for the organization's risks.

The vertical/functional teams shall review progress on the actions agreed to mitigate the risk and make an assessment of the current level of risk including:

- Establishing whether actions have been completed or are on target for completion.
- Report the status of implementation of mitigation plans to the Corporate Risk Committee.

Any monitoring and review process shall also determine whether:

- The measures adopted resulted in what was intended.

- The procedures adopted and information gathered for undertaking the assessment was appropriate.
- The acceptability of each identified risk and their mitigation plan shall be assessed and risks shall then be ranked to identify key risks for the organization.
- Proposed actions to eliminate, reduce or manage each material risk shall be considered and agreed.
- Responsibilities for the mitigation measures for key risks management of each risk shall be assigned to appropriate department/regional heads.

4. Operation of Risk Management Policy

4.1 Approval of the Policy

The Board in their 336th meeting held on 13.02.2017 has constituted Risk Management Committee which shall be the approving authority for the company's overall Risk Management Policy. The Risk Management Committee re-constituted by Board in its 359th Meeting held on 13.03.2020 shall, therefore, monitor the compliance and approve the Risk Management Policy and any amendments thereto from time to time.

4.2 Review of the Policy

The risk management policy shall be reviewed as and when required but not later than 3 years based on changes in the business environment/ regulations/ standards/ best practices in the industry by an outside consultant/ organization that would present their recommendations to the Chief Risk Officer.

4.3 Maintenance of Risk Register

Centralized Risk register with their mitigation plan shall be maintained by CRO/ Risk Cell and shall be reviewed and updated as per the policy guidelines.

Annexure

Annexure 1: Format of Risk Register

S No	Function	Risk Description	Root Cause	Risk Category	Risk Classification	Risk Assessment			Comments	Risk Owner
						Impact Rating	Likelihood rating	Risk Exposure		
1										
2										
3										
4										

Annexure 2: Definitions

Enterprise Risk Management

COSO's (Committee of Sponsoring Organisation of Treadway Commission) integrated framework defines ERM as:

"Enterprise risk management is a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives."

Risk

One of the standard definitions of risk accepted worldwide in the domain of enterprise risk management has been framed by Committee of Sponsoring Organization of Treadway Commission (COSO) as a part of its 'Enterprise Risk Management – Integrated Framework' It defines risk as:

'*Risk is the possibility that an event will occur and adversely affect the achievement of objectives.*'

According to ISO 31000 standards, risk is the "*effect of uncertainty on objectives*" where an effect is a positive or negative deviation from what is expected.

In line with the above leading practices risk at BEML Ltd. is defined as *'the possibility that an event will happen and adversely impact achievement of BEML's objective*'.

Risk Owner

Risk Owner is the person with the accountability and authority to manage a risk.

Risk Coordinator

The risk coordinator is the person nominated by risk owner to assist the risk owner in managing the risk management activities within the domain of respective risk owner.

Risk Identification

Risk identification is the process of identifying the organization's exposure to uncertainty.

Risk Assessment

Risk assessment is the overall process of risk analysis and risk evaluation. It allows an entity to consider the extent to which potential risk events have an impact on achievement of objectives.

Risk Treatment

Risk treatment determines the way to deal with risk. Various mechanisms to treat risk are:

I. Risk avoidance/ termination – decision not to become involved in, or action to withdraw from, a risk situation.

II. Risk transfer – sharing with another party the burden of loss or benefit or gain, for a risk.

III. Risk reduction/ mitigation – actions taken to lessen the probability, negative consequence, or both, associated with a risk.

IV. Risk acceptance/ retention – the acceptance of the burden of loss or benefit or gain, for a risk.

Risk Register

A 'Risk Register' is a document for recording the risks in a standardized format.

Annexure 3: Composition of Corporate Risk Committee

Current Composition of Corporate Risk Committee:

1. Chief Risk Officer (Head Corporate Planning)
2. Chief of Corporate HR
3. Chief of Corporate Finance
4. Chief of KGF Complex
5. Chief of Bangalore Complex
6. Chief of Quality
7. Chief of Exports
8. Chief of Marketing (M&C)
9. Chief of Defence Production
10. Chief of Corporate Materials
11. Chief of R&D, KGF Complex
12. Chief of R&D, Bangalore Complex
13. Chief of IT
14. Chief of Legal Cell