

TEMPTATION FOODS LIMITED

04 UNITY HOUSE, 8 MAMA PARMANAND MARG, OPERA HOUSE, MUMBAI 400 004

Risk Management Policy

Definitions

1. Risk

Risks are events or conditions that may occur, and whose occurrence, if it does take place, has a harmful or negative impact on the achievement of the organization's business objectives. The exposure to the consequences of uncertainty constitutes a risk.

2. Risk Management

Risk Management is the process of systematically identifying, quantifying, and managing all risks and opportunities that can affect achievement of a corporation's strategic and financial goals.

3. Risk Strategy

The Risk Strategy of a company defines the company's standpoint towards dealing with various risks associated with the business. It includes the company's decision on the risk tolerance levels, and acceptance, avoidance or transfer of risks faced by the company.

4. Risk Assessment

Risk Assessment is defined as the overall process of risk analysis and evaluation.

5. Risk Estimation

Risk Estimation is the process of quantification of risks.

6. Risk Tolerance/Risk Appetite

Risk tolerance or Risk appetite indicates the maximum quantum of risk which the company is willing to take as determined from time to time in accordance with the Risk Strategy of the company.

7. Risk Description

A Risk Description is a comprehensive collection of information about a particular risk recorded in a structured manner.

8. Company

The word Company refers to "Temptation Foods Limited".

Purpose of Risk Management

The Company is committed to high standards of business conduct and good risk management to;

- Protect the company's assets
- Achieve sustainable business growth
- Avoid major surprises related to overall control environment
- Safeguard shareholder investment
- Ensure compliance with applicable legal and regulatory requirements

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The policy is intended to ensure that an effective risk management framework is established and implemented within the Company and to provide regular reports on the performance of that framework, including any exceptions, to the Audit Committee and Board of Directors of the Company.

The policy complements and does not replace other existing compliance programs, such as those relating to environmental, quality and regulatory compliance matters.

Applicability

The policy applies to the whole Company and includes all employees across all offices, factories and functions.

Scope and extent of application

The policy guidelines are devised in the context of the future growth objectives, business profile envisaged and new business endeavours including new products and services that may be necessary to achieve these goals and the emerging global standards and best practices amongst comparable organizations. This policy is meant to ensure continuity of business and protection of interests of the investors and thus covers all the activities within the company and events outside the company which have a bearing on the company's business. The policy shall operate in conjunction with other business and operating/administrative policies.

Objectives of the Policy

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

1. To ensure that all the current and future material risk exposures of the company are identified, assessed, quantified, appropriately mitigated and managed
2. To establish a framework for the company's risk management process and to ensure companywide implementation
3. To enable compliance with appropriate regulations, wherever applicable, through the adoption of best practices
4. To assure business growth with financial stability.

To realize the risk management objective, the Company aims to ensure:

1. All business decisions will be made with the prior information and acceptance of risk involved
2. The Risk Management Policy shall provide for the enhancement and protection of business value from uncertainties and consequent losses
3. All employees of the company shall be made aware of risks in their respective domains and their mitigation measures
4. The risk mitigation measures adopted by the company shall be effective in the long-term and to the extent possible be embedded in the business processes of the company
5. Risk tolerance levels will be regularly reviewed and decided upon depending on the change in company's strategy
6. The escalation of risk management is timely, accurate and gives complete information on the risks to support decision making at all management levels

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Risk Assessment

The process of Risk Assessment shall cover the following:

- a) Risk Identification and Categorization – the process of identifying the company's exposure to uncertainty classified as Strategic / Business / Operational.
- b) Risk Description – the method of systematically capturing and recording the company's identified risks in a structured format
- c) Risk Estimation – the process for estimating the cost of likely impact either by quantitative, semi-quantitative or qualitative approach.

Key characteristics by which risks can be identified are:

- Risks are adverse consequences of events or changed conditions
- Their occurrence may be identified by the happening of trigger events
- Their occurrence is uncertain and may have different extents of likelihood

Recognizing the kind of risks that company is/may be exposed to, risks will be classified broadly into the following categories:

1. **Strategic Risk:** include the range of external events and trends (like Government policy, competition, court rulings or a change in stakeholder requirements) that can adversely impact the company's strategic growth trajectory and destroy shareholder value.
2. **Business Risk:** include the risks associated specifically with the company and having an adverse impact on the company's capability to execute activities critical for business growth, thereby affecting its near-term performance. E.g. occurrence of a risk event delaying the timely completion of construction activity of a hydro-electric power generation project leading to the deferment of revenues expected from the project.
3. **Operational Risk:** are those risks which are associated with operational uncertainties like unpredictable changes in water levels, force majeure events like floods affecting operations, internal risks like attrition etc.

Risk Management Reporting

The following shall be responsible for reporting the risks on a quarterly basis to the Board of Directors at their meeting.

- a) Company Secretary
- b) Other members heading the following major functions:
 - Sales & Marketing
 - Business Development
 - Finance
 - Human Resources
 - Purchases
 - Information Technology
 - Quality Operations

The Board shall be informed of the risks and the implementation of mitigation plans on a quarterly basis. Any risks assessed as high risk shall be escalated to the Audit Committee on an immediate basis.

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Roles and Responsibilities

The risk management roles and responsibilities will be as follows;

- a) The Board will review the risk management policies and systems periodically
- b) The Chairman & Managing Director will be responsible for ensuring that the risk management system is established, implemented and maintained in accordance with this policy.
- c) Assignment of responsibilities in relation to risk management will be the prerogative of the Chief Risk Officer / Compliance Officer.
- d) Department heads will be accountable to the Chief Risk Officer / Compliance Officer. The Managers will report to the department heads for the implementation of this Policy within their respective areas of responsibility.
- e) Managers will also be accountable to the Risk Controller / Compliance Officer for identification, assessment, aggregation, reporting and monitoring of the risks related to their respective areas
- f) Officers will be responsible for identification, preliminary assessment, reporting and monitoring the risks related to their individual projects.

RISK MANAGEMENT PROCESS

Process

Each departmental head must periodically review the risks facing their function. This review should include identifying all significant risks. Each departmental head must then implement an effective system of internal control to manage those risks, including designating responsibilities and providing for upward communication of any significant issues that arise.

Risk identification must begin with an understanding of the organizational objectives that the department heads are responsible for and also the strategies that have been adopted to achieve organizational objectives. Each risk that threatens achievement of a business objective must be communicated as soon as possible.

Assessment of Risks for Significance

The risks which adversely impact the objectives of the organization are assessed for significance. Risk assessment enables risks to be categorized and graded in relation to their potential impact; those risks with potentially significant impact require proactive management.

The two components of risk are (a) the probability of occurrence of the risk event and (b) the magnitude of impact if the risk event occurs. The combination of probability of occurrence and the magnitude of impact provides the gross risk.

The probability of occurrence and the magnitude of impact of the risk event are sought to be reduced by introducing new controls or strengthening existing controls. The combination of the reduced probability of occurrence and the magnitude of impact provides the residual risk.

When assessing risks, existing control measures are evaluated against Critical Success Factors (CSFs) and Key Performance indicators (KPIs) wherever identified or those specific controls.

For example, while assessing the risk of factory workmen getting injured while working in the factory premises, risk is evaluated as number of times the workmen were injured (being the Critical Success

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Factor) and zero tolerance for accidents (being the Key Performance Indicator) or while assessing the risk of non availability of raw material due to dependence on one vendor for the supply of raw material is evaluated against number of times there were stock outs in the Company (being the Critical Success Factor) and the number of times the goods have been supplied to the customer on time (being the Key Performance Indicator).

D. Escalation Mechanism

It is critical to institute an effective system of escalation which ensures that specific issues are promptly communicated and followed up appropriately. Once a risk has been assessed for significance, the person identifying the risk will escalate it to the next level. Each level receiving an intimation of risk is then responsible to reassess its significance and escalate further as necessary.

E. Risk Reviews

A risk review involves the re-examination of all risks to ensure that the current assessments remain valid and to review the progress of risk reduction / controlling actions.

Risk Strategy

Based on the Risk Appetite/Risk Tolerance level determined and reviewed from time to time, the Company should formulate its Risk Management Strategy. The strategy will broadly entail choosing among the various options for risk mitigation for each identified risk. The risk mitigation can be planned using the following key strategies:

- a) Risk Avoidance: By not performing an activity that could carry risk. Avoidance may seem the answer to all risks, but avoiding risks also means losing out on the potential gain that accepting (retaining) the risk may have allowed.
- b) Risk Transfer: Mitigation by having another party to accept the risk, either partial or total, typically by contract or by hedging.
- c) Risk Reduction: Employing methods/solutions that reduce the severity of the loss.
- d) Risk Retention: Accepting the loss when it occurs. Risk retention is a viable strategy for small risks where the cost of insuring against the risk would be greater over time than the total losses sustained. All risks that are not avoided or transferred are retained by default.

This includes risks that are so large or catastrophic that they either cannot be insured against or the premiums would be infeasible.

Approval of the Policy

The Board will be the approving authority for the company's overall Risk Management System. The Board will, therefore, monitor the compliance and approve the Risk Management Policy and any amendments thereto from time to time.

Review of the Policy

The policy will be the guiding document for risk management and will be reviewed as and when required due to the changes in the risk management regulations/ standards/ best practices as appropriate.