



ESSAR GROUP

**Enterprise Risk Management (ERM)
Implementation Framework**

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Control(GACC)**

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1. Enterprise Risk Management (ERM) Implementation

Enterprise risk management (ERM) is a process, effected by management and across the enterprise, designed to identify potential events that may affect the entity and manage risk e within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.

ERM considers all categories of risk, including Financial, Strategic and Operational Risk in the pursuit of its business objectives. The Enterprise Risk Management Framework (ERMF) will set out the key principles by which the entities can manage risks, and its design will foster an environment that enables proactive identification, measurement, management, and reporting of risks.

The purpose of this document is to set out the enterprise risk management initiatives. These include the following action points:

- Seek Board and Senior Management Involvement and Oversight
- Identify and position a Leadership Team to drive the ERM initiative
- Establish a Management Working team to support Leadership Team
- Identify the existing risk management related initiative, documents etc
- Conduct an initial assessment of risks including Key Strategies and Related Strategic Risks
- Develop / Enhance Risk Reporting process
- Roll out of a risk and control assessment process that ensures risks are identified, assessed and reported consistently
- Roll out of a risk event and loss data reporting process
- Develop the next phase of action plans and ongoing communication

2. Applicability of Enterprise Risk Management

The applicability of Enterprise Risk Management (ERM) is detailed as under:

- Managing Risks that affect the corporate/group objectives
- Identifying, assessing, measuring, consolidating and managing Risks that affect the objectives of each independent Business Line/Sector and entity
- ERM framework in Essar applicable across the sectors that are Energy, Infrastructure & Logistics, Metals & Mining, Technology and Retail

3. Enterprise Risk Management Framework

The COSO ERM Framework consists of the 5 inter-related components of Enterprise Risk Management supported by 20 principles which are stated under each component as stated below. These will be considered in the design and implementation of ERM:

| Governance and Culture | Strategy and Objective-Setting | Performance | Review and Revision | Information, Communication and Reporting |
|---|-------------------------------------|-------------------------------|---|---|
| 1. Exercises Board Risk Oversight | 6. Analyzes Business Context | 10. Identifies Risk | 15. Assesses Substantial Change | 18. Leverages Information and Technology |
| 2. Establishes Operating Structures | 7. Defines Risk Appetite | 11. Assesses Severity of Risk | 16. Reviews Risk and Performance | 19. Communicates Risk Information |
| 3. Defines Desired Culture | 8. Evaluates Alternative Strategies | 12. Prioritizes Risk | 17. Pursues Improvement in Enterprise Risk Management | 20. Reports on Risk Culture and Performance |
| 4. Demonstrates Commitment to Core Values | 9. Formulates Business Objectives | 13. Implements Risk Responses | | |
| 5. Attracts, Develops and Retains Capable Individuals | | 14. Develops Portfolio View | | |

Assessing the implementation of the ERMF

As part of the implementation of the ERMF, entities will have a process to reliably provide Essar's stakeholders that it is able to manage risk to an acceptable amount, through assessment of its enterprise risk management practices.

Framework will provide criteria for conducting an assessment and determining whether the enterprise risk management culture, capabilities, and practices collectively manage the risk of not achieving Essar's entities strategy and supporting business objectives.

During an assessment consider whether:

- The components and principles relating to enterprise risk management are present and functioning.
- The components relating to enterprise risk management are operating in an integrated manner.
- The controls necessary to put into effect relevant principles are present and functioning.

3.1 ERM Governance and Culture

Governance & Culture principles provide guidance to Essar entities to drive the ERM.

As part of the ERM Implementation, the governance framework set out will be reviewed to reflect key requirements. These include following principles:

3.1.1 Exercise Board Risk Oversight (Principle 1)

Group Risk Committee (GRC) formulated by the Group Monitoring Committee (GMC) to be an independent body with the following key responsibilities:

- Approve ERM strategy, risk appetite and risk metrics
- Approve ERM policy and implementation framework
- Review material entity and Group level risks and mitigation measures.
- Engage with Group Monitoring Committee(GMC) for updating about key risks and mitigation status etc.

3.1.2 Establish Operating Structures (Principle 2)

Operating structure sets out the reporting lines, roles, and responsibilities for Essar entities and operation of the business. Refer to **Appendix 1 for Roles and Responsibilities** and **Appendix 2 for Governance Structure Framework**.

3.1.3 Define Desired Culture (Principle 3)

Risk culture encompasses the general awareness, attitudes, and behaviors of an organization's employees toward risk and how risk is managed.

GRC and Board will be required to establish the following to progress the embedding of a robust risk culture across entities.

- Define desired culture of the entity as a whole and of the individuals.
- Establish key metrics to monitor the risk culture across the Group
- Set the tone from the top by re-enforcing the importance of the ERMF and risk culture e.g. Effective communication of expectations to the management through ERMF communication strategy, town hall meetings, policy statements, e-mails etc
- Identifying situations and cases where investigations and root cause analysis are required

3.1.4 Demonstrate Commitment to Core Values (Principle 4)

Essar entities need to define the characteristics needed to achieve the desired culture over time, with the board providing oversight and focus. The Board will:

- Engage with Management during times of disruption and/or unprecedented changes in the strategy, business objectives, performance, or risk profile of the organization to ensure appropriate judgement applied
- Provide oversight of management's adherence to standards by establishing a monitoring mechanism / metrics / indicator
- Board to oversee role of Chief Executive Officer and other members of management for all aspects of accountability—from initial design to periodic assessment of the culture and enterprise risk management capabilities.

3.1.5 Attract, Develop, and Retain Skilled Individuals (Principle 5)

Management, with board oversight, defines the human capital needed to carry out strategy and business objectives within the risk appetite. This can be categorized into the following five areas:

| | | | | |
|---|---|--|----------------------------|---------------------------------|
| Establishing and Evaluating Competence | Attracting, Developing and Retaining Individuals | Performance, Incentive and Awards | Addressing Pressure | Preparing for Succession |
|---|---|--|----------------------------|---------------------------------|

3.2 Strategy & Objective-Setting

ERM to be integrated for process of setting strategy and business objectives. It gains insight into internal and external factors and their effect on risk.

Essar entities will be required to cascade risk appetite through statements aligned with high-level business objectives that, in turn, align with the overall entity strategy.

3.2.1 Analyzing Business Context (Principle 6)

Analyze how compliance risks are affected by internal changes, such as changes in people, structures, processes, technology etc.

Analyze the effects of external factors (e.g. competitive, economic, environmental, political and social forces) on compliance risks.

Identify and consider risk interdependencies in the development of strategy and consider regional differences based on location where the different Essar Entities operate.

Evaluate the effectiveness of compliance risk management / assessment parameters in line with the organizational strategies and analyze the impact on compliance management due to shift in strategies.

3.2.2 Risk Appetite (Principle 7)

As defined by COSO, risk appetite refers to the types and amount of risk, on a broad level, that the organization is willing to accept in pursuit of value. The risk appetite statements are under three key parameters:

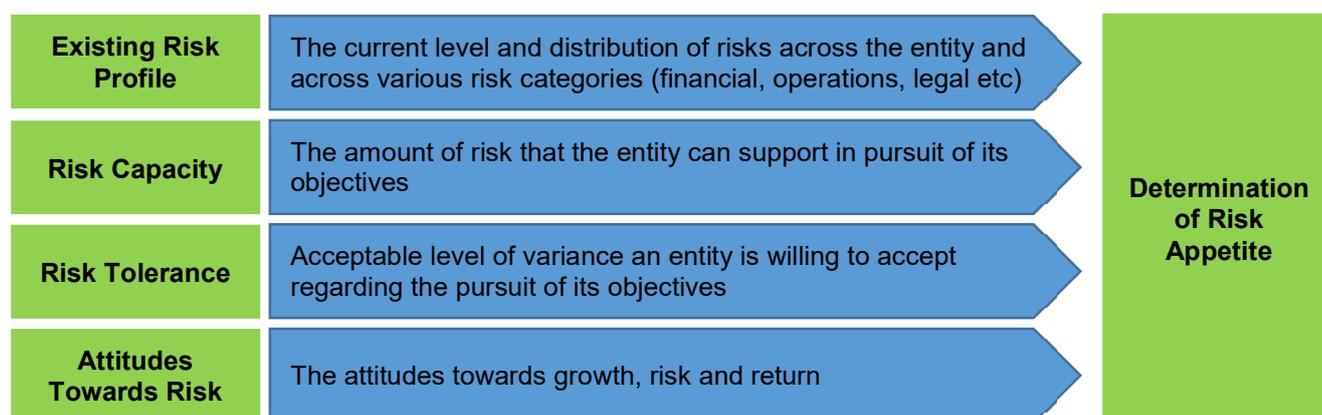
- **Financial parameters** which provide the threshold in terms of
 - Impact on annual budgeted revenue
 - Impact on annual budgeted profit
 - Impact on project Internal Rate of Return (variation from cost of capital)
 - Impact on project NPV (variation from projected cash flows)
 - Impact on budgeted costs/ cost to completion in case of projects in construction stage
- **Reputation parameters** with respect to specific stakeholders
 - Investors, analysts, lenders and rating agencies
 - Key Customers

- Key Vendors / Alliance Partners
 - Employees
 - Media / General public
- **Other qualitative parameters-have been articulated that set out the appetite regarding**
 - Environment, Health and Safety
 - Business Disruption / Project Delays
 - Legal Issues
 - Position with the Regulator

Risk appetite shall form an integral part of the risk management framework to demonstrate common understanding of the same, and to consistently measure risks across the Essar Group.

The major factors affecting Risk Appetite at the Group level need to be defined by the GRC in consultation with GMC and BoD of respective entities.

Overview of considerations Affecting Risk Appetite



3.2.3 Evaluating Alternative Strategies (Principle 8)

Strategy must support mission and vision and align with the entity’s core values and risk appetite. If the risk associated with a specific strategy is inconsistent with the entity’s risk appetite or risk capacity, it needs to be revised, an alternative strategy selected, or the risk appetite revisited.

3.2.4 Formulate Business Objectives (Principle 9)

Need to consider risk while establishing the business objectives at various levels that align and support strategy, understand the implications from chosen business objectives, and setting performance measures and targets.

Performance measures related to a business objective help confirm that actual performance is within the established tolerance.

3.3 Performance (Risk Assessment)

Essar entities identifies and assesses risks that may affect its ability to achieve its strategy and business objectives. As part of that pursuit, it identifies and assesses risks that may affect the achievement of that strategy and business objectives.

3.3.1 Identify Risks (Principle 10)

ERM process identifies new, emerging, and changing risks to the achievement of the entity’s strategy and business objectives. It undertakes risk identification activities to first establish an inventory of risks, and then

to confirm existing risks as being still applicable and relevant. As enterprise risk management practices are progressively integrated, the knowledge and awareness of risks is kept up to date through normal day-to-day operations.

The entity may do this by creating a Risk Register. Refer to

- **Annexure A** for **Risk Register** format.
- **Annexure B** for **Risk Profile** format
- **Appendix #3** for risk categories facing the entity
- **Annexure C** for **Risk Assessment Format**.

Approaches to Identifying Risk

A variety of approaches are available for identifying risks, can identify risks as part of day-to-day activities such as budgeting, business planning, performance reviews, and meetings. Identification activities integrated through the entity can be supplemented by additional targeted activities such as simple questionnaires, facilitated workshops, and interviews. Some approaches may be enabled by technology, such as data tracking and complex analytics.

Fig: Approaches for Identifying Risks

| Type of Risk | Data and Trend Analysis | Data Tracking | Interviews | Key Indicators | Process Analysis | Workshops |
|--------------|-------------------------|---------------|------------|----------------|------------------|-----------|
| Existing | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| New | ✓ | ✓ | | | ✓ | ✓ |
| Emerging | ✓ | | ✓ | ✓ | | ✓ |

3.3.2 Assess Risks (Principle 11)

Management determines the relative severity of various risks to select an appropriate risk response, allocate resources, and support management decision-making and performance. Measures may include:

Assessment Approaches

Risk assessment approaches may be qualitative, quantitative, or a combination of both.

- **Qualitative assessment** approaches, such as interviews, workshops, surveys, and benchmarking, are often used when it is neither practicable nor cost-effective to obtain sufficient data for quantification. Qualitative assessments are more efficient to complete; however, there are limitations in the ability to identify correlations or perform a cost-benefit analysis.
- **Quantitative assessment** approaches, such as modeling, decision trees, Monte Carlo simulations, etc., allow for increased granularity and precision, and support a cost-benefit analysis. Consequently, quantitative approaches are typically used in more complex and sophisticated activities to supplement qualitative techniques.

Assess Risk Interaction and Interdependence

Interdependencies can occur where multiple risks impact one business objective or where one risk triggers another. Risks can occur concurrently or sequentially.

Inherent, Target, and Residual Risk

As part of the risk assessment, management considers inherent risk, target residual risk, and actual residual risk.

Depicting Assessment Results

To visually depict the relative severity of each of the risks to the achievement of a given strategy or business objective, a “heat map” (graphical representation of impact and likelihood) maybe used based on the risk analysis (i.e. Likelihood * Impact) wherein each risk will be plotted on the “heat map” based on its relative likelihood and impact. The placement of the risks on the “heat map” will indicate the risk zone (High/

Medium/Low) for each of the respective risks. The heat map shall also form the basis of escalation as and when new risks are identified.

A formal risk report containing the “heat map” for the business unit, Sector, Corporate Services and the Group shall be prepared every quarter/period as deemed fit for an entity, as appended in **Annexure D** five by five matrix shall be used for measuring likelihood and impact. The risk shall be evaluated as:

Risk Measurement: Likelihood X Impact

The risks assessed can be placed on a “heat map” which is a graphical representation of the impact and likelihood.

| Risk Impact | Rating | Risk Probability | | | | |
|---------------|--------|------------------|----------|----------|--------|----------------|
| | | Rare | Unlikely | Possible | Likely | Almost Certain |
| Insignificant | 1 | 1 | 2 | 3 | 4 | 5 |
| Minor | 2 | 2 | 4 | 6 | 8 | 10 |
| Moderate | 3 | 3 | 6 | 9 | 12 | 15 |
| Major | 4 | 4 | 8 | 12 | 16 | 20 |
| Catastrophic | 5 | 5 | 10 | 15 | 20 | 25* |

| | | | | | | | | | |
|-----|--------------------|-----|----------|------|-------------|-------|-----------|-------|----------------|
| 1-3 | Insignificant Risk | 4-6 | Low Risk | 8-10 | Medium Risk | 12-16 | High Risk | 20-25 | Very High Risk |
|-----|--------------------|-----|----------|------|-------------|-------|-----------|-------|----------------|

| | | | | | | |
|-------------------|----------------|---------------|-------|----------|-------|--------------|
| LIKELIHOOD | Almost Certain | 5 | 10 | 15 | 20 | 25 |
| | Likely | 4 | 8 | 12 | 16 | 20 |
| | Possible | 3 | 6 | 9 | 12 | 15 |
| | Unlikely | 2 | 4 | 6 | 8 | 10 |
| | Rare | 1 | 2 | 3 | 4 | 5 |
| | | Insignificant | Minor | Moderate | Major | Catastrophic |
| | | IMPACT | | | | |

The overall risk measurement will be assessed as below:

| Likelihood * Impact (Score Range) | Risk zone |
|--|-----------|
| Less than 5 | Low |
| Greater than or equal to 5 but less than 12 | Medium |
| Greater than or equal to 12 but less than 20 | High |

Greater than or equal to 20

Extreme

3.3.3 Prioritize Risks (Principle 12)

The prioritization of risks, given their severity. Priorities are determined by applying agreed-upon criteria which may include the following:

The organization prioritizes risks as a basis for selecting responses to risks. Entities may prioritize risk based on materiality as per risk matrix or define criteria as given below:

| Criteria | Definition |
|---------------------|---|
| Adaptability | The capacity of an entity to adapt and respond to risks |
| Complexity | The scope and nature of a risk to the entity's success |
| Velocity | The speed at which a risk impacts an entity |
| Persistence | How long a risk impacts an entity |
| Recovery | The capacity of an entity to return to tolerance |

Management should also compare risk appetite when prioritizing risks. Risks that result in the entity approaching the risk appetite for a specific business objective are typically given higher priority.

3.3.4 Risk Response (Principle 13)

For all risks identified, management to select and deploy a risk response within the following categories:

| Response | Action |
|---------------|--|
| Accept | No action is taken to change the severity of the risk. This response is appropriate when the risk is already within risk appetite. |
| Avoid | Action is taken to remove the risk. Choosing avoidance suggests that the organization was not able to identify a response that would reduce the risk to an acceptable level of severity. |
| Pursue | Action is taken that accepts increased risk to achieve improved performance. When choosing to pursue risk, management understands the nature and extent of any changes required to achieve desired performance while not exceeding the boundaries of acceptable tolerance. |
| Reduce | Action is taken to reduce the severity of the risk. This involves any of myriad everyday business decisions that reduces risk to an amount of severity aligned with the target residual risk profile and risk appetite. |
| Share | Action is taken to reduce the severity of the risk by transferring or otherwise sharing a portion of the risk. For instance, insurance. |

Entity may select and deploy risk responses while considering the following factors:

- **Business context:** Risk responses are selected or tailored to the industry, geographic footprint, regulatory environment, operating structure, or other factors.
- **Costs and benefits:** Anticipated costs and benefits are generally commensurate with the severity and prioritization of the risk.
- **Obligations and expectations:** Risk response addresses generally accepted industry standards, stakeholder expectations, and alignment with the mission and vision of the entity.
- **Prioritization of risk:** The priority assigned to the risk informs the allocation of resources. Risk responses that have large implementation costs (e.g., system upgrades, increases in personnel) for lower-priority risks need to be carefully considered and may not be appropriate given the assessed priority.
- **Risk appetite:** Risk response either brings risk within risk appetite of the entity or maintains its status. Management identifies the response that brings residual risk to within the appetite. This may be, for

example, a combination of purchasing insurance and implementing internal responses to reduce the risk to a range of tolerance.

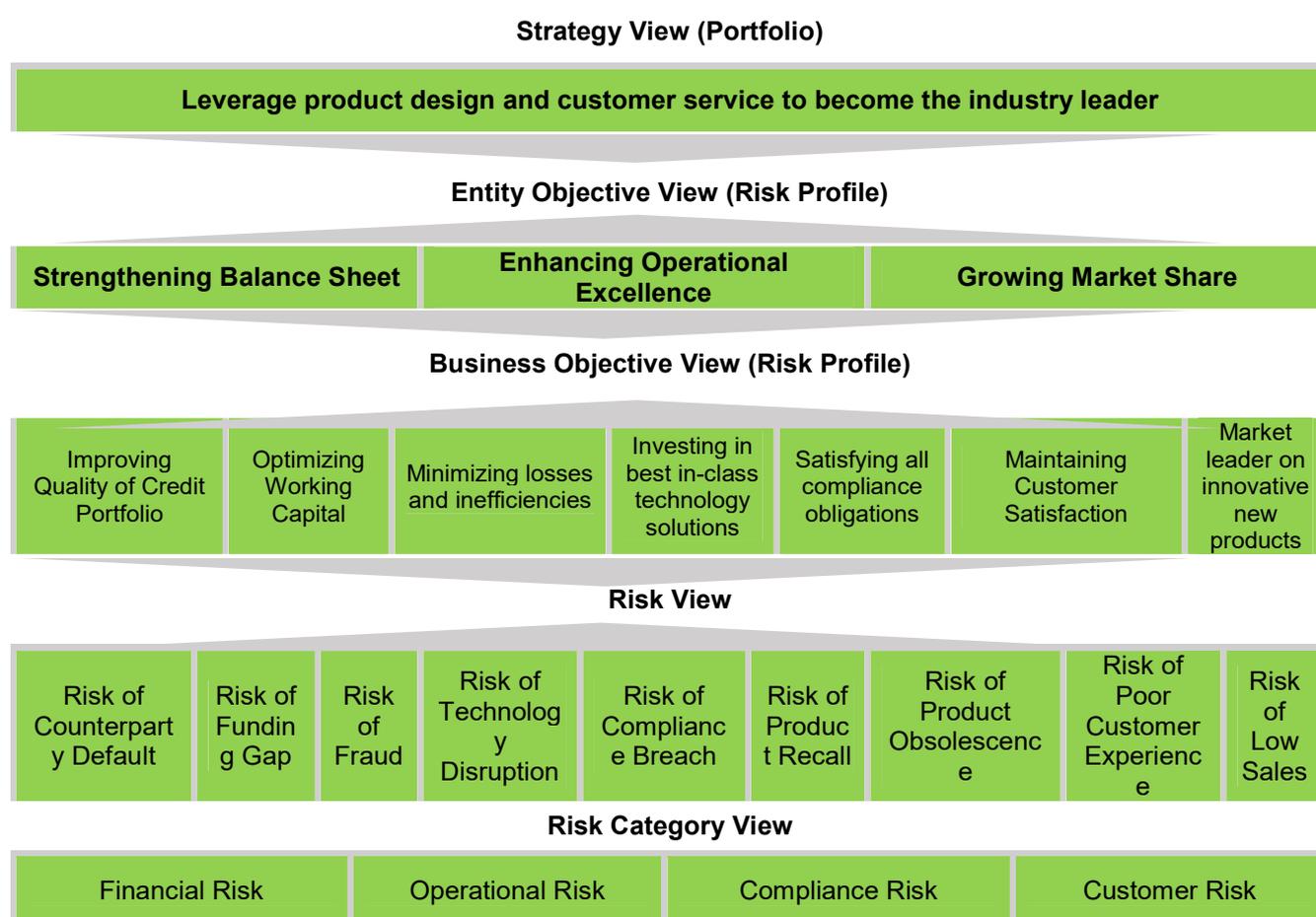
- **Risk severity:** Risk response should reflect the size, scope, and nature of the risk and its impact on the entity. For example, in a transaction or production environment, where risks are driven by changes in volume, the proposed response is scaled to accommodate increased activity.

3.3.5 Portfolio View of Risk (Principle 14)

Enterprise risk management allows the organization to consider potential implications to the risk profile from an entity-wide, or portfolio, perspective. Management first considers risk as it relates to each division, operating unit, or function. Each manager develops a composite assessment of risks that reflects the unit’s residual risk profile relative to its business objectives and tolerance.

With a portfolio view, management is well positioned to determine whether the entity’s residual risk profile aligns with the overall risk appetite.

Fig: Example of Portfolio View of Risk



3.4 Review and Revision

By reviewing enterprise risk management capabilities and practices, and the entity’s performance relative to its targets, Essar entities can consider how well the enterprise risk management capabilities and practices have increased value over time and will continue to drive value considering substantial changes.

3.4.1 Assess Substantial Change (Principle 15): Essar Board, GMC to consider how change can affect enterprise risk management and the achievement of strategy and business objectives. This requires identifying internal and external environmental changes related to the business context as well as changes in culture.

3.4.2 Review Risk and Performance (Principle 16)

Performance is affected because of the inherent nature of risk, which an organization cannot predict with complete accuracy. By reviewing performance, organizations seek answers to questions such as:

- Has the entity performed as expected and achieved its target?
- What risks are occurring that may be affecting performance?
- Was the entity taking enough risk to attain its target?
- Was the estimate of the amount of risk accurate?

3.4.3 Continuous Improvement (Principle 17)

Management pursues continual improvement throughout the entity (functions, operating units, divisions) to improve the efficiency and usefulness of ERM at all levels. Opportunities to revisit and improve efficiency and usefulness may occur in any of the following areas:

- I. New technology
- II. Historical shortcomings
- III. Organizational change
- IV. Risk appetite
- V. Risk categories
- VI. Communications
- VII. Peer comparison
- VIII. Rate of change

3.5 Information, Communication, and Reporting

Transform data into information about stakeholders, products, markets, and competitor actions. Through their communication channels, they can provide timely, relevant information to targeted audiences. Entities can also structure data and information into consistent categories. In this way, they can identify risks that could affect the entity's strategy and business objectives.

3.5.1 Leveraging Information and Technology (Principle 18)

Leverages information systems to capture, process, and manage data and information. By using information that applies to all components, Essar can report on risk, culture, and performance.

- I. For governance and culture-related practices
- II. For strategy and objective-setting related practices
- III. For performance-related practices
- IV. For review and revision-related practices
- V. Managing Data

3.5.2 Communicating Risk and Information (Principle 19)

Management to use relevant information from both internal and external sources to support enterprise risk management:

- Provide a longitudinal perspective of risk exposures including historical data, explanations of trends, and forward-looking information explained in relation to current positions. Update at a frequency consistent with the pace of risk evolution and severity of risk.
- Use standardized templates to support consistent presentation and structure of risk information over time.

A critical element of Enterprise Risk Management is developing a Risk Escalation Process to ensure effective communication of identified risks, changes in likelihood/impact of identified risk, and unforeseen contingencies. This will ensure an effective communication. Refer to **Annexure E** for **Risk Escalation Format**.

3.5.3 Reports on Risk, Culture and Performance (Principle 20)

Reporting requirements depend on the needs of the report user. Report users may include:

- Management and the board of directors with responsibility for governance and oversight of the entity.
- Risk owners accountable for the effective management of identified risks.
- Assurance providers who seek insight into performance of the entity and effectiveness of risk responses.
- External stakeholders (regulators, rating agencies, community groups, and others).
- Other parties that require reporting of risk to fulfill their roles and responsibilities.

Types of Reporting

Risk reporting may include any or all the following:

- I. Portfolio view of risk outlines the severity of the risks at the entity level
- II. Analysis of root causes
- III. Sensitivity analysis.
- IV. Analysis of new, emerging, and changing risks provides
- V. Key performance indicators and measures outline the tolerance of the entity and potential risk to a strategy or business objective.
- VI. Trend analysis
- VII. Disclosure of incidents, breaches, and losses
- VIII. Tracking enterprise risk management plans and initiatives provides a summary of the plan and initiatives in establishing or maintaining enterprise risk management practices.

The date pertaining to risks identified for the purpose of Internal Financial Control shall be captured in Risk and Control Matrix (RCM). Refer to **Annexure F** for **Risk and Control Matrix** format.

Reporting Risk to the Board

At the board level, there is likely to be both formal reporting and informal information sharing. Formal reporting plays a more integral role when the board exercises other responsibilities including considering the risks to executing strategy, reviewing risk appetite, or overseeing enterprise risk management practices deployed by management.

The risk assessment details should be recorded in detail as a part of the minutes of the meeting, retained as per retention policy and should be retrieval in future for reference and analysis purposes.

The data pertaining to materialized risks shall be captured in a “Loss event database”. Typical loss events can include (but may not be restricted to):

- Environment, Health and Safety incidents
- Damage to physical assets
- Business disruption
- Fraud – internal and external
- Loss of key customers/ vendors/ alliances
- Technology/ system failures

The format for the “**Loss event database**” is appended in **Annexure G**.

For better understanding on how Essar Group can **link Risk Assessment Processes, Inputs, Approaches, and Outputs**, refer to **Appendix #4**

B Risk Profile Format

A risk profile is a detailed evaluation of the entity’s willingness and ability to take on risk. It is the aggregation of the total portfolio of risks the organization faces. Creating a risk profile allows for each function of the business to manage risk to its own appetite and tolerance levels, and better align and manage its resources.

| <i>Risk</i> | | <i>Risk Response</i> | |
|------------------------------------|--|---|--|
| <i>Strategic Objective</i> | | <i>Action</i> | |
| <i>Risk Description</i> | | <i>Responsibility and Timeline</i> | |
| <i>Root Causes for Risk</i> | | <i>Key Risk Indicators</i> | |
| <i>Ownership</i> | | <i>Key Risk Indicators</i> | |

| | | | | | | |
|-------------------|-----------------------|----------------------------|--------------|-----------------|--------------|--------------------------|
| LIKELIHOOD | Almost Certain | 5 | 10 | 15 | 20 | 25 |
| | Likely | 4 | 8 | 12 | 16 | 20 |
| | Possible | 3 | 6 | 9 | 12 | 15 |
| | Unlikely | 2 | 4 | 6 | 8 | 10 |
| | Rare | 1 | 2 | 3 | 4 | 5 |
| | | Insignifi- cant | Minor | Moderate | Major | Catastr ophic |
| | IMPACT | | | | | |

| | |
|-------------------|--|
| Impact | |
| Likelihood | |

C Risk Assessment Parameters

A risk assessment determines the likelihood, consequences and tolerances of possible incidents that could adversely affect individuals, assets, processes and/or the environment (i.e. risk analysis) and making judgments about managing and tolerating risk based on a risk analysis while considering influencing factors (i.e., risk evaluation).

Risk assessment is an inherent part of a risk management strategy to introduce control measures to eliminate or reduce any potential risk- related consequences

Framework in below table encapsulating the risk parameters does not address the risk scenario of any individual entity. Every Essar Entity will be required to evaluate the risks associated with their line of business and update their framework accordingly and may also be required to review the risk parameters periodically to reflect the new, emerging and changing risks.

| Parameter | | Insignificant (1) | Minor (2) | Moderate (3) | Major (4) | Catastrophic (5) |
|------------|--|---|--|--|---|--|
| Reputation | Investors/ Analysts/ Lenders/ Rating Agencies | No effect on ability to raise funds | Effect on ability to raise short term funds for a specific project/ sector | Effect on ability to raise short term funds for the Group | Effect on ability of the Group to raise long term funds | Existing lenders / investors pull out |
| | Key customers <i>(Any customer contributing to 10% or more of the legal entity's top line)</i> | Loss of future business from 1 non-key customer | Termination of existing business with 1 non-key customer | - Loss of future business from 1 key customer -Termination of existing business from multiple non-key customers, amounting to <=10% of total revenue | - Termination of business from customers amounting to between 10 % - 15% of total revenue -Inability to attract new customers within a limited geography or a minor business segment | - Termination of business from customers amounting to >15% of total revenue - Inability to attract new customers within large geography or major business segment (s) |
| | Key Vendors / Alliance Partners <i>(Key vendor is defined as an entity from which the legal entity procures at least 5% of the total spend during a year; All Alliance partners are considered as key)</i> | Loss of 1 non-key vendor | - Loss of more than 1 non key vendors amounting to < 5% of total spend - Inability to attract new key vendors within a business line or a geography | - Loss of one key vendor or multiple non-key vendors amounting to <= 5% to 10% of total spend - Existing alliance partner refuse to participate in future opportunities | - Loss of vendors affecting 10 - 15% of total spend - Alliance breakdown affecting a single project/assets - Inability to source fresh alliances for new projects | - Loss of vendors affecting > 15% of total spend - Breakdown in one alliance affecting multiple projects - Breakdown of multiple alliances |
| | Media/ General Public | Public concern restricted to local complaints | Reporting in local media | Isolated reporting in national media/ Attention from NGO | Extended press reporting in national media/ Isolated reporting in international media | Extended press reporting in international media/ Attention from multiple NGO/ activist groups |

| | | | | | | |
|--|---|--|--|--|--|---|
| Operational Risk | Employees <i>(Critical Employees are defined as CEO, COO, HODs, any person identified as critical to the business by virtue of specific skill and rated as exceptional performers for a continuous period of 2 years)</i> | Limited attrition of non-key employees – can be managed through normal recruitment | Moderate attrition of non-key employees - may require focused effort on recruitment | - Extensive attrition of non-key employees - may require focused effort on recruitment - Loss of 1 key employee | - Loss of > 1 key employees - Loss of 1 critical employee | Loss of > 1 critical employee |
| | | No effect on ability to attract new talent | Affects ability to attract new talent for a specific project in the short term | Affects ability to attract new talent within a geography/ business/ sector in short term | Affects ability to attract new talent within a geography/ business/ sector in long term | Affects ability of Group to attract talent across all businesses |
| Other Qualitative Parameters | Environment, Health & Safety | Medical treatment/restricted workday case | Minor injury(s) causing loss of workdays | Major injury to worker / Third Party, but non-fatal | <ul style="list-style-type: none"> ▪ Single Worker / Third Party fatality ▪ Multiple instances of major injuries | Multiple Worker / Third Party fatalities |
| | | Minor environmental effects extending within boundaries of project/ asset | Environmental effects outside boundaries of project/ asset - Moderate and reversible | Major environmental impact - Reversible/ contained | Major environmental impact - Reversible / widespread | Extreme environmental incident with irreversible impact |
| | Legal Issues | - Legal notices and penalties of <INR 50 Lakh - Government inquiry | - Legal notices and penalties of INR 50 lacs – 100 lacs | - Legal notices and penalties of INR 100 lacs to 200 lacs | - Legal notices and penalties INR 200 lacs to 300 lacs - | - Prosecution - Legal notices and penalties of INR 300 lacs or more - |
| | | Position with the Regulator | Credibility affected regarding specific matter (project/ geography) for temporary period | Credibility affected regarding specific matter (project/ geography) for prolonged period | Overall credibility of Group affected, but ability to influence policy not significantly impaired | Overall credibility of Group affected, and ability to influence policy significantly impaired |
| Financial Parameters <i>(Annual budgeted figures vis-à-vis to each BU/ Sector/ entity evaluated)</i> | Impact on annual budgeted revenue | Less than or equal to 2% | More than 2% but less than or equal to 5% | More than 5% but less than or equal to 7.5% | More than 7.5% but less than or equal to 10% | More than 10% |
| | Impact on annual budgeted profit | Less than or equal to 2% | More than 2% but less than or equal to 5% | More than 5% but less than or equal to 7.5% | More than 7.5% but less than or equal to 10% | More than 10% |
| | Impact on Project IRR (variation from cost of capital) | Equal to 2% | More than 2% but less than or equal to 5% | More than 5% but less than or equal to 7.5% | More than 7.5% but less than or equal to 10% | More than 10% |
| | Impact on Project NPV (variation from projected cash flows) | Less than or equal to 2% | More than 2% but less than or equal to 5% | More than 5% but less than or equal to 7.5% | More than 7.5% but less than or equal to 10% | More than 10% |

D Risk Review Format

A **risk review** matrix is a graphic representation of evaluated potential uncertainties or risks that could impact a project or business objectives. It is a tool to prioritize risk based on likelihood and impact and accordingly develop the mitigation strategy.

| Occurrence | Probability | Likelihood |
|-----------------------|-------------|--|
| Almost Certain | > 80% | Risk may occur multiple times in a span of 12 months |
| Likely | 61 – 80% | Risk may occur once in a span of 12 months |
| Possible | 41 – 60% | Risk may occur once in 1– 3 years |
| Unlikely | 21 – 40% | Risk may occur once in 3 – 5 years |
| Rare | < 20% | Risk may occur once in over 5 years |

| | | | | | | |
|-------------------|-----------------------|---|----|----|----|----|
| LIKELIHOOD | Almost Certain | 5 | 10 | 15 | 20 | 25 |
| | Likely | 4 | 8 | 12 | 16 | 20 |
| | Possible | 3 | 6 | 9 | 12 | 15 |
| | Unlikely | 2 | 4 | 6 | 8 | 10 |
| | Rare | 1 | 2 | 3 | 4 | 5 |

<Risk 1> Shortage of skilled manpower

<Risk 2> Inadequate succession planning

<Risk 3> Erosion of brand and reputation

<Risk 4> Poor forecasting and MIS

<Risk 5> Litigation due to regulatory violation

<Risk 6> Time and cost overruns

<Risk 7> Lack of innovation

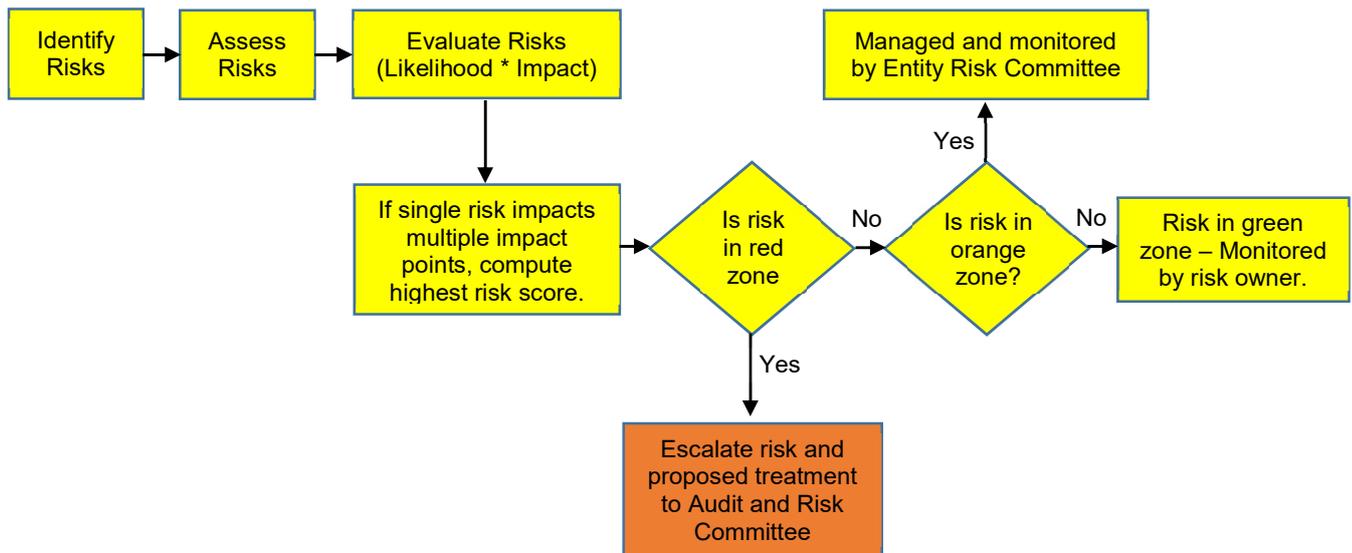
<Risk 8> Inconsistent quality

Moderate Major Catastrophic

IMPACT

E-Risk Escalation Format

Risk escalation is the process of informing and involving the appropriate people or parties who have the authority, responsibility, or influence to deal with a risk that is beyond the control of the project team or the initial risk owner. It helps in early identification of risks and is used to establish a reporting mechanism to effectively handle the risk.

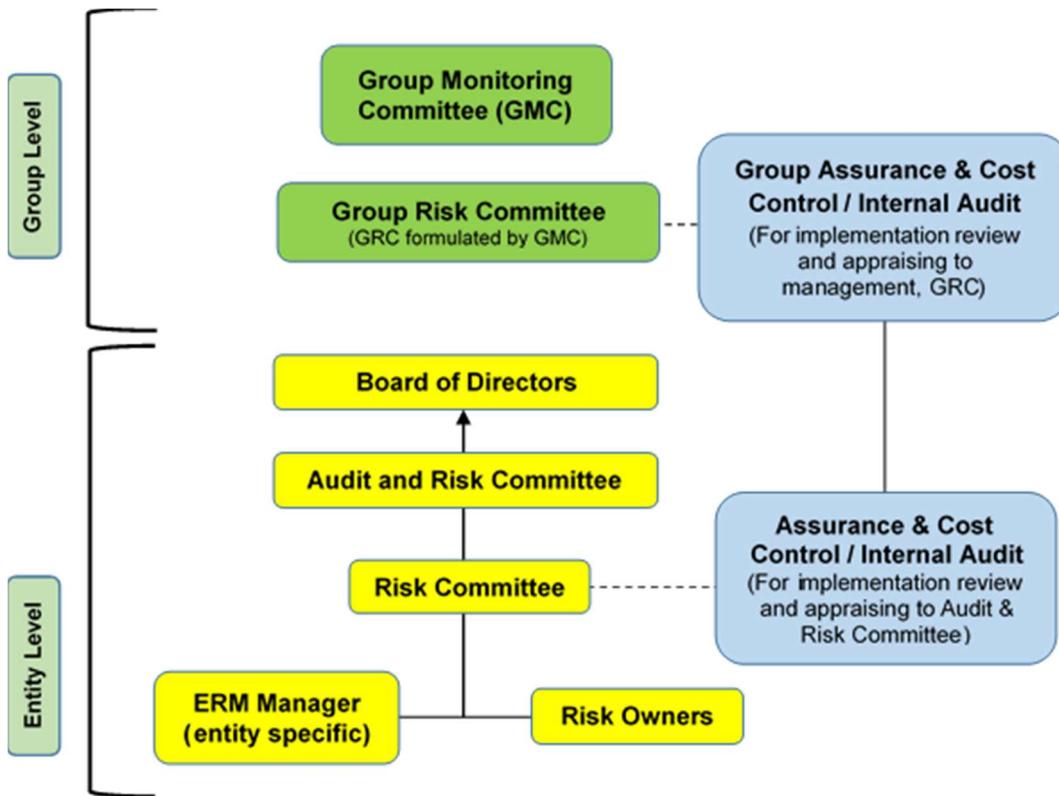


APPENDIX: # 1 The roles of key stakeholders defined in the ERM function are summarized below.

| Stakeholder | Composition | Role | Meeting Frequency |
|--|--|---|--|
| Group Monitoring Committee (GMC) | Members nominated by the Promoter Group | <ul style="list-style-type: none"> Nominate members of the Group Risk Committee Provide consultation to GRC as and when required | As and when required |
| Group Risk Committee (Group level) | GMC / May include Essar Capital-CHRO, Head-GACC(AUDIT), CDO(IT), Head-Corporate affairs Head-Tax, Head-General Affairs, Security & Vigilance, External Consultant etc when required as mandated by GMC | <ul style="list-style-type: none"> Promoting ERM initiative Assume responsibility for establishing of goals Own the overall risk portfolio and risk appetite at the group level and give concurrence for proposed mitigation plans. May appoint/ create designated sub-committees or risk specialists for this task | At least twice in a year / as and when required |
| Group Assurance & Cost Control – Head (Group level) | Head supported by GACC team | <ul style="list-style-type: none"> Review ERM policy and procedure/risk register in business entities and highlight non-compliance etc Work on action plan with management for risk mitigation. | Head-GACC to attend risk committee, GRC etc meetings for risk-related matters |
| Board of Directors | Board Members for individual entities | <ul style="list-style-type: none"> Provide risk oversight for respective entities Establishment of Risk Sub-committees and Designated Risk Officers and assigning their roles | At least twice for ERM in addition to ERM review in four meeting as required by Companies Act. |
| Audit & Risk Committee (Entity level) | As decided by the Board of Directors. /co act. | <ul style="list-style-type: none"> Adopting ERM Policy at entity level as per Group Policy etc Partner with the business in driving the ERM initiative Promote risk management culture Provide the BOD with updates on key risks affecting the entity Facilitate risk prioritization and monitoring | At least twice for ERM in addition to ERM review in four meeting as required by Companies Act. |
| Risk Committee (Entity level) | Members as decided by the Audit Committee such as CEO, HODs, external specialists etc | <ul style="list-style-type: none"> Collectively own and manage risks for the Sector Authority to approve proposed risk treatment plans Designate risk owners or risk committees to manage specific risks Reporting progress etc to Group Audit and Risk committee etc | At least Quarterly / As and when required |
| ERM Manager (Entity level) | Depending on requirement of entity ERM Manager and Trainees as approved by | <ul style="list-style-type: none"> Coordinate with Risk Owners to identify new, emerging and existing risks | As and when required in making Risk Register, discussing |

| Stakeholder | Composition | Role | Meeting Frequency |
|---|--|--|---|
| | management and risk committee, audit committee can be appointed. | <ul style="list-style-type: none"> • Keep the Risk Committee updated with changes and innovation in ERM Reporting and monitoring • Evaluating the work of the risk team and conducting SWOT analysis of the identified risks • Ensuring that ERM-related documents such as Risk Register, Risk profile, RCM etc are comprehensive and updated to reflect the status. • Promote a risk aware culture across the entity and evaluate and challenge the risk assessments and response plans of the risk owners. | Implementing Framework etc |
| Assurance and Cost Control / Internal Audit (Entity) | Respective GACC Team Member / Internal Auditor etc. | <ul style="list-style-type: none"> • Report on major risk-related areas identified to the Audit and Risk Committee and to GACC-Head. • Interact with Risk Owners and review progress of mitigation activities. • Review of Policies and Procedures and suggest changes. | Regular Review in ERM and to attend Risk Committee Meetings |
| Risk Owners (Entity level) | HODs and Team members | <ul style="list-style-type: none"> • Has the accountability and responsibility to manage risk at functional and cross-functional level • Coordinate with the line team members to ensure compliance | At least monthly / As and when required. Report to Risk Committee for ERM issue |

APPENDIX:#2 Risk Governance Structure



*GRC to govern the Group Risk Policy
**BOD to govern the Entity Level Policy

APPENDIX-#3 Risk Categories

| Risk category | Definition |
|---------------------------------------|--|
| Strategic Risk | <ul style="list-style-type: none"> • Risk of business disruption due to unpredictable and rare events • Risk of timely leveraging technology to meet customer expectations. • Risk of technical obsolescence • Risk relating to environment, social & governance (ESG) |
| Reputational Risk | <ul style="list-style-type: none"> • Potential reduction to equity value or market share (revenue) arising from negative publicity |
| Ethics / Compliance Risk | <ul style="list-style-type: none"> • Risk of non-compliance to statutory and other provisions • Risk arising from unethical employee actions or deviations from internal policies (e.g., Code of Conduct) • Intellectual property infringements and counterfeit products |
| Operational Risk | <ul style="list-style-type: none"> • Risk of vendor dependency (Import/Single vendor dependency, IPR) • Risk of supply disruption & inventory obsolescence • Risk relating to quality assurance (Product Performance vs Brand Perception) |
| Financial & Reporting Risk | <ul style="list-style-type: none"> • Risk relating to commodity and price fluctuation risk • Risk relating to counterparty default risk (credit risk) |

APPENDIX-#4 Linking Risk Assessment Processes, Inputs, Approaches, and Outputs

