SOMA TEXTILES & INDUSTRIES LIMITED

RISK MANAGEMENT POLICY

I] BACKGROUND & PURPOSE

Risk Management is a central part of Company's strategic management. It is the process whereby Company methodically addresses the risk attaching to its activities with the aim to achieve sustained gain within each activity and across the portfolio of all activities. The focus of good risk management is to pro-actively identify, measure, mitigate and manage such risks in a systematic & structured ways. Its objective is to add maximum sustainable value to all the activities of the Company. It encourages the understanding of the potential upside and downside of all those factors which can affect the Company. It increases the probability of success, and reduces both the probability of failure and the uncertainty of achieving Company's overall objectives.

This Policy document is a formal acknowledgement of the commitment of the Organization to Risk Management within STIL. The purpose of this document is to:

- Outline the Company's approach to risk management,
- Improve decision-making, accountability and outcomes through the effective use of risk management,
- Integrate risk management into daily operations of the Company,
- Consider risk appetite i.e. Organization's approach to assess and eventually pursue, retain, take or turn away from risk, in strategic and operational decision making,
- Communicate objectives and key principles of risk management throughout the Organizational hierarchy,
- Develop a common understanding of what are and are not, the acceptable risks, so that decisions across the management levels are taken in accordance with the Company's risk strategy,
- Formalize and communicate consistent Process, Tool and Metrics for Identifying, Measuring, Mitigating, Monitoring and Reporting Risks at all levels,
- Establish the necessary status, and Independent Oversight of Risk Management over other functions,
- Assign accountability to all staff for management of risks within their areas.

II] LEGAL FRAMEWORK

Risk Management is a key aspect of the "Corporate Governance Principles and Code of Conduct" which aims to improvise the governance practices across the Company's activities. Risk management policy and processes will enable the Company to pro-activelymanage uncertainties and changes in the internal and external environment to check and limit negative impacts and capitalize on opportunities.

III] IMPLEMENTATION

The Company is prone to inherent business risks. This document is intended to formalize a risk management policy, the objective of which shall be identification, evaluating, monitoring and maximizing identifiable risks.

This policy is in compliance with the amended Clause 49 of the Listing Agreement (w.e.f. 1st October, 2014) which requires the Company to lay down procedure for risk assessment and procedure for risk minimization.

The Board of Directors of the Company and the Audit Committee shall periodically review and evaluate the risk management system of the Company so that the management controls the risks through properly defined network.

Head of Departments shall be responsible for implementation of the risk management system as may be applicable to their respective areas of functioning and report to the Board and Audit Committee.

IV] OBJECTIVE & PURPOSE OF POLICY

The prime objective of the Risk Management would be protection of Shareholders Value by ensuring overall risk in within the acceptable level. The main objective 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, 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, minimized and managed i.e. to ensure adequate systems for risk management.
2. To establish a framework for the Company's Risk Management process and to ensure its implementation.
3. To enable compliance with appropriate regulations, wherever applicable, through the adoption of best practices.
4. To assure business growth with financial stability.

V] KEY RISK MANAGEMENT PRINCIPLES

The Company is committed to managing risks in order to benefit the Company and manage the cost of risks. To meet this commitment, risk is to be every employee's business.

All employees, are thereby required to be responsible and accountable for managing Risk in so for as is reasonably practicable within their areas of responsibilities. Sound Management principles and practice must become part of the normal management strategy for all business units within the Company.

The Company's Risk Objectives would be achieved by following six key risk management principles:

1. Explicit risk evaluation:

Risk evaluation will be an integral part of any decision. To ensure high quality decisions, risk will be investigated in sufficient depth, quantified as far as possible, and communicated using probabilistic estimates for clarity. Major risks will be mitigated to the extent possible, or will be highlighted as being uncontrollable. All types of risks – strategic, market, operational (People, Process, Systems), legal, regulatory – will be evaluated.

2. Integrated approach:

The Company will adopt an integrated approach to risk management in which risks across all assets and Business Units (Bus) will be compared in a consistent manner.

3. ***Independent viewpoint:***

- Chairman
- Executive Director
- Manager (Finance & Accounts)
- HR Head
- Internal Audit Head.

4. ***Decentralised Risk Management:***

The Risk Management Committee (RMC) shall serve as the "owner" of all tools, methodologies and processes used for Risk Management, and would provide these to the Business Units (BU). The Bus will focus on implementing these policies and methodologies to identify, measure, mitigate, monitor and report key risks.

5. ***Consultative Approach:***

The Business heads would consult the RMC, with the projected IRR, Break-even period & Pay-back period etc., before taking a new project on whether a proposed Project conforms to the Company's Risk Policy, and whether the type and quantum of risk is acceptable.

6. ***Continuous assessment:***

The RMC would continually assess the risk for changes in the market circumstances, and prepare updated Risk Reports.

VI] CONSTITUTION OF RISK MANAGEMENT COMMITTEE

Risk Management Committee shall be constituted by the Company consisting of such number of directors (executive or non-executive) as the Company thinks fit.

The Board shall define the roles & responsibilities of the Risk Management Committee & may delegate monitoring & reviewing of the risk management plan to the Committee & such other functions as it may deem fit.

VII] PROCESS OF RISK MANAGEMENT

Basic steps in Risk Management process are as follows:

1. ***Acceptability of Risks***

The acceptability of risks would be in the following order:-

- Regulatory & Governmental risks (where the decision of a single person can greatly influence the sector outlook).
- Product & Market risks;
- Operational Risks
- Economic Risk

- Finance Risks
- Insurance Risks

2. ***Risk Identification & Evaluation***

The Management mandates that Bus follow consistent processes, tools and methodologies for identifying, measuring, mitigating, monitoring and reportingall risks. The Bus should analyze risks in sufficient depth and quantify them as far as possible by assessing the probability of occurrence and the potential impact. In particular, during Risk Evaluation of Projects and Strategic Decisions, special emphasis should be laid on the following:

- Identifying key risk factors for each alternative;
- Obtaining high quality information (from experts/secondary sources, if required) for the assessment of these risks;
- Prioritize risk based on their impact;
- Developing alternate strategies for Risk Mitigation including options for transfer, sharing, avoidance and reduction of risks.

3. ***Risk Aggregation***

The MANAGEMENT mandates that risks should be measured/aggregated at two levels:

- Individual Asset/Project;
- Business Unit;

4. ***Risk Mitigation***

The Business heads would be responsible for developing and implementing appropriate strategies for mitigating key risks. Risks, which are not within this Policy's scope, should be avoided. Certain other risks where the exposure is unacceptable should be hedged, transferred or shared with other entities.

When risks are accepted, a strong system of internal controls should ensure that risk management measures are executed, and are effective. Risk arising from lack of appropriate controls should be highlighted by RMC, and these should be taken up by Internal Audit for correction.

The "residual risk" post risk mitigation should also be measured, monitored and flagged off to the relevant decision makers.

5. ***Risk Monitoring & Reporting***

The RMC should regularly provide updates to the Chairman on;

- Key Group level risks;
- Potential impact of these risks, with comparison from the past;
- Initiatives taken up/Progress on initiatives taken up to mitigate these risks.

VIII] DISCLOSURE IN BOARD'S REPORT

Board of Directors shall include a statement indicating development and implementation of a risk management policy for the Company including identification therein of elements of risk, if any, which in the opinion of the Board may threaten the existence of the Company.

IX] RESPONSIBILITY & ACCOUNTABILITY

1.Risk Management Committee

The RMC should be responsible for providing central co-ordination and independent oversight for managing the Company's risk. RMC shall focus on the Company's Risk Policies, Risk Measurement Techniques and Risk Management Practices in a consultative manner. The RMC would provide assurance to the MANAGEMENT of adherence to the Risk Policy, and all the Risk management process by the Business Units. The RMC would also periodically update the MANAGEMENT of the key Group level risks, their potential impact and mitigation measures to contain them.

The RMC would also be responsible for supporting the development and implementation of appropriate Procedures, Systems and Processes for risk management in all the Bus. RMC would be responsible for building capabilities for all Business heads, and communicating their responsibilities under this Policy.

2.Chairman& Managing Director

The Chairman and the Managing Director are accountable to the Companies and have overall and ultimate responsibility as the 'Accountable Officer' for protecting the Company from unacceptable costs or losses associates with its operations, and for developing and implementing systems for effectively managing the risks that may affect the achievement of objectives and optional outcomes. Part of this responsibility includes determining the level of risk, which is acceptable to the Company, and ensuring that all structures, process and people in the Company work well to manage key risks.

3.Executive, Senior Management &Business Heads

The effectiveness of risk management is unavoidably linked to management competence, commitment and integrity, all of which forms the basis of sound Corporate Governance. Corporate Governance provides a systematic framework within which the Executive Management group can discharge their duties in managing the Company.

Executive, Senior Management &Business heads,are responsible for:-

- Providing direction and guidance within their areas of accountability so that subordinates best utilize their abilities in the preservation of the Company's resources,
- Successfully promoting, sponsoring and coordinating the development of a risk management culture throughout the Company,
- Guiding the inclusion of risk management in all strategic and operational decision making,
- Possessing a clear profile of major risks within their area of control incorporating both opportunity and negative risks,
- Maintaining a framework to manage, monitor and report risk,
- Managing risks to meet Company objectives, goals and vision and,
- Improving Corporate Governance.

4.**Line Management**

Line Managers at all levels will be responsible for the adoption of risk management practices and will be directly responsible for the results of risk management activities, relevant to their area of responsibility. As part of the annual planning cycle all responsible managers will be required to consider and document existing risks and their impact on proposed plans. Any new risks identified due to changes in the business environment must also be documented. Risk records must be maintained up-to-date on an on-going basis to reflect any changes which may occur.

5.**All Employees**

All employees are responsible for:-

- Acting at all times in a manner which does not place at risk the health and safety of themselves or any other person in the workplace
- Providing direction and training to persons for whom they have a supervisory responsibility or duty of care provision relating to health and safety,
- Identifying areas where risk management practices should be adopted and are to advise their supervisors accordingly,
- Meeting their obligations under relevant legislation including Workplace Health and Safety, Equal Employment Opportunity and Anti-Discrimination and,
- Taking all practical steps to minimize the Company's exposure to contractual, tortuous and professional liability.

6.Internal Auditors

The internal audit function will support Company risk management through periodic independent review of risk management practices and procedures to provide assurance on their efficiency.

They would play an important role in monitoring risk, but would not have primary responsibility for its design, implementation or maintenance. They would assist the RMC by auditing the adherence to control systems, and their effectiveness. They would also flag off any new risks that may emerge during the internal audit reviews.

X] APPLICATION

This Policy applies to all activities and processes associated with Company's all and normal operations.

XI] ROLE OF THE BOARD

The Board will undertake the following actions to ensure risk is managed appropriately:

- ► The Board shall be responsible for framing, implementing and monitoring the risk management plan for the Company.
- ► The Board shall define the roles and responsibilities of the Risk Management Committee and may delegate monitoring and reviewing of the risk management plan to the Committee and such other functions as it may deem fit.
- ► Ensure that the appropriate systems for risk management are in place.

- The independent directors shall help in bringing an independent judgment to bear on the Board's deliberations on issues of risk management and satisfy themselves that the systems of risk management are robust and defensible.
- Participate in major decisions affecting the organization's risk profile;
- Have an awareness of and continually monitor the management of strategic risks;
- Be satisfied that processes and controls are in place for managing less significant risks;
- Be satisfied that an appropriate accountability framework is working whereby any delegation risk is documented and performance can be monitored accordingly;
- Ensure risk management is integrated into board reporting and annual reporting mechanisms;
- Convene any board-committees that are deemed necessary to ensure risk is adequately managed and resolved where possible.

XII] ***REVIEW***

The Board of Directors and the Audit Committee of Board of Directors, shall periodically reviewed this Risk Management Policy so that managementcontrols the risk, through properly defined network and to ensure that it meets the desired requirements of legislation and needs of the Company.