AUTOMOTIVE AXLES LIMITED

RISK MANAGEMENT SYSTEM MANUAL

From the President's Desk

Our business successes of the past suggest that Automotive Axles has been able to manage risks effectively, although in most of the cases informally, and in silos. We are usually aware of our risks but risk information has often not been shared or communicated to all relevant levels, and not formally documented.

The existence of sound Risk Management ('RM') framework is critical and of utmost importance for the survival and progress of any organisation. We at Automotive Axles want to have a practice of complementing our organizational strengths with outstanding risk management systems and controls. This has to be achieved through constant monitoring and continuous improvement, which is in fact the Automotive Axles way of accomplishing objectives.

The underlying principle of risk management is that every business exists to provide value for its stakeholders. As other businesses, Automotive Axles also faces uncertainty and the key challenge for the management is to determine how much uncertainty to accept as it strives to grow shareholder value. Uncertainty presents both risk and opportunity, with the potential to erode or enhance value. Automotive Axles believes that risk management enables management to effectively deal with uncertainty and associated risk and opportunity, enhancing the capacity to build value.

Automotive Axles recognizes that while honesty and integrity are the essential ingredients of a strong and stable enterprise, profitability provides the main indicator of economic activity. Overall, Automotive Axles seeks to scale the heights of excellence in an atmosphere free from risks and fear.

We need a consistent and systematic process to identify, assess, manage and monitor our risks on an enterprise-wide basis at all times. As we live in a fast-changing and complex world, we need to apply a process that is reliable, yet flexible. To be effective, the process must incorporate systems for identifying and responding to risk, together with mechanisms for bringing significant risks to the attention of the management on a timely basis.

We realize that the management of risk can only be successful if all employees of Automotive Axles understand risk and risk management and take ownership of and responsibility for assisting the management with this.

Automotive Axles therefore aims to develop organisation-wide capabilities in risk management so as to ensure a consistent, efficient and effective assessment of risks at al levels of our organisation in the achievement of our objectives. Further, Automotive Axles considers risk management as integral to its objective of creating and maintaining shareholder value and the successful execution of its strategies.

This Risk Management Manual has been developed to provide guidance on how we can embed risk management process across all our operations, divisions, departments and each employee's daily responsibilities. We are envisaging a parallel Risk Management Organization within our existing business organization as detailed in this Manual.

We should understand that risk management is not a new and separate task that we need to perform. Risk is part of each business process and activity, but we now need to formally manage our risks using a consistent approach across all aspects of our business.

Automotive Axles is now operating in a competitive and fast changing environment, one that presents a multitude of risks. We cannot ignore or avoid risk. Rather, it must navigate carefully to ensure that our risks are managed in a way that allows the capturing of opportunities and provides protection from adverse events. The risk management framework described in this manual gives us the methodology that will help undertake the successful navigation required.

Ongoing commitment throughout Automotive Axles is required to ensure that the framework is effective and sustained. Risk management starts with awareness and because of this, an important part of this commitment is the promotion of a culture that encourages people to openly discuss risk and learn from others – all personnel in Automotive Axles have a role to play in this!

An effective risk management framework will enable us to recognize and understand the potential upsides and downsides of our actions, and in doing so, will allow the right types of decisions to be made. This, in turn, will increase the probability of success and reduce the probability of failure and ultimately, both our financial and operational performance will improve, leading to greater and sustainable shareholder value.

Sincerely,

Mr. Ashok Rao
President & Whole time Director
Automotive Axles Limited

Contents

1. Introduction

Automotive Axles believes that good corporate practices enable the Board of Directors to direct and control the affairs of our Company in an efficient manner and to achieve its ultimate goal of maximizing shareholders value. Realizing this, Automotive Axles had already adopted various formal and informal Risk Management Practices over the last few years, even when there were no mandatory requirements in this regard.

Automotive Axles:

- Holds periodic communication and strategy meetings (monthly) wherein all operational, compliance and financial reporting risks are assessed and mitigation strategies are defined / discussed.

- There are performance review meetings, wherein the annual business plan is discussed and strategic business risks are articulated.

- Further, it has developed comprehensive "Vision and Mission" documents and in translating the Company's vision and mission into specific strategies, objectives and priorities each business / unit / locations addresses risks in various informal / unendorsed manner.

Automotive Axles aspires to comply with the regulatory requirements relating to corporate governance of the **revised Clause 49** of the Listing Agreement. To be compliant, among other things, we will need to demonstrate a Risk Management Framework ('RMF') for assessing and controlling risks in an ongoing manner.

To address the above requirement, we have developed this Manual to assist various divisions and functions to identify, assess and minimize risk and aligning the existing activities to this proposed Risk Management Manual.

However, it is extremely important to note that the key aspect of the Manual is not to reengineer the existing business structure, which is already at a matured platform, but to align and document the existing structure with the revised clause 49 listing requirements.

2. Risk Management - Concept

Risk Management is a three-step process:

Identify	***Identify the risk issues impacting the business (internal, external; hazard, uncertainty and opportunity)***
Assess	***Assess the impact and inherent probability of those risks happening***
Respond	***Decide appropriate management action to respond to assessed risks***

Risk Assessment is the process whereby line management actively takes responsibility and ownership for developing, assessing, maintaining and monitoring controls to address business risks with a view to facilitate achievement of business objectives.

2.1 Risk Definition

What is Risk?	Risks are uncertain future events, which could influence the achievement of the organization's objectives, including strategic, operational, financial and compliance objectives.

In translating the Automotive Axles' vision and mission into specific strategies, objectives and priorities each business/unit/function/process addresses opportunities and the attendant risks in different ways.

The starting point for achieving a common approach to managing risk across all of Automotive Axles' operations is to have a common understanding of the term risk.

Risk can be thought of in three distinct senses – as threats, uncertainty or lost opportunities.

Hazard	Uncertainty - Variance	Opportunity
Risk of Bad Things Happening	**Risk of Not Meeting Expectations**	**Risk of Not Exploring the Upside**
Traditional Focus	Control focused on distribution of outcomes	Investment focused
Defensive in nature	Hedging in nature	Offensive in nature
Purpose is to allocate resources to reduce the probability or impact of a negative event	Purpose is to reduce the variance between anticipated outcomes and actual results	Purpose is to take action to achieve positive gains; requirement of a growth strategy due to implicit relationship between Risk and Return
Examples: - Flood or fire - Major accidents - Disruptions - Fraud	- Forex fluctuations - Economic scene - Steel prices - Laws & regulations	- New Designs - New markets - New products

The definition emphasizes that risk is not just about downside or things going wrong, it is also about missing out on the upside or added value that opportunities bring.

Hence, relevant risks are those issues that may prevent us from achieving our desired outcome with respect to what we are working to achieve. We define risk as **those issues that may influence our ability to achieve objectives**.

Risk encompasses not only the threat that something bad will happen, (risk as a hazard), but also the possibility that something good will not happen (risk as an opportunity) and the potential that actual results will not equal anticipated outcomes (risk as uncertainty).

Risk = ANYTHING THAT MAY IMPEDE US FROM ACHIEVING OUR OBJECTIVES

2.2 Inherent & Residual Risk and Assessment

What is Inherent & Residual Risk?	All business processes and activities have risks attached to them, whether these risks are caused by external or internal factors. These risks are also referred to **"gross risks"**. All the risks are therefore inherent to business processes and activities and they will have an inherent level of impact and probability of occurring if we do not have specific risk mitigation controls. Where we have implemented effective controls to mitigate risks, the residual risk refers to risks after controls or **"net risks"**. These risks, therefore, typically have a relatively lower level of impact and probability provided our controls are adequate and operating effectively.

Risk Assessment
Risk Assessment is a process whereby the identified risks are assessed for its probability (i.e. the probability of a risk/event happening) and impact (i.e. the magnitude of impact/effect of risks once they occur). Risk Assessment is carried out at 2 stages in order to prioritize risks and risk mitigation efforts (i.e. controls). These 2 stages of assessment are as follows, which are explained in brief further:

1. Inherent Risk Assessment
2. Residual Risk Assessment

1. Inherent Risk Assessment
Inherent Risk Assessment involves the following:

- Assessing the inherent (before controls) impact of each risk
- Assessing the inherent (before controls) probability of each risk

2. Residual Risk Assessment – Control Measures Validation
Inherent Risk Exposure needs to be subjected to second-stage assessment to arrive at the Residual Risk Exposure after considering the existing risk control measures (risk response, internal controls, control measures, etc.) and validating the existence and effectiveness of these existing control measures. Residual Risk Assessment involves the following:

- Identification and Validation of the control measures for existence and effectiveness,
- Identifying the need for control measure improvements if the existing control measures are considered to be inadequate or ineffective;
- Assessing the residual impact and probability (after considering controls and further action plan)

2.3Enterprise-wide Risk Management

What is Enterprise-wide Risk Management?	Enterprise-wide Risk Management is the culture, process and structure, affected by organization's Board of Directors, Management and other personnel, applied in strategy setting and across the organization, designed to identify potential events that may affect organization, and to manage risks to be within its risk appetite, and to provide reasonable assurance regarding the achievement of organization's objectives.

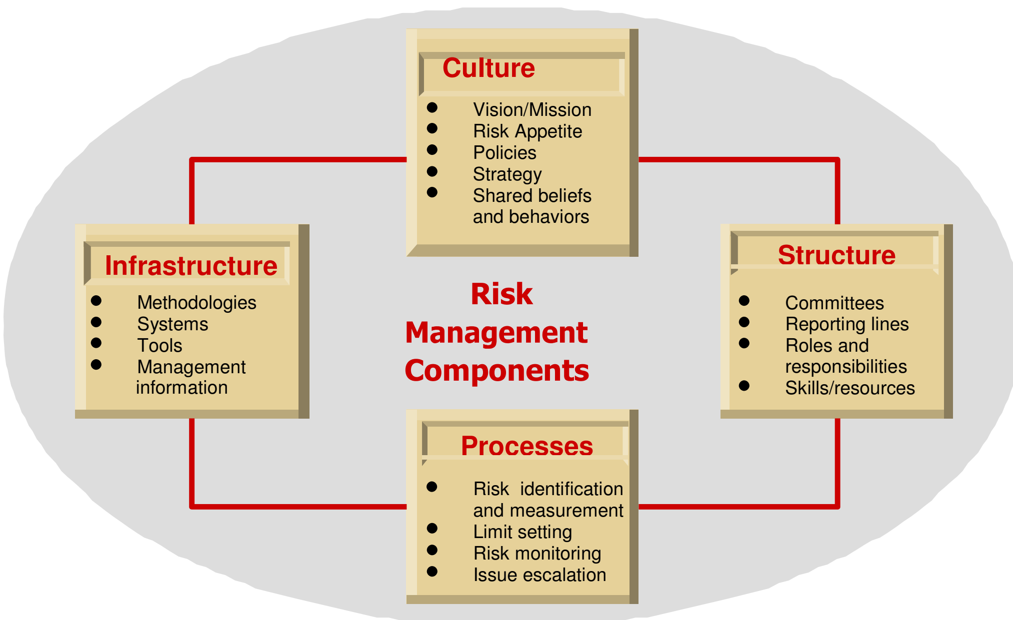
This **definition** reflects certain fundamental concepts. It

- Involves *culture* - the shared beliefs, values, customs and behaviors that are learned and transmitted throughout organization
- Is a *process* – it is a means to an end, not an end in itself
- Involves *structure* – a formal organization of responsible people to effectively manage and provide oversight of organization's risks
- Is *affected by people* – it is not merely policies, surveys and forms, but involves people at every level of organization.
- Is *applied in strategy setting* and business planning process
- Is *applied across the organization,* at every level and unit of organization, and includes taking an entity-level portfolio view of risks
- Is designed to identify events potentially affecting organization and manage risk within its specified *risk appetite*
- Provides *reasonable assurance* to organization's management and Board that known risks are being managed within acceptable parameters
- Is geared to the *achievement of objectives* in one or more separate but overlapping categories.

This definition focuses directly on the achievement of organization's objectives and provides a basis for defining the effectiveness of risk management within organization.

2.4 Risk Management Framework

Automotive Axles' Risk Management Framework consists of:



For Automotive Axles' risk management and control framework to add value, it must minimize hazards, maximize potential opportunities, and manage uncertainties.

Effective risk management practice will identify and evaluate risks across our entire organization and can deliver realistic assessments of the probability and impact of these risks.

Outcomes of effective risk management	It can enhance our capability to: - Align risk appetite and strategy - Link growth, risks and returns - Enhance risk response decisions - Minimize operational surprises - Identify and manage cross-enterprise risks - Provide integrated responses to multiple risks - Seize opportunities - Rationalize capital

Benefits of Risk Management

Risk management does not mean taking no risks. Automotive Axles accepts risk taking as part of its strategy to both create and preserve value, but expects financial returns commensurate with the risk.

Risks are clearly related to "return", and the management of risk is an integral part of achieving sustainable shareholder value. Where management mobilizes the linkage between risk management, achievement of corporate goals and reduced volatility of outcomes, our performance can be enhanced significantly.

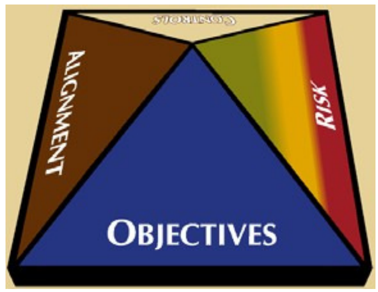
Our objectives and the environment in which we operate are evolving and, as a result, the risks we face are continually changing. A sound system of internal control therefore depends on a thorough and regular evaluation of the nature and extent of the risks to which it is exposed. Since there are rewards for successful risk-taking in business, the purpose of internal risk management is to help manage and control risks rather than eliminate them.

A risk management and control framework provides an integrated approach to identifying, assessing/quantifying, mitigating, monitoring and reporting business risks across our business and operations. Guidance on these steps is provided in the Section - Risk management process. Environmental, strategic, organizational and process issues are addressed within a business framework. Alignment of the risk management framework with business priorities and key success factors is an important feature of risk management.

2.5 Risk Management Principles

Automotive Axles' Risk Management Framework is underpinned by a set of generic principles (referred to as the ORCA principles) and critical success factors for the framework's implementation (referred to as the Risk Management Architecture). The term ORCA is short for **O**bjectives, **R**isk, **C**ontrols and **A**lignment.
The principles and critical success factors are depicted and summarized below:

Risk Management Principles =



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OCRA Principles + **Risk Management Architecture**

ORCA is a structured approach to:

- Articulating organizational OBJECTIVES
- Assessing RISKS to the achievement of the objectives
- Building in CONTROLS to manage the risks
- Ensuring ALIGNMENT of objectives, risks and controls across the organization

The successful implementation of the ORCA principles requires a supporting **Risk Management Architecture**. The resources and infrastructure requirements of the risk management architecture represent the critical success factors for ensuring a sustainable risk management approach. The nine critical success factors for successful risk management are:

- Shared attitudes and risk consciousness culture
- Senior management commitment
- A common language for risk and understanding risk management responsibilities
- A change management process
- Process for ongoing risk management
- Effective communication, learning and education
- Measurement and rewards
- Reinforcement of the risk management process through HR mechanisms
- Monitoring/reporting of the risk management process

3. Risk Management - Environment

The Risk Environment encompasses the tone or culture of Automotive Axles, influencing the risk consciousness of its people, and is the foundation of all other components of Enterprise Risk Management, providing discipline and structure. The key components of the Risk Environment are:

Internal Environment					
Risk Management Philosophy	Risk Appetite	Risk Culture	Board of Directors	Integrity and Ethical values	Commitment to Competence
•Value •Communicate in words and actions	• Value • Qualitative • Quantitative • Linked to strategy	• Independent • Active • Involved	• Independent • Active • Involved	• Standards of behavior • Prerequisite • CEO example • Incentives	• Knowledge • Skills • Trade-offs

Management Philosophy and Operating Style	Organizational Structure	Assignment of Authority and Responsibility	Human Resource Policies and Practices	Differences in Environment
• Formal vs. Informal • Conservative vs. Aggressive • Aligned	• Reporting lines • Centralized / Decentralized • Matrix/Function/ Geography	• Empowerment • Accountability	• Qualified • Training • Compensation • Incentives and Discipline	• Management preferences • Value judgments • Management styles

A number of the key components are discussed below:

3.1 Risk Management Philosophy – The Policy

The objective is that all employees and relevant stakeholders should know that Automotive Axles has implemented a Risk Management Framework and understands risks and how to identify, assess, mitigate and report them. The Risk Management Philosophy is reflected in Automotive Axles' Risk Management Policy.

Automotive Axles' risk policy is that any event (hazard or uncertainty) that threatens the achievement of our business objectives or business plans will be managed in a systematic manner and in accordance with the risk management best practice, in order to protect Automotive Axles from losses and to capture opportunities.

This means that Automotive Axles will on the corporate level:

- Determine the Corporate Vision and Mission
- Establish clear strategic business objectives, identify and assess significant risks that may prevent the achievement of those objectives
- Determine the appetite for taking risks
- Apply fit-for-purpose risk responses

- Incorporate risk responses into an integrated internal control system which is designed to:
  - Address opportunities
  - Protect company assets
  - Facilitate effective and efficient operations
  - Assist in ensuring reliable reporting
  - Comply with applicable laws and regulations
  - Monitor the effectiveness of business processes and systems for managing risk
  - Apply Board and management policies, which relate to particular types of risks.

Each business unit, business process or department will:

- Determine business objectives, which are aligned with the strategic business objectives
- Identify and assess significant risks that may prevent the achievement of those objectives
- Apply fit-for-purpose risk responses that minimize risks
- Incorporate risk responses into an integrated internal control system which is designed to:
  - Address opportunities
  - Protect company assets
  - Facilitate effective and efficient operations
  - Assist in ensuring reliable reporting
  - Comply with applicable laws and regulations

This policy and the underlying procedures will be reviewed by the Risk Management Committee to ensure their continued application and relevance.

A periodic and independent review (external or internal) of the adoption and effectiveness of this policy will be undertaken to provide feedback to the Risk Management Committee to facilitate continuous improvement. Internal Audit can be utilized for these types of reviews.

In situations where management believes that the policy is inappropriate, the matter must be referred to the Risk Management Committee for consideration in advance of any commitment being entered into by Automotive Axles.

3.2.1 Risk Appetite

Risk appetite is the amount of risk, on a broad level; Automotive Axles is willing to accept in pursuit of value. Risk appetite shall guides for the resource allocations and aligns organizations, people, process and infrastructure to the common goals. Risk appetite should align with the Automotive Axles corporate culture.

Critical Factors to be answered in determining the risk appetite

- The nature of business and scale of operations
- Risks perceived in business to accept and reject
- The risk acceptance level in business as well as new initiative
- The relative enhancement in risk acceptance level from past.
- Automotive Axles' philosophy in respect of specific risks acceptance and rejection
- Extent of risk acceptance to the external factors like market share, competition,
- Preparedness towards the high risk and high return projects

The broad principles of Automotive Axles in respect of following risks categories would be -

- **Strategy, Operational/ Process**
  Events impacting the key strategy and operational objectives need to be identified on a periodic basis. A specialist/ committee needs to be formed to analyze these events, define and document through policies the risk appetite for these events.

- **Compliance and Financial reporting**
  The periodic events should be analyzed and reported to the specialist/ committee in respect of compliance and financial reporting. The Automotive Axles has set a zero risk tolerance for these events.

3.2.2 Risk Tolerance

Risk tolerance is the acceptable levels of variation relative to the achievement of objectives. Risk tolerance is the measurable limits for the risks and it lays down the value range for risk acceptance. Operating within the risk tolerance provides management greater assurance that Automotive Axles remains within its risk appetite, which in turn shall provide a higher degree of comfort towards objective achievements. The risk tolerance should be periodically reviewed to factor in the internal and external dynamics impacting Automotive Axles' business environment.

Examples -

Risk Appetite	Risk Tolerance
Policy to sell on credit line,	The time period for credit line
Investments in equities,	Value limits / Stop loss limits / industry segments/ for equity investment
Projects with lower success probability but greater returns	The success and failure matrix, Ratios/ trends analysis.
Open foreign exchange exposures	The period/ value limit over the open exposures, foreign currency, stop loss limit.

3.2.3 Risk Escalation

Automotive Axles has set threshold at various levels, as stated in Clause 5.4 which reflects management philosophy of risk management and should influence Automotive Axles' operating style. The risks measurable in value terms are to be reported to the Risk Management Committee on an on-going basis.

The above thresholds are evolving and will be revised depending on how these are performing.

The above limits shall not be applicable in the following cases:

(i) Compliance – Automotive Axles is committed to comply with all the applicable laws & regulations. All breaches in compliances irrespective of its impact shall be reported to the board.

(ii) Reputation – The risk of loss of reputation irrespective of its impact shall be reported to the board.

3.3 Culture

Risk culture is the set of shared attitudes, values and practices that characterize how an organization considers risk on its day-to-day activities. Automotive Axles wants a risk culture where everybody associated with the company, from the Board, senior management, managers, staff, contractors, suppliers and other stakeholders, considers risk in their day-to-day activities.

3.4 Board Of Directors

The Board of Directors of Automotive Axles is a critical part of the Risk Environment and significantly influences all the components of the environment. The Board's independence from management, together with the business and industry experience and stature of its members, enhances the risk management environment.

The Board is actively involved in the company, including setting business strategies and monitoring the effectiveness of their implementation on quarterly basis.

3.5 Integrity and Ethical Values

Automotive Axles has built a good reputation in the market over the years, and as part of its brand building, this reputation needs to be maintained and further enhanced. No person or persons employed or associated with Automotive Axles have the right to compromise Automotive Axles' reputation through their actions and interactions with important stakeholders. Automotive Axles' reputation is so valuable, the standard of behavior goes beyond merely complying with laws and regulations.

Effective risk management cannot rise above the integrity and values of the people who create, maintain and monitor Automotive Axles' activities. Automotive Axles has developed a Code of Conduct that establishes what is meant by good business ethics and how everybody employed or associated with Automotive Axles should act. Automotive Axles will not tolerate fraud and will act against any person or organization that is involved in defrauding Automotive Axles and its stakeholders, as well as those people who knew of fraud but failed to report it.

3.6 Commitment to Competence

Competence reflects the knowledge and skills needed to perform assigned tasks. Each manager will have to decide how tasks need to be accomplished, weighing Automotive Axles' strategy and objectives against plans for strategy implementation and achievement of the objectives. Although there is a trade-off between competence and costs, costs alone cannot undermine important activities that can cause high risks.

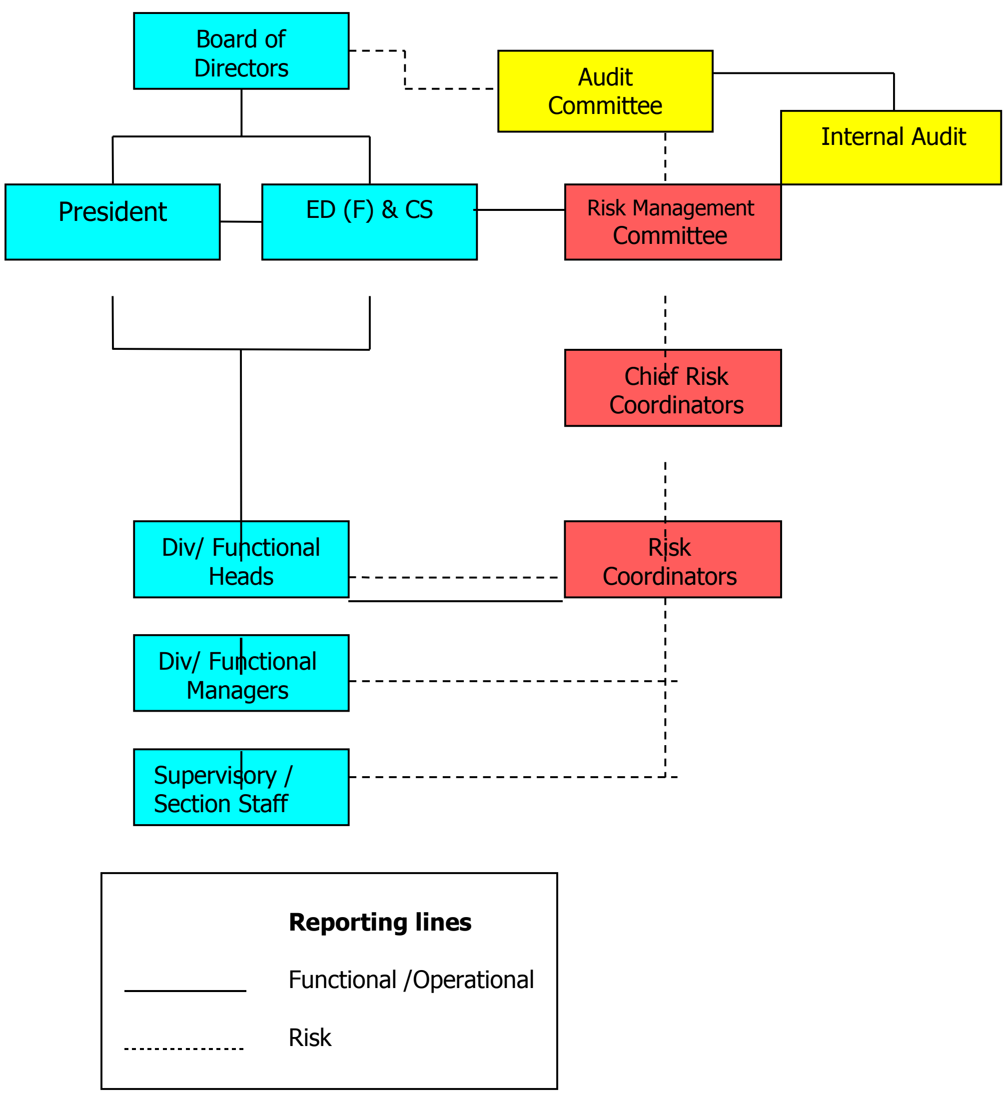
Management would continuously assess the required competence required for each job, current and future, to ensure that recruitment strategies, training and development requirements of staff are aligned.

4. Risk Management Organization and Roles & Responsibilities

This section addresses broader risk management responsibilities of various personnel throughout Automotive Axles. Development of a formal risk management structure helps ensure that personnel across the business understand their responsibilities and are accountable with regard to risk management. This in turn improves our ability to make the right decisions, at the right time, to prevent unacceptable losses or practices.

The Corporate Strategic Planning Department (CSP) has been identified to act as the incubator for Risk Management as a Chief Risk Coordinator (CRC), who will be supported by the nominated Risk Coordinators from each of the business division and function. A Risk Management Committee is being established and tasked with responsibility for enterprise-wide risk management. In future, as risk management is embedded in all processes, a separate risk management function or department may be established and a dedicated risk manager appointed, as deemed fit.

Automotive Axles' risk management structure is illustrated as follows:



The Risk Management Committee comprises of:

1. President
2. Executive Director (Finance) & Company Secretary 3.
3. Head – HR/Head -Legal
4. Head of Each business Division

Automotive Axles Risk Management Committee has been established by way of a Risk Management Committee Charter (attached in ***Appendix A)***.

The role of Automotive Axles risk management committee will be to:

- Review the risk management process
- Review effectiveness of the risk identification and assessment process
- Evaluate adequacy of controls and action plans to mitigate risks
- Review effectiveness of mechanisms for timely escalation of risks

The Head-HR/Head -Legal will act as the Chief Risk Coordinators and will assist the Risk Management Committee to discharge its day-to-day responsibilities. The risk management structure will be subject to change in line with our organizational changes from time-to-time.

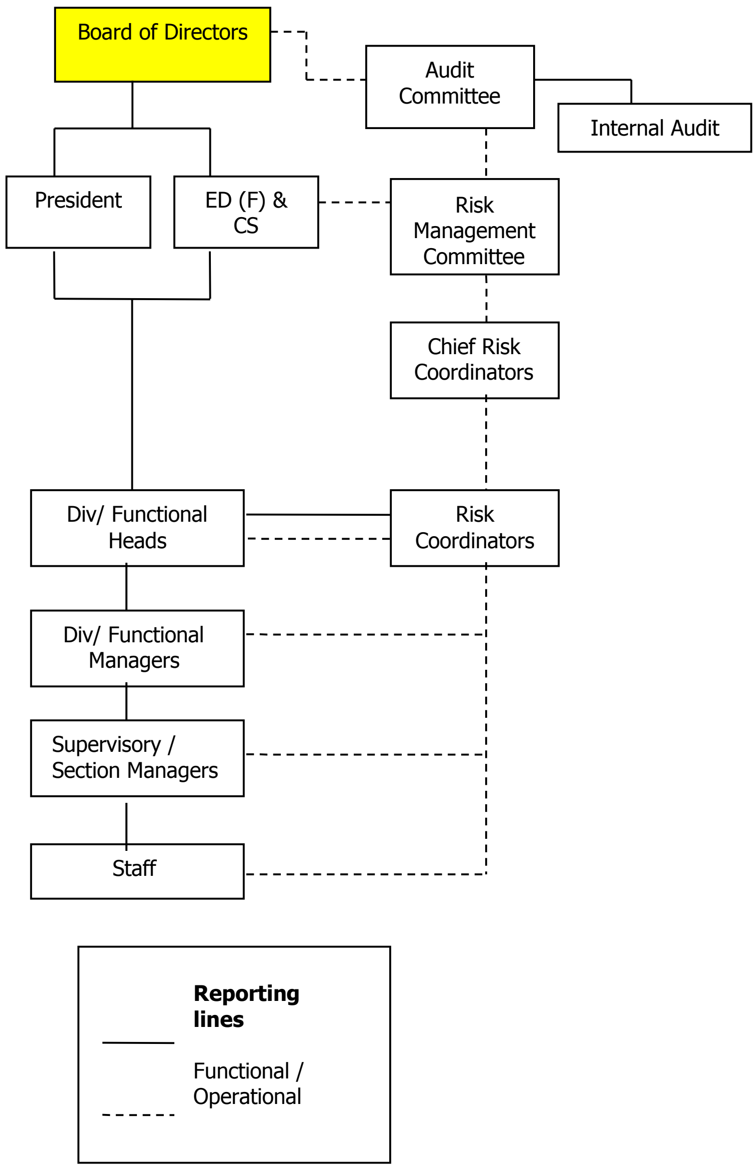
The table below describes broad roles and responsibilities of the functionaries:

Functionary	Brief Role & Responsibility
Board	• Ultimately responsible to ensure risk management is implemented in Automotive Axles as part of Good Corporate Governance. • The Board normally delegates this responsibility to the Risk Management Committee.
President / **ED (F) & CS**	• Ensure the implementation of risk management framework and process and ongoing risk assessment of risks. • Promote risk culture and ensure that the risk management process is sustained organisation wide.
Division / Functional Heads	• Identify and monitor strategic and critical operational/functional risks and ensure adequate risk mitigation. • Promote risk culture and ensure divisional/functional managers are making the risk management process alive within the divisions/departments.
Division Managers	• Ensure that day-to-day or operational risks are identified, managed and sufficiently reported. • Promote risk awareness within divisions.

Functionary	Brief Role & Responsibility
Supervisor/Section Managers/Staff	• Identify and report operational/functional risks to managers and participate in developing and executing risk mitigation plans.
Risk Management Committee	• Defines the risk management policy framework and process. • Promotes and implement monitoring of risk management strategies and policies.
Risk Manager	• Is the risk management process Owner. • Ensures the implementation and compliance with the risk management policy and process.
Audit Committee	• Ensures adequacy of control frameworks to manage risks across the organization - monitoring.
Internal Audit	• Ensures controls identified to mitigate risks are effective. • Ensures that the risk management policy and process is applied in accordance with this Manual.

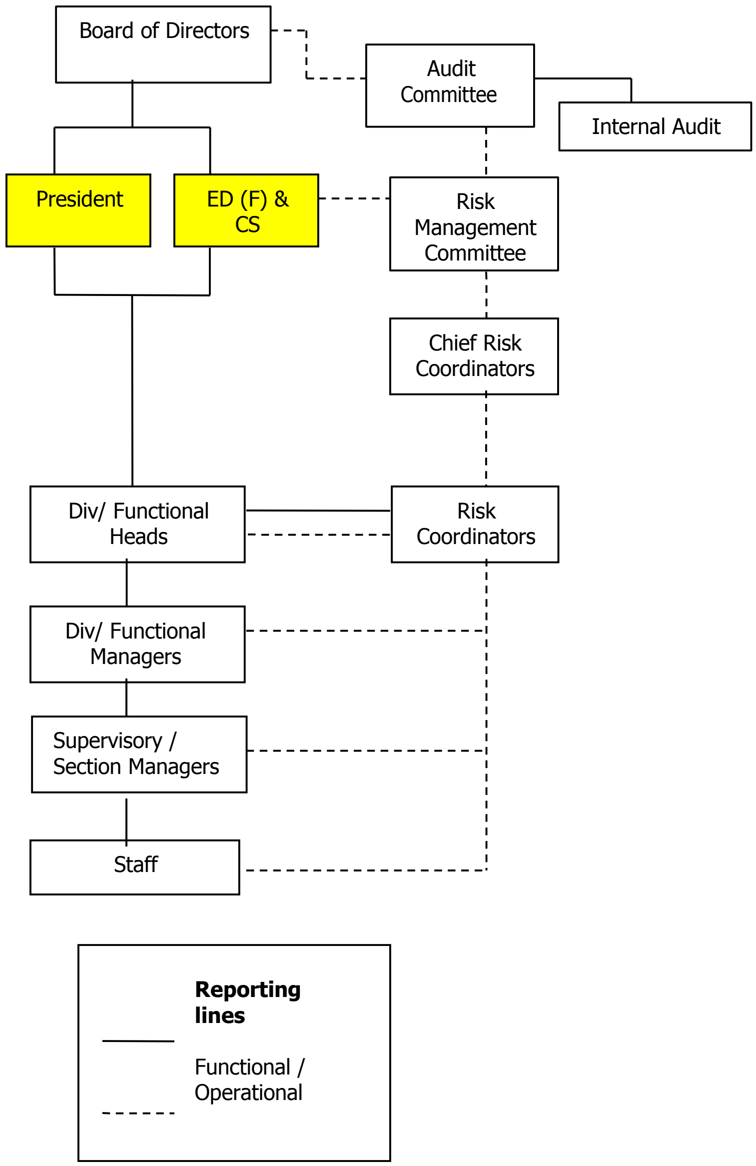
Details of the roles and responsibilities of all functionaries are set out on the following pages.

BOARD OF DIRECTORS



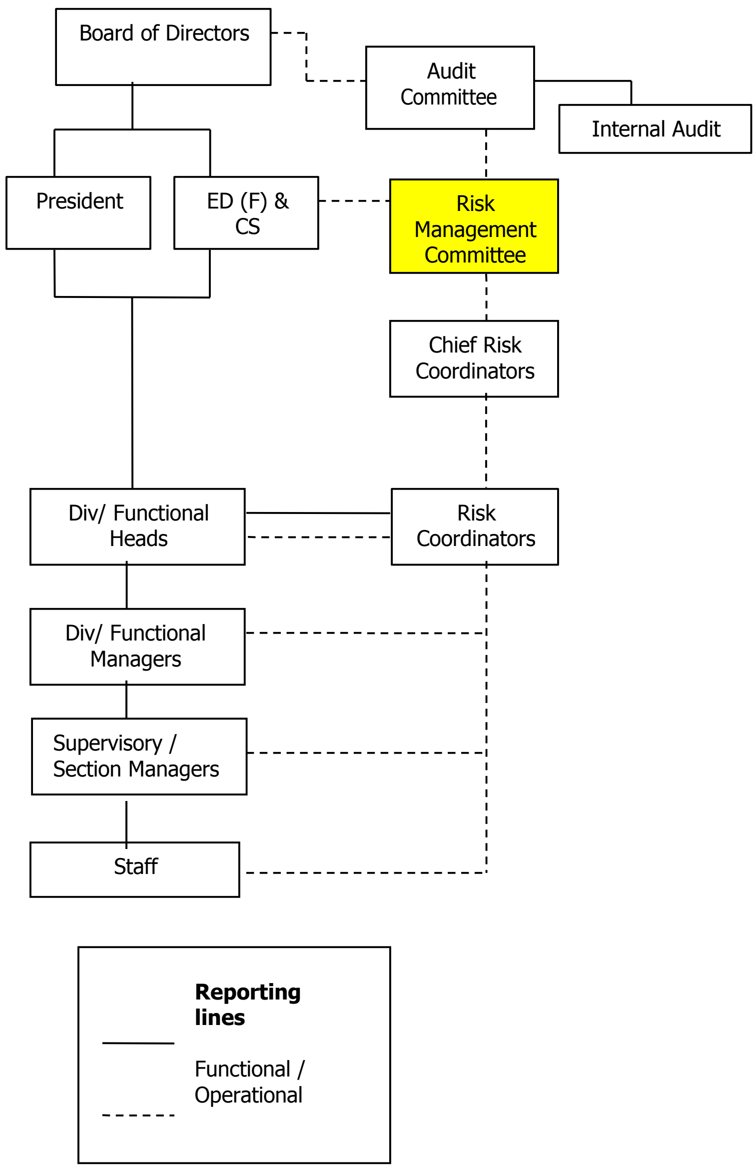
- Ensures the requisite systems and practices are in place to manage all risks to which Automotive Axles Limited is exposed; and
- Ensures appropriate sustainable corporate governance frameworks are established and operating effectively.

PRESIDENT AND E D (F) & CS



- Set business strategies;
- Are accountable for maintenance of an adequate ongoing risk assessment process;
- Ensure staff at all levels are aware of the risk and control environment within each business process; and
- Ensure control manuals and other key documents reflect policies regarding risk and those mechanisms are in place to ensure they are maintained.

RISK MANAGEMENT COMMITTEE



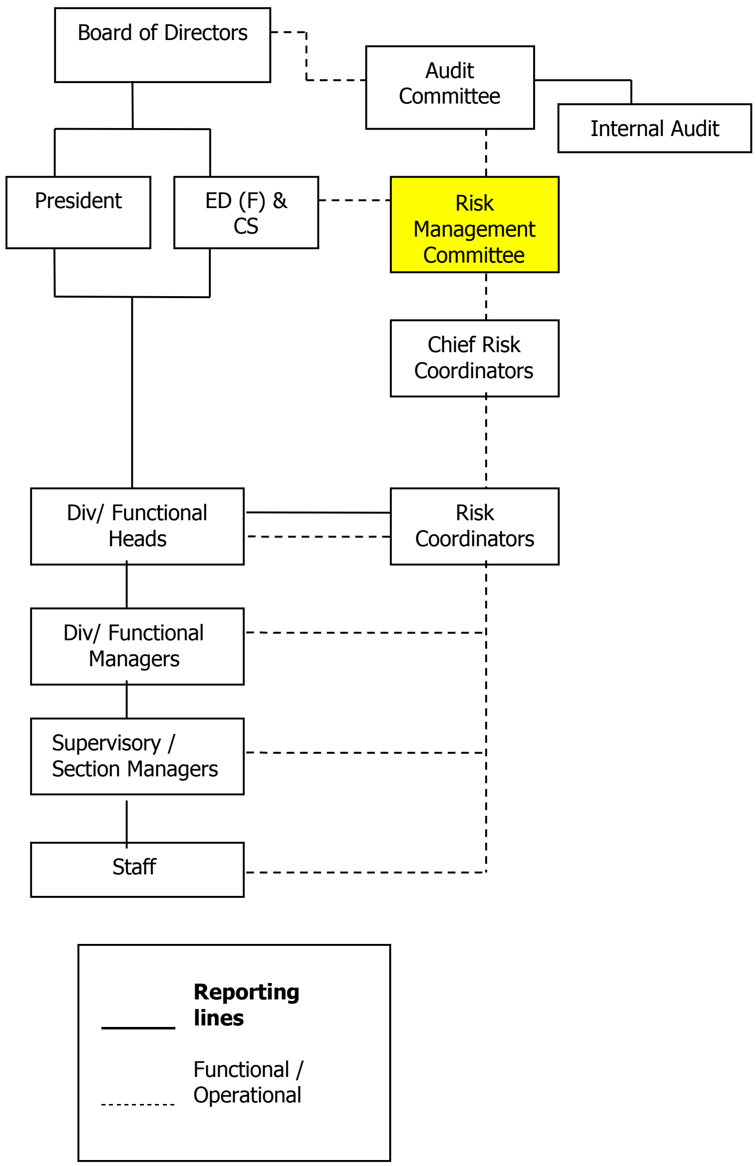
- Defines the policy framework and processes for risk management;
- Assists the Board in meeting their responsibilities for risk management;
- Ensures that the risk management framework is sustainable by continuously evaluating the effectiveness;
- Promotes and implements the risk strategy and policy by enhancing the level of risk awareness within Automotive Axles Limited and through the development of appropriate procedures and the commitment of resources;
- Provides guidance on the management of risk;
- Monitors progress of any major risk mitigation strategies including the status of risk assessments for major projects;

- Maintains an enterprise-wide view of risk and risk management activity;
-
- Supports the monitoring of risks across Automotive Axles Limited and reports to the Board on the adequacy of Automotive Axles Limited’s systems and controls for managing risk;

- Ensures all relevant parties are providing the adequate level of support to the Chief Risk Coordinator; and

- Annually reviews the risk management manual and approve the changes as required.

CHIEF RISK CO-ORDINATORS



Chief Risk Coordinator **(CRC)** will be based at the Corporate Office and visit each unit/division on a periodic basis. The CRC will possess extensive knowledge of all process and sub processes of Automotive Axles Limited and its risk management framework.

Key Roles & Responsibilities

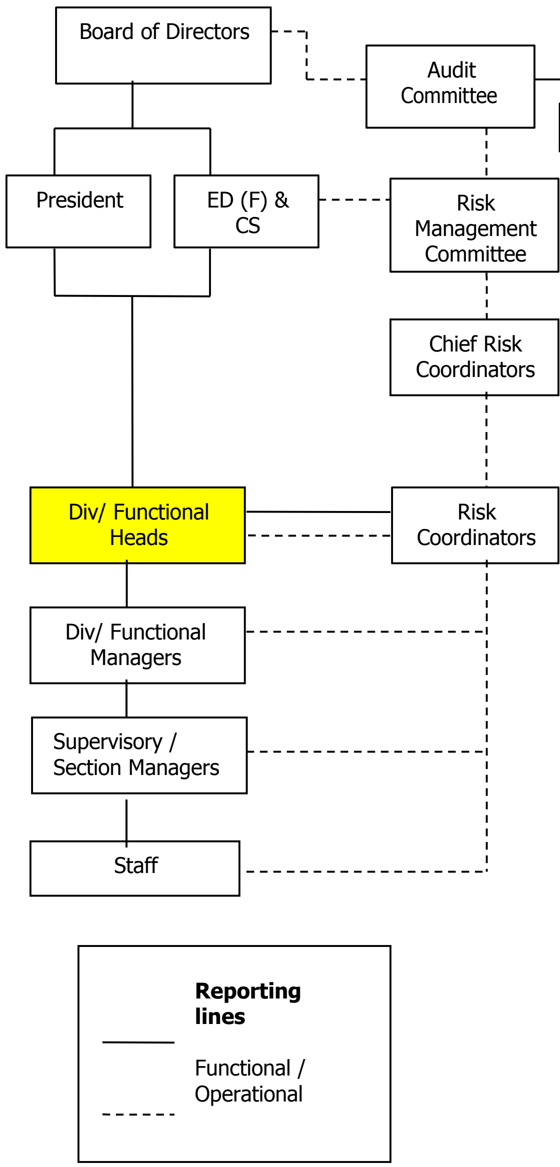
Active Role

- Understanding of all processes and sub processes of the company by ensuring process flow charts for all activities processes and sub processes are documented and internal controls mapped.
- Attending the meetings with the Divisional & Functional Heads for identification of risks:
- Periodically assimilate (recommended on a quarterly basis) all risks associated with various divisions/functions/ activities
- Organize Risk Assessment Workshop for developing risk ratings,
- Obtain information on risk mitigation plans,
- Develop risk and control matrix for the associated risks.

	• Identify Risk Coordinators to interact with staff at all levels across the business divisions and functions to understand various processes/ sub processes and associated risks. • Prepare risk register documenting key risks and updating it on a periodic basis. **Supportive Role** • Builds confidence and respect business-wide, at all levels, to gain acceptance for consistent risk management practices; • Monitor implementation status of action plans and status of validation of design and operating effectiveness of control as set out in the internal control framework. • Helps fostering risk management ownership, through education and training for Divisional/Functional Heads and Managers; • Plans in detail and co-ordinates activity to achieve ongoing risk management reporting cycles within Automotive Axles Limited. • Arranges and

	facilitates risk committee meetings and presentations • Provides guidance on the framework used for risk assessment and advises the Risk Management Committee on best practice risk management initiatives

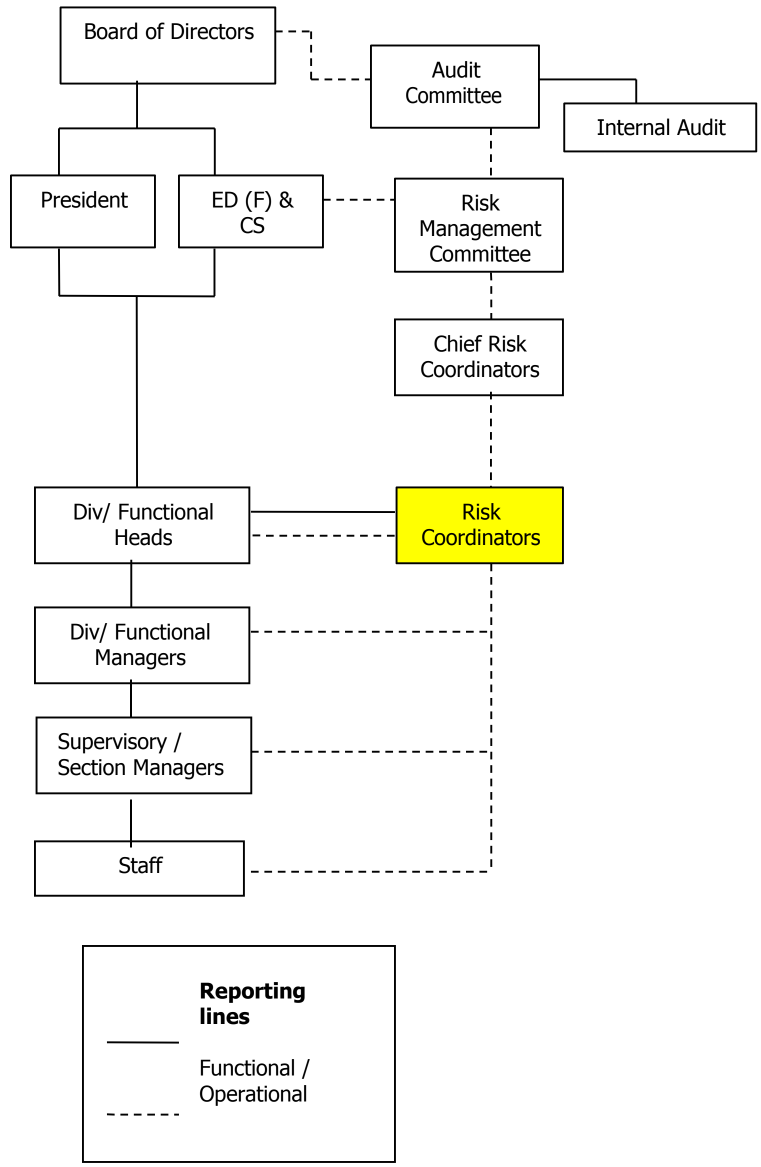
DIVISIONAL/FUNCTIONAL HEADS



- Ensure strategic level risks are identified and acted upon continuously;
- Identify risk coordinators, if applicable, and ensure that their operational and risk responsibilities are adequately balanced;
- Set operational and risk management KPI's for risk owners and coordinators and measure performance;
- Support the Risk Management Committee, CRC and Risk Coordinators by providing strategic risk information and working with them to follow up on the status of risks;
- Communicate the importance of risk management and foster a risk culture;
- Ensure that department personnel receive adequate risk management training and adopt best practices;
- Ensure that department and section managers, as well as supervisors are assessing and reporting risk within

	processes or projects on a regular basis; and Escalate/report significant risks from business processes or projects to the attention of the Risk Management Committee, CRC for discussion and monitoring.

RISK CO-ORDINATORS



Active role

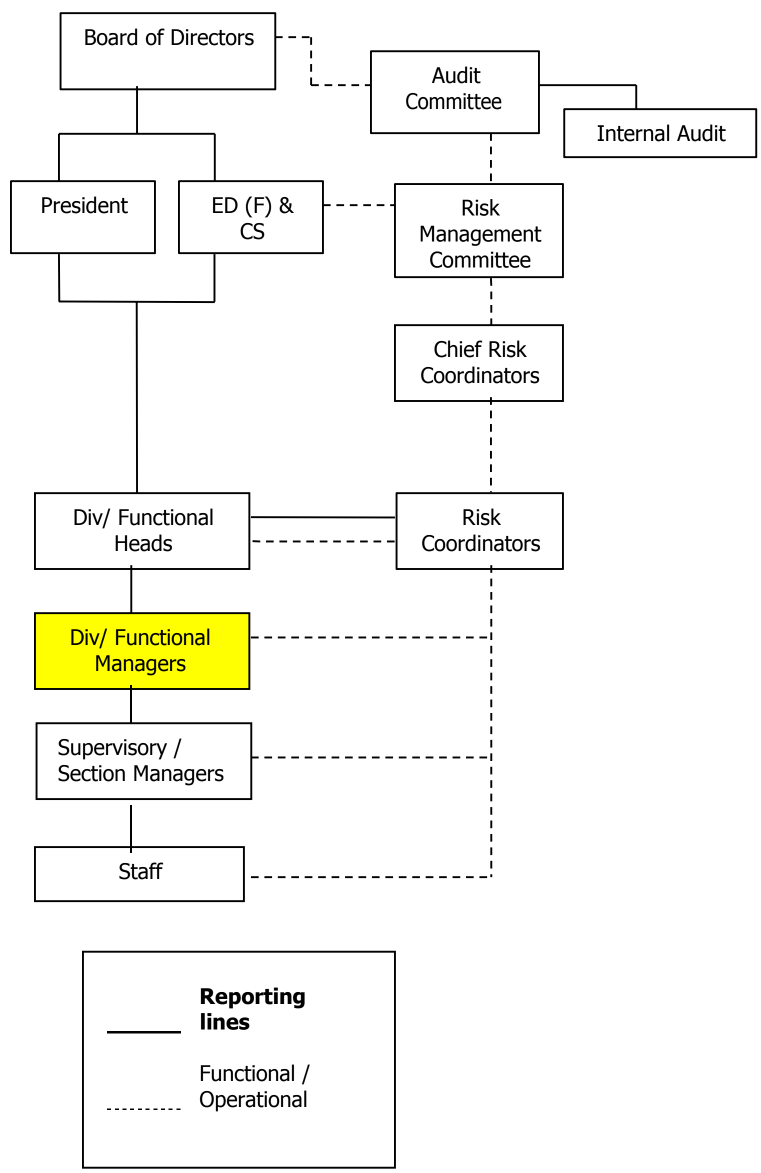
- Provide assistance to risk owners with the identification of risk responses and development of improvement action plans
- Help ensure proper risk management ownership by Head of Departments and Divisional Heads;
- Arrange and facilitate risk meetings, presentations and workshops involving staff in the division/function for which they are responsible;
- Collect and collate risk management information;
- Prepare risk management reports and submit on a timely basis; and
- Communicate difficulties in the execution of risk responsibilities to the Divisional/Functional Heads, or CRC.

Supportive Role

- Assist the CRC in building confidence and respect business-wide, at all levels, to gain acceptance for consistent risk

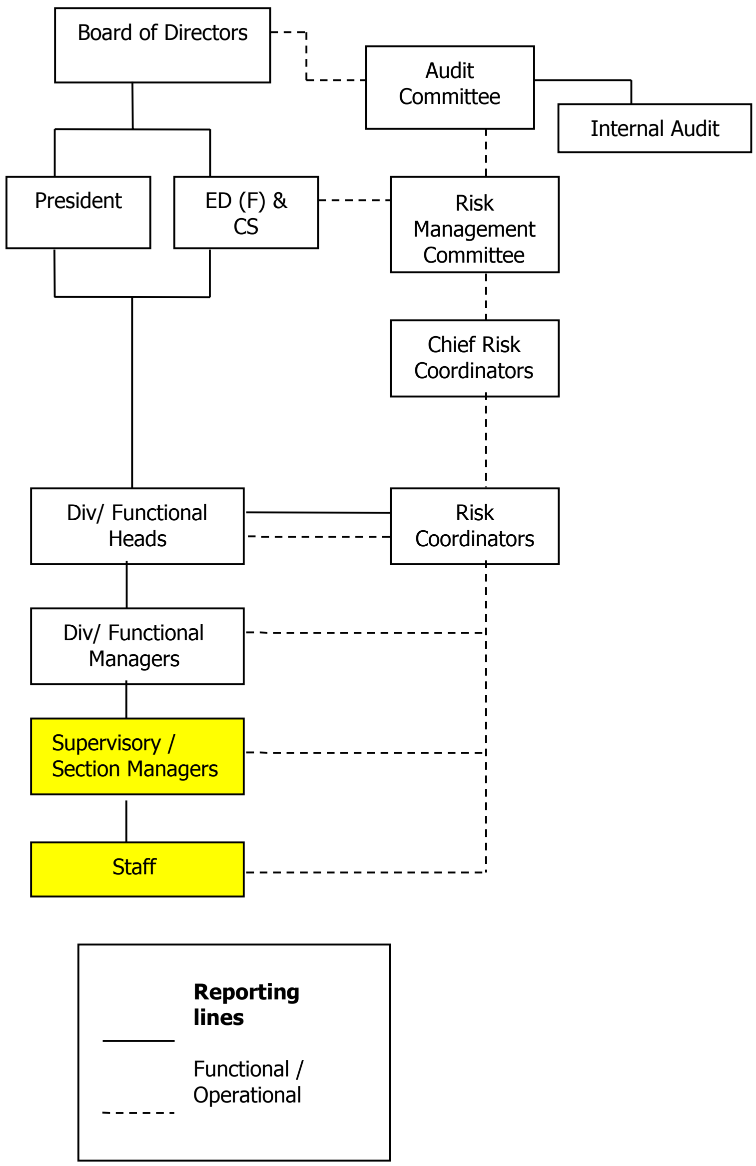
	management practices; • Assist the CRC to plan in detail, and co- ordinate activity to achieve ongoing risk management reporting cycles; and Assist the CRC to enable the Risk Management Committee to fulfil its responsibilities as stated in its Charter.

DIVISIONAL /FUNCTIONAL MANAGERS



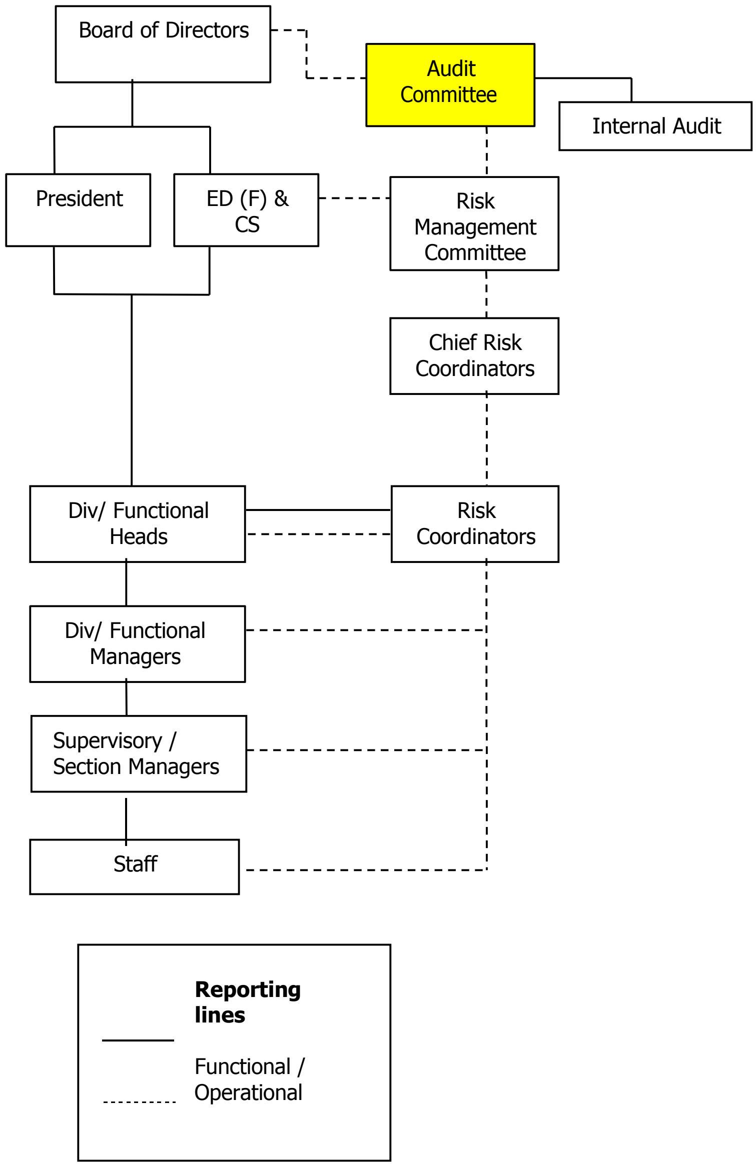
- Comply with Risk Management Policy;
- Ensure risks are identified and managed on a daily basis;
- Ensure risk management activities are executed reliably;
- Ensure risk is assessed within a formal risk management methodology, to be approved by the Risk Management Committee;
- Ensure inherent risks or business risk profiles associated with individual business functions and processes under their control are adequately and regularly assessed;
- Cooperate with CRC and risk coordinators;
- Ensure risk reports on the status of corrective actions are completed; and
- Ensure controls currently in place are operating effectively.

SUPERVISORY MANAGERS AND STAFF



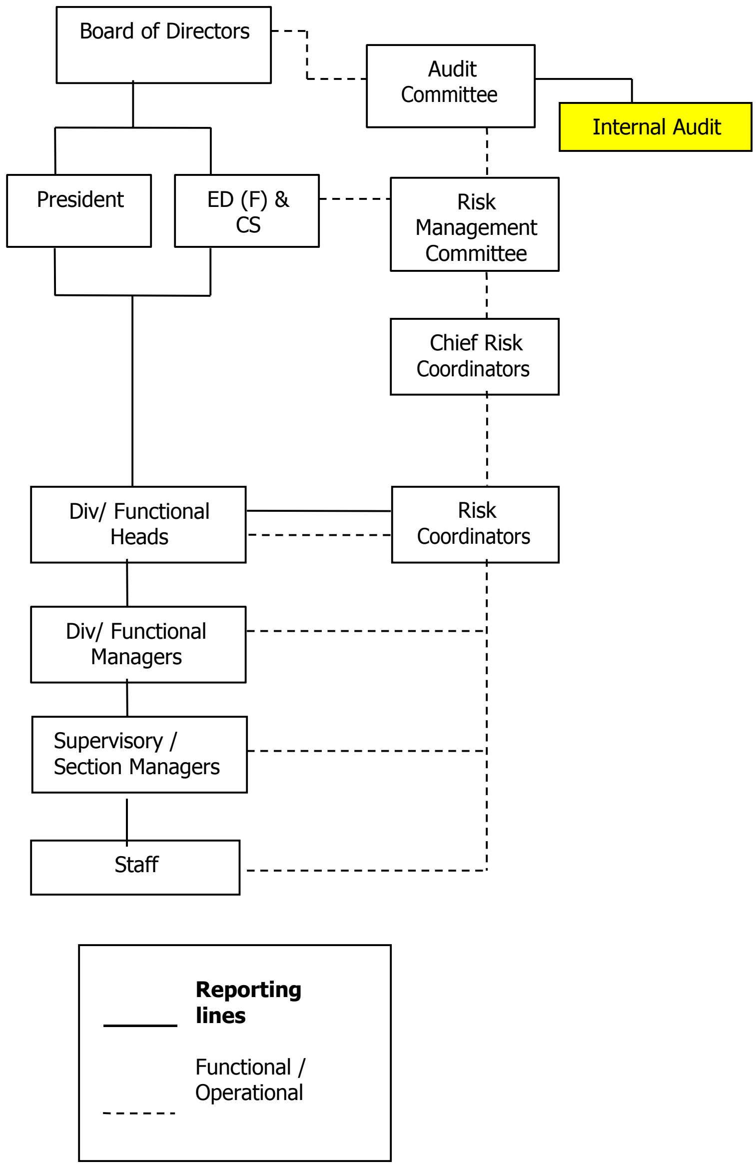
- Comply with Risk Management Policy;
- Promote awareness and raise risks or concerns with the Division/ Functional Risk Coordinators on a timely basis;
- Ensure that information systems and business assets within their control are adequately safeguarded;
- Ensure risks are identified and managed on a daily basis;
- Ensure controls currently in place are operating effectively; and
- Ensure that reports on the status of corrective actions are completed.

AUDIT COMMITTEE



- Ensures that the risk management committee functions effectively;
- Ensures that the adequacy of Automotive Axles Limited's risk management framework is being assessed and that action is taken if it is inadequate;
- Reports risk management committee activities and risk management information, including high priority risks and mitigation, to the Board;
- Understands risks and ensures that processes to manage them are effective;
- Ensures that high priority risks are included in the internal audit plans.

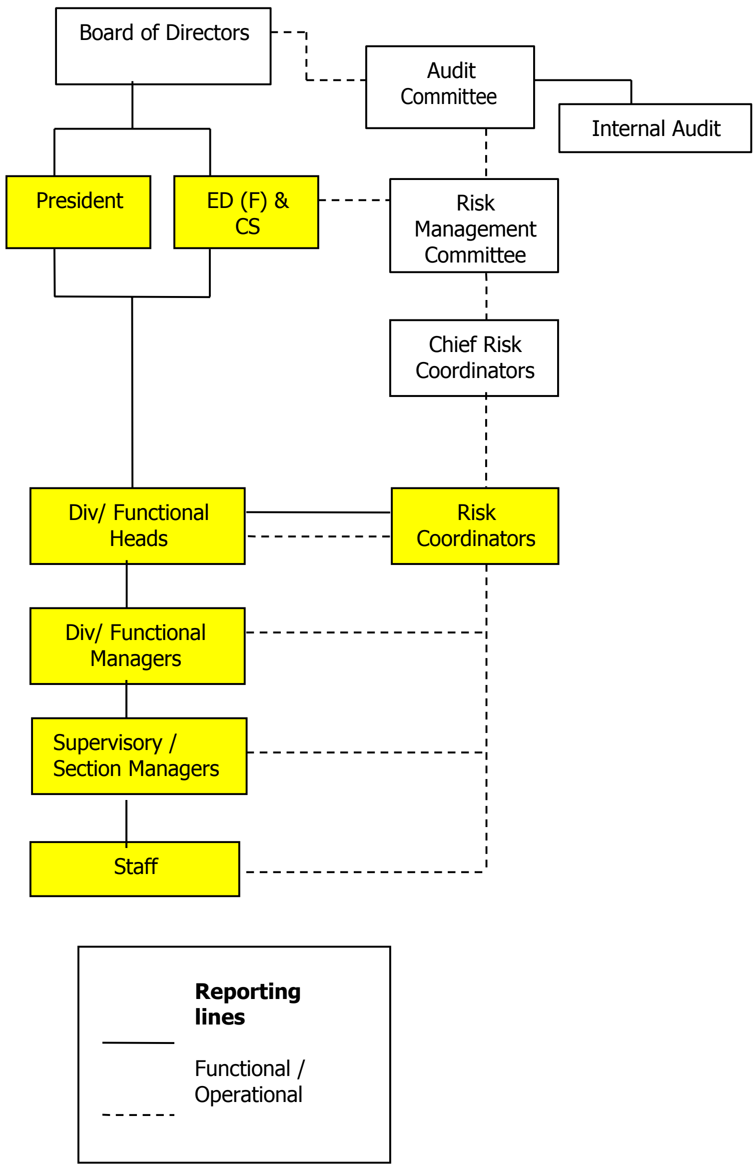
INTERNAL AUDIT



- Assists CEO, senior management, Board of Directors and Audit Committee in fulfilling responsibilities in monitoring systems of internal control and risks;
- Ensures Risk Management Policy has been fully complied with and implemented for those areas include in IA's scope;
- Communicates with the CRC to understand the risks within various facets of Automotive Axles Limited and takes account of such risks in internal audit work;
- Evaluates the adequacy and effectiveness of risk responses;
- Ensures that improvement action plans have been implemented as indicated;
- Facilitates and supports the risk management function;
- Communicates and share risk information gathered during the audit process with

	the CRC; and • Keeps abreast of global industry best practices and recommends such practices to Automotive Axles Limited, where appropriate.

RISK OWNERS



- Ensure compliance with Risk Management Policy
- Ensure that risks are identified continuously;
- Ensure risk indicators are identified and monitored;
- Ensure risk responses are identified and effectiveness assessed;
- Ensure effective controls are in place and complied with;
- Identify inadequate risk responses and develop improvement action plans and implementing the actions on time;
- Cooperate with the CRC and risk coordinators; and
- Complete monthly/ quarterly risk progress reports for action plan progress.

5. Risk Management Process

Risk management is used to:

- Exploit opportunities and gain competitive advantage
- Manage uncertainties
- Develop contingencies/fallback plans to minimize the impact of hazards or adverse events.

To achieve the above, an assessment of risks should be performed based on the identification of threats to the business, the probability of the occurrence and impact of those threats, and the subsequent evaluation of controls in place to mitigate risk – at all levels within Automotive Axles.

5.1 Risk Management – as a Business Process

Risk management is the overall process by which Automotive Axles must:

- Define its risk appetite, based on strategic objectives
- Identify and understand the full spectrum of its risks
- Assess the risks and means of mitigation on a cost/benefit basis in order to take informed action
- Monitor and report risks to ensure compliance with tolerable levels of acceptance.

This is represented in a *systematic 5-step process*:

Risk Management is a continuous rather than a "one-off" process. Due to the dynamic business environment, we must ensure that risks across Automotive Axles are reviewed regularly and countermeasures remain fit-for-purpose.

The 5 key steps in the process are:

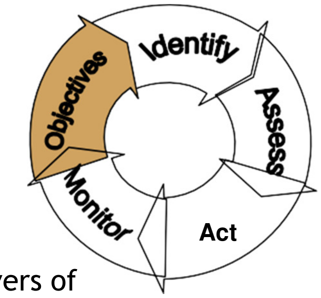
- Set objectives to align with Automotive Axles' corporate strategy
- Identify and understand the full spectrum of risks impacting the objectives
- Assess the risks by considering the impact and probability of the risk occurring
- Determine current risk responses to each risk and consider whether additional controls should be considered and the associated cost / benefits. Management should implement their preferred response and monitor control activities to ensure the response is implemented as intended.
- Monitor and report the effectiveness of processes and systems for managing risks.

Process improvement

As with any other business process, the risk management process should continuously be assessed to ensure it is effective and efficient and still meets the requirements of Automotive Axles. The Risk management Committee should ensure this process is adopted and implemented by all divisions, functions and business processes.

Details of each of the 5 steps are discussed in the following pages. The integration of these 5 steps into Automotive Axles' management processes is considered in Section 6 of this Manual.

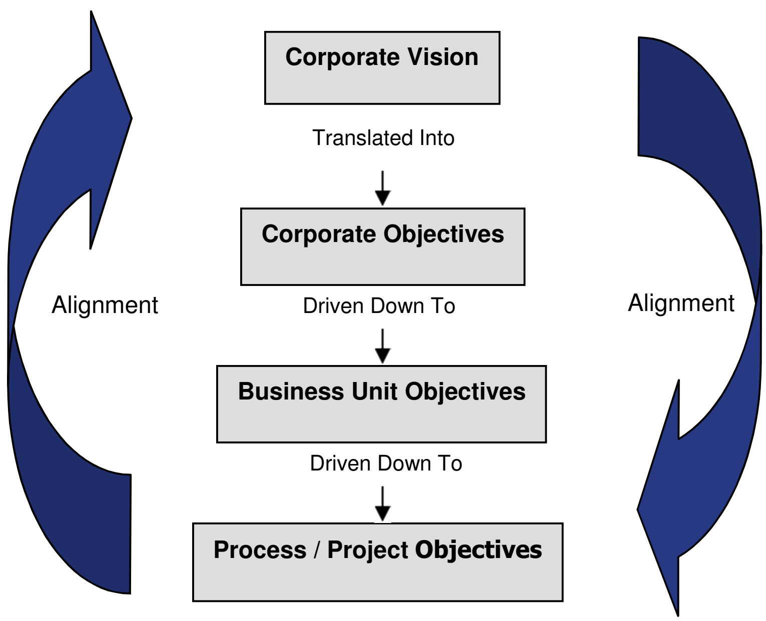
5.2 Set Business Objectives - Alignment



The first step in risk management is to understand the business environment in which Automotive Axles operates, its corporate objectives, and its calibrated strategic roadmap. All levels of management and staff should have an understanding of these in varying degrees of detail depending on their levels of responsibilities. Objectives then set by divisions, departments, processes and projects should be aligned with the corporate objectives, and may focus on financial, human resource, information technology, operational processes, health, quality, safety and environmental or other key drivers of the business.

Objectives also need to be aligned throughout Automotive Axles to ensure that personnel organisation-wide are contributing towards achieving corporate goals, and unnecessary activities are eliminated.

The following diagram illustrates the alignment throughout the organisation:



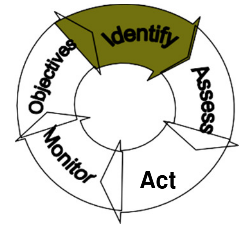
Setting SMART objectives

Objectives should be clearly articulated and, wherever possible, objectives should be written to follow what is commonly called the SMART approach, i.e. the characteristics of well-set objectives are that they are **S**pecific, **M**easurable, **A**chievable, **R**elevant, **T**ime bound. Refer to table below:

Criteria	Description	Objective (E.g.)
Specific	The objective should be well defined and clear to everyone about the desired outcome or output.	**Marketing and Logistics -** Increase sales margins by 10% through increasing selling prices or reducing the discounts by the end of 2006
Measurable	The objective should be measurable and the measurement source should be identified. If the objective cannot be measured, the question of funding non-measurable activities should be discussed and considered relative to the size of the investment.	**Human Resources -** Limit staff turnover by <15% per year
Achievable	The objective or expectation of what will be accomplished must be realistic given the market conditions, time period, resources allocated, etc.	**Information Technology -** System availability >X% by the end of 2006
Relevant	This means that the objectives' desired outcome or outputs are aligned with the higher-level objectives of the entity.	**Health, Safety & Environment -** Limit accidents or injuries by X cases per year
Time bound	This means stating clearly when the objective will be achieved.	**New Design -** Increase number of new designs to XX per annum by the end of 2006

5.3 Identify Risks

Risk identification is a process by which management and staff identify major risks throughout Automotive Axles, from the highest strategic to departmental level projects and through to day-to-day operational activities. The identification can be achieved in a number of ways.



Risk identification techniques

Risk identification can be carried out by an individual or by a group of individuals, such as a management team and other relevant personnel, using a variety of techniques and tools.

Workshops and interviews

Workshops and interviews are commonly used to identify risks. It may not always be appropriate or possible to consider risks under workshop conditions and a focused interview can often help to identify risks.

A skilled facilitator to ensure the workshop objectives are achieved in a structured and timely fashion should run workshops. Careful consideration by management should be given to who should be in the workshop. Workshop participants should cover all aspects of the objective being discussed. Each participant should have knowledge on the subject matter being discussed and be able to make a meaningful contribution to the discussion.

For example, consideration should be given to including participants that:

- are involved in the activity being discussed
- provide direct inputs into the activity
- receive outputs from the activity
- provide support services (such as Human Resources, Finance, Information Technology, EHS, Legal, etc)
- can provide an overview of current and future conditions that might impact the objective.

List of potential events

A list of potential events can provide a useful memory jogger or aid for considering risks. A list might be prepared from known internal events, advice from external experts, industry regulators and so on. It is important that any list of events is not considered to be a complete listing of all possible risks.

Brainstorming

Risk brainstorming sessions are an open-ended exploration of the potential events that could effect the achievement of the objective. A brainstorming session may involve several Business Units such as operations, marketing and logistics and supporting units, and use other sources of information such as internal surveys, historical reports/records and so on.

For example, brainstorming particular events might involve questions such as:
- What unexpected events could affect the process?
- What direct impacts might these events have on this process? On other processes?
- What impacts would these events have on critical resources?
- How long would the business take to recover from the event?
- What are the long-term consequences of an event on Automotive Axles as a whole?

Questionnaires

Carefully tailored questionnaires can also provide a useful technique for collecting risk information. The use of questionnaires to initially identify risks, which can then be collated and summarized, can also provide a useful starting point for a discussion in a risk workshop.

Comparison with other organisations

Research and comparison with other local and international organisations, might provide an insight into risks affecting Automotive Axles. For example, the research might reveal:

- infrequent events that have not yet occurred at Automotive Axles but that nevertheless pose a risk for Automotive Axles (particularly catastrophic losses)
- known events that other organizations experienced in dealing with situations that Automotive Axles will or may face in the future, such as re-structuring, changing legislation, or new technologies
- best practices.

Discussions with peers or internal analysis

Discussions with peers or conducting internal analysis into operating conditions can provide useful sources of information on events.

Leading event or key indicators

Leading event or key indicators may provide an indication of a potential risk. For example:

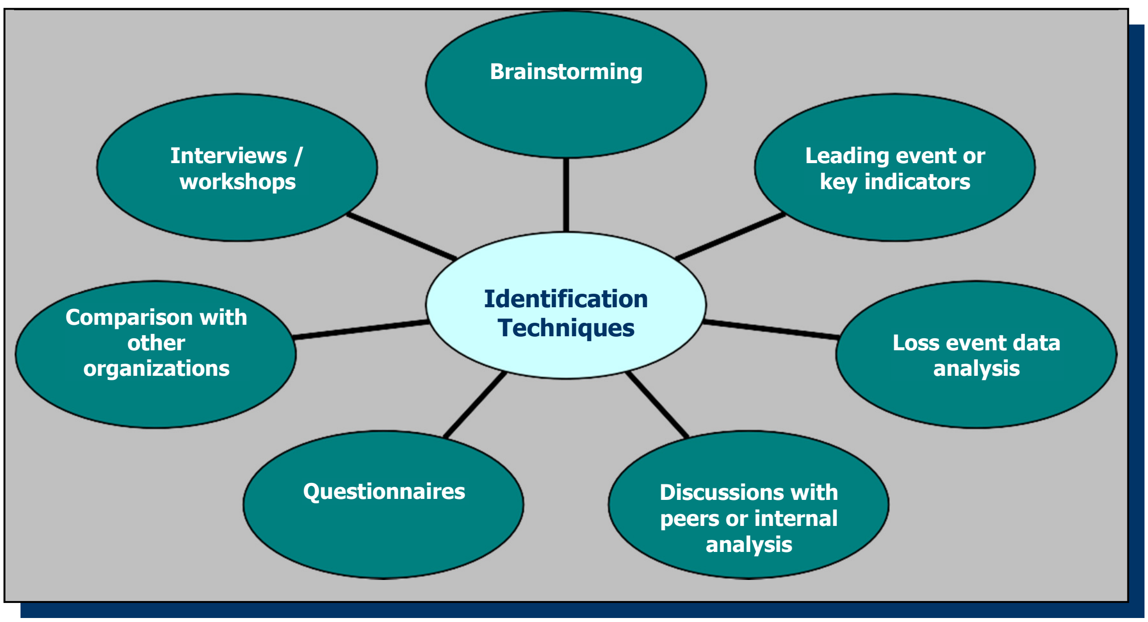
- a fall in customer satisfaction ratings may be an indicator of reduced future revenues
- a sustained increase in staff overtime may be an indicator that costs will rise and that the future quality of work may suffer
- the release of a government discussion paper may mean that rules and legislation may change in the future.

Loss event data analysis

If historical data is available on earnings, loss events, incidents or other data on risk factors, then an effective way to identify risk areas is by qualitative analysis of internal data. Any logs or records of loss events or large variances against expected results or budgets should be analysed to understand the potential causes of the events or results. Remember not to forget positive as well as negative surprises as large profits that are not well understood may be as dangerous as large losses that are understood.

Process flow analysis

Understanding the current state of operations or a description of a target best practice can provide the starting point for considering risks. The benefits of a formal description of core processes are enormous and not restricted to risk management. The description can be described in terms of process maps or general descriptions, or a combination of both.



Sources of risk

The risk identification process should identify risks ranging from the obvious to the obscure and risk should be considered in its broadest context. For example, consideration should be given to:

- Internal and external factors that give rise to risks. For example, these may include:
    - Internal factors: People, Technology, IT, Infrastructure
    - External factors: Regulations, Customers, Business Environment
- Potential adverse events (such as flood, fire or other natural disasters) or ongoing conditions (e.g. inefficient work practices or excessive rejections or downtime) that result in loss of value

- Past events, current exposures and future trends
- The pace of change
- Causes of events rather than their symptoms
- New initiatives or new products and services that Automotive Axles is seeking to develop
- Opportunities to release “hidden value” from Automotive Axles’ existing operations or to identify new value adding activities.

Below is an illustrative diagram of potential risk drivers.

5.4 Risk Categories

Risks identified at Automotive Axles will be grouped into similar types of risk called "Risk Categories". This will facilitate the coordinated management of risks across Automotive Axles.

Automotive Axles has adopted a function-based categorization to facilitate effective ownership, monitoring of risks across all divisions, functions and processes, as follows:

- Strategy and Planning (STR)
- Research, Development and Engineering (RDE)
- Marketing and Sales (MKT)
- Procurements and Inventory (PUR)
- Operations - Production, Maintenance and Quality (PMQ)
- Human Resource (HRS)
- Finance, Accounting, Costing and Regulatory Reporting (FIN)
- Environment, Health and Safety (EHS)
- Legal & Regulatory Compliance (LRC)
- Information Technology & Systems (ITS)

Some risk factors will impact more than one risk category. For example, a natural disaster can impact Operations and Information Technology. Or, the impact of a poorly considered objective is a risk associated with the Strategic risk category but it can influence all of the other categories.

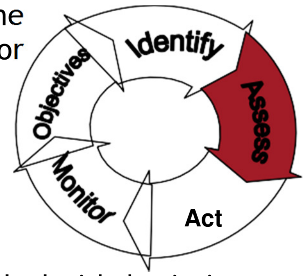
It is very important that management and staff at Automotive Axles adopt a logical and consistent approach to the categorization of risks to ensure the management of risks at the Automotive Axles level is efficient and effective.

Causes of events

When analyzing events as part of the risk identification process, attention should be directed towards the **root causes** of the events rather than their symptoms. Addressing the ultimate cause of a loss is usually more cost-effective than dealing with the symptoms of the loss. For example, a risk might best be managed by re-designing a process or system to 'design-out' the risk through process re-engineering. This risk response may be more appropriate than continually dealing with individual issues caused by a poorly designed process or system.

In examining the causes of past loss events, management and staff should be aware that major loss events sometimes occur because of a combination of failures. An example would be a loss caused by the failure of a process <u>and</u> the failure of a control intended to identify that the failure had occurred.

5.5 Assess Risks



Once risks have been identified, risks should be evaluated to determine which are of an unacceptable nature and which should be targeted for mitigation. In order to do this, risks must be prioritized by evaluating the potential impact on business objectives if a risk were to materialize, together with the probability of occurrence.

We should consider the risks on the inherent risk basis. The residual risk basis is assessed during the mitigation step. Inherent risk is the risk in the absence of any actions taken by us to alter either the risk's probability or its impact. Residual risk is the risk that remains after we have responded to the risk.

During the assessment step, risks should be always be assessed on the inherent basis, i.e. before risk responses and controls.

In order to do this, risks must be assessed by evaluating the uncertainty of events or conditions in terms of:

- the ***probability*** of a risk occurring
- the potential ***impact*** if it does.

Factors for evaluation are:

Impact

The assessment of a risk should take into account both **financial and non-financial impact**. For example, impact can be measured in terms of the direct or indirect financial loss, and other non-financial performance measures such as employee welfare, environment, community and reputation.

It is not often a simple exercise to quantify or attribute a financial value to a risk. In these circumstances it is often sufficient, at least for the initial risk assessment purposes, to consider impact in qualitative terms. Determining how much attention should be given to assessing risks is difficult and challenging. Risks with little potential impact **and** low probability of occurring do not require further attention, whereas a risk with a significant potential impact **and** high probability of occurrence will require immediate and senior management attention.

Impact can be expressed in terms such as expected or worst case value, or a range or distribution of options. Specific risks will attract different methods of measuring impact.

The table below provides some examples for each sensitivity:

Sensitivities	Examples
Financial Impact	Reduction or delayed achievement of revenue, net profit, cash flow or Automotive Axles' assets
Entity-wide level	Failure to meet corporate or business unit objectives
Human Resources	Staff turnover, loss of key staff or morale problem
Reputation	Press coverage
Systems	Disruption to IT system or breach of customer data security
Regulation	Regulatory breach
Business Continuity	Disruptions to business operations and processes

Probability

Assessing the probability of risks occurring can also be challenging. There may be little available data to support a precise estimate and a qualitative assessment must be made using rational and careful analysis. Where data is available, the past history of events, failures or frequency of occurrence may be considered indicative of the future and can provide a more mathematically precise estimate.

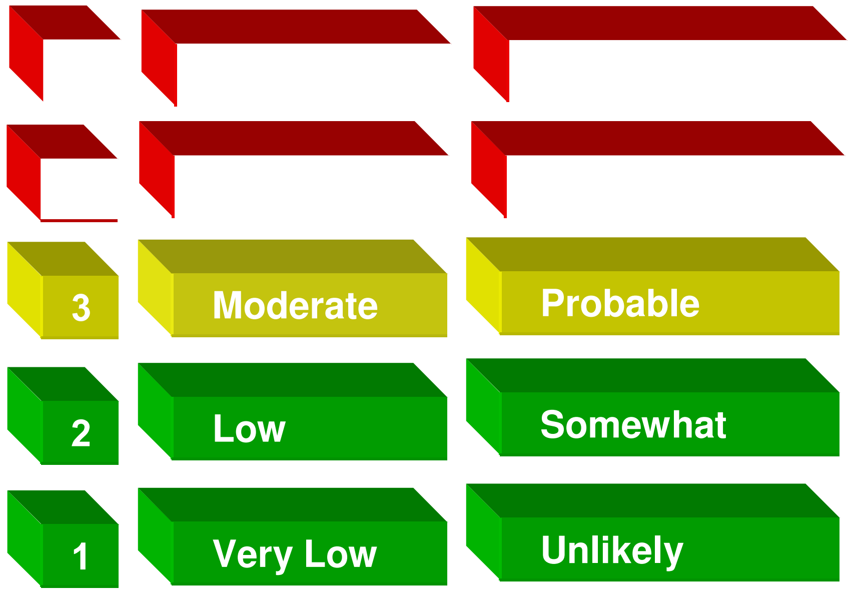
The assessment of probability is dependent on the time horizon selected. For example, the risk of heavy rains in Pune in the next 10 years is virtually certain, but the probability of it occurring in the next 12 months could be much lower. Therefore, when considering probability, management must be clear about the time frame they are considering but should not ignore the risks that may occur in the longer term.

The results of the risk assessment will enable management to:

- Compare the risks with the risk strategy and policy
- Identify those risks that are unacceptable to Automotive Axles
- Provide a basis for selecting and prioritizing appropriate actions to mitigate the risks.

Rating scale and Exposure Matrix

Automotive Axles has adopted a qualitative rating scale of 1 to 5 for probability and impact, as follows:



The exposure for each risk will be computed on the basis of the adopted qualitative rating scale, and by the model risk exposure matrix below

IMPACT						
	5	5	10	15	20	25
	4	4	8	12	16	20
	3	3	6	9	12	15
	2	2	4	6	8	10
	1	1	2	3	4	5
	0	1	2	3	4	5

PROBABILITY

As evident from the above Rating Scale and Exposure Model, multiplying the Impact Score with Probability Score reflects the Exposure. Exposure score is further classified into High, Moderate and Low as follows:

Exposure Score	Risk Rating
Upto 4	Low
5 to 10	Moderate
12 to 25	High

An illustrative guide to assess the impact and probability of both negative events and opportunities is given in the following pages.

In assessing the impact and probability of risks, the following scale can be used as a guideline, but not to be followed strictly.

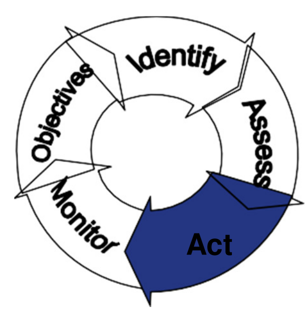
Sensitivity/ Assessment	1	2	3	4	5
Financial impact (INR)	<1 Cr. on sales. Negligible impact on EBIDTA loss	Upto 1 Cr. impact on sales or 15 Lac on EBIDTA	B/w 1 – 5 Cr. on sales or 15 – 75 Lac on EBIDTA	B/w 5-10 Cr on sales or 75-150 Lac on EBIDTA	More than 10 Cr. on sales or 1.5 Cr. on EBIDTA
Entity-wide level	No impact on achieving business objectives	Very little impact on achieving business objectives	Moderate impact on achieving business objectives	Significant impact on the organization's viability or achievement of its strategic/operational objectives	Failure to meet organization's strategy; business viability threatened
Human Resources	Negligible attrition rate, routine HR matters	Negligible attrition rate, moderate concerns	Moderate morale problems;	Widespread morale problems; key individuals leave	Major industrial action; large number of key employees leave
Reputation	No impact, no press coverage	Minor impact, coverage in several local newspapers (1- 2 days)	Moderate impact, coverage in several regional	Significant impact on reputation resulting in a 10% or	Significant impact on reputation resulting in a 10% or

Sensitivity/Assessment	1	2	3	4	5
			newspapers (2 - 5 days)	more drop in share price and extensive front page coverage in India and overseas	more drop in share price and extensive front page coverage in India and overseas
Systems	Irrelevant adverse events	Disruption to minor IT system but no significant loss	Disruption to moderate IT system but no significant loss	Disruption to significant IT system and significant loss	Complete loss of critical IT system and significant breach of integrity of customer or business data
Regulatory	Regulatory breach with minimal consequences and readily rectified	Regulatory breach with some financial consequences and readily rectified	Regulatory breach with moderate financial and some reputation consequences and readily rectified	Regulatory breach with material consequence but which can be readily rectified	Large scale action, material breach of legislation with very significant financial or reputation consequences
Business Continuity	No disruptions in business operations and processes	Little disruptions in business operations and processes	Moderate disruptions in business operations and processes	Significant disruption in business operations and processes	Discontinuance of a business unit or business operations and processes interruptions for two months
Social responsibility	No political and/or community sensitivity	Minimal political and/or community sensitivity	Moderate political and/or community sensitivity	High political and/or community sensitivity	Significant political and/or community sensitivity

Probability of Occurrence - Hazards		
Assessment	**Description**	**Indicators**
5	**Certain** Likely to occur in, say, the next coming months	• Potential of occurring every year; • Has occurred in the last year; • Inherent to this type of operation due to external influences; • Expected to occur at least once a year.
4	**Almost Certain** Likely to occur several times within the year	
3	**Probable** Likely to occur in, say, the next 3 years	• Could occur more than once within the next ten years; • Has occurred within the last five years; • Can be difficult to control due to some external influences; and • Would be expected if it occurred.
2	**Somewhat** Likely to occur in, say, the next 5 years	• Has not occurred in this country; • Would be unexpected if it occurred; • Very unlikely to occur; and • Theoretically impossible.
1	**Unlikely** Unlikely to occur in say the next 5 - 10 years	

Probability of Occurrence – Opportunities		
Assessment	**Description**	**Indicators**
5	**Certain** Favourable outcome will be achieved in a x-year timeframe.	Clear opportunity, which can be relied on with reasonable certainty to be achieved in the short term, based on current management processes.
4	**Almost Certain** Favourable outcome will be achieved in a x-year timeframe.	
3	**Probable** Reasonable prospects of favourable outcome in x-year timeframe.	Opportunity which may be achievable, but which requires careful management.
2	**Somewhat** Reasonable chance of favourable outcome in more than x year.	Opportunity, which does not fit into the business strategy and requires a total redesign of management processes.
1	**Unlikely** Reasonable chance of favourable outcome in more than x year.	

5.6 Mitigate Risks



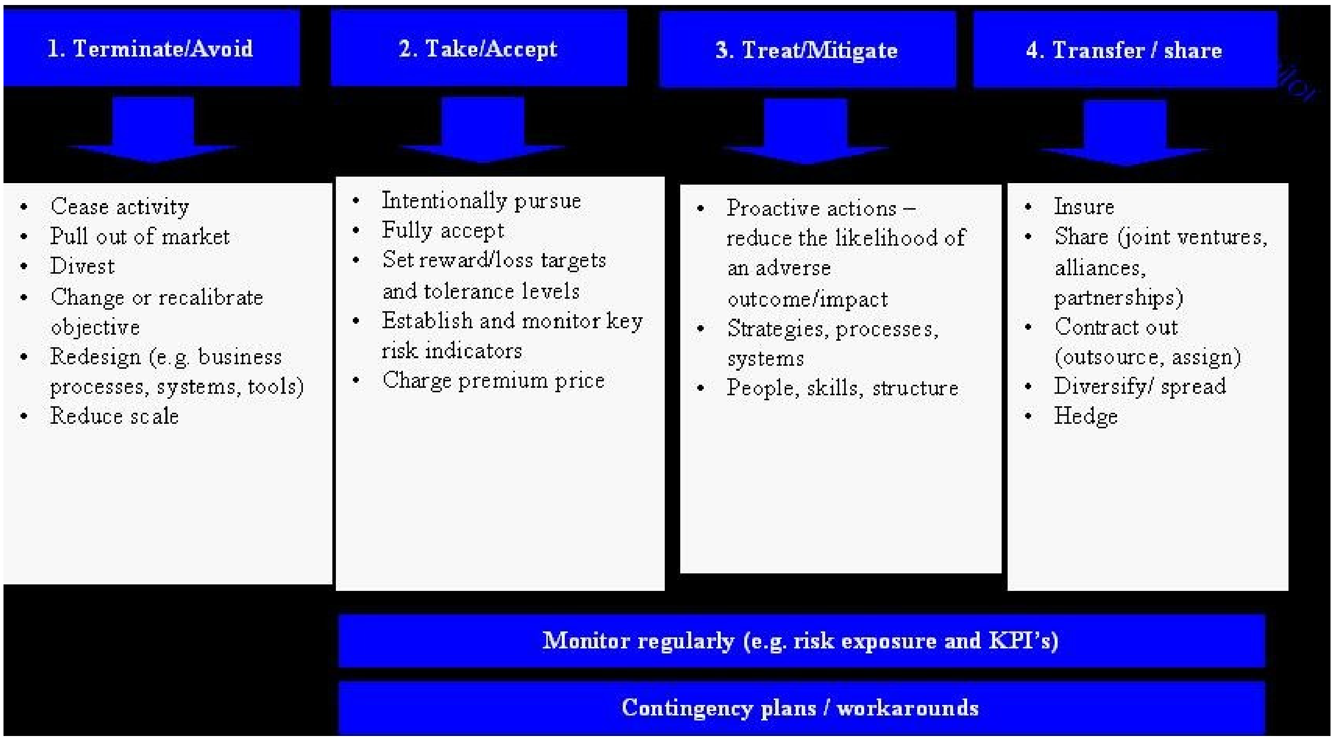
Mitigation consists of risk responses and control activities. For each risk, risk owners have to be identified who will be responsible to ensure adequate risk responses are in place. In general, Risk Owners are charged with the responsibility of making recommendations on appropriate Risk Management Plans/Improvement Plans for unacceptable risks.

Risk Responses

We need to identify risk response options and considers their effect on probability and impact, in relation to risk tolerances and costs versus benefits, and design and response options. Effective risk responses should bring risk probability and impact within Automotive Axles' risk tolerance. Risk responses fall within the categories of risk termination, treatment, transfer or acceptance – also called the **4T's risk strategies.**

Often, the development of risk responses for "complex" or multi-dimensional risks can involve cross-function personnel and senior executives. In such cases, good communication is essential to ensure that relevant personnel within Automotive Axles are aware of what is being done, what role they have to play and when they must act.

Examples of the 4T's are:



Risk response categories can be summarised as follow:

Risk category/strategy	Risk Responses
Termination/Avoid	Actions to exit the activity that causes the risk e.g. terminate operations in countries with high political risks.
Take/Accept	Take no action to affect probability and impact, e.g. steel price fluctuation.
Treat/Reduce	Actions to reduce the probability, impact or both, e.g. preventative maintenance to prevent production interruptions.
Transfer/Share	Actions to reduce the probability or impact by transfer the full or portion of the risk, e.g. hedging of currencies, insurance for fire, etc.

For all each critical and significant risk (rating 4 – 5), all potential risk responses and response categories should be considered. The risks should now be calibrated on a residual basis to establish whether the risk responses, both in terms of their effectiveness in reducing the probability of a given risk and their effectiveness in reducing the impact should it occur.

We should recognize that some level of residual risk will always exist, not only because of limited resources, but also due to the inherent future uncertainty and limitations in all activities.

Risk responses or actions are classified into two categories – existing and non-existing or required actions. Where responses to risks have not yet been developed (for example in the case of a new process), or the current risk responses are not sufficient, alternative or additional actions should be considered and the selected action implemented.

It is essential that ownership of these actions be assigned and communicated to ensure they are implemented and operating satisfactorily.

Control activities

Control activities are the policies and procedures that help ensure risk responses are properly executed, and occur throughout Automotive Axles, at all levels and in all functions. They are part of the process by which Automotive Axles strives to achieve its business objectives. They usually involve two elements:

- a policy – what should be done, e.g. foreign exchange hedging policy
- procedures – to affect the policy, e.g. regular financial advisor's advice on currency fluctuations.

Widespread reliance on information systems requires controls over significant systems. The information system control activities can be categorized into two categories:

- general controls – controls over information technology management, information technology infrastructure, security management and software acquisition, development and maintenance of systems
- application controls – computerised steps with application e.g. procurement, to control the technology application, and are designed to ensure completeness, accuracy, authorisation and validity of data capture and transaction processing.

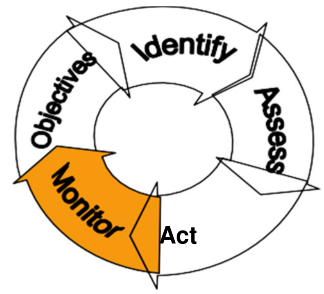
These controls combined with manual controls ensure completeness, accuracy and validity of information. All controls can be categorized into:

- **Preventative controls -** focus on preventing an error or irregularity, e.g. login password
- **Detective controls -** focus on identifying when an error or irregularity has occurred e.g. an exceptions report
- **Corrective controls -** focus on recovering from, repairing the damage from, or minimizing the cost of an error or irregularity, e.g. account reconciliation.

Example of risk responses and control activity

Risk Response	Control Activity
Risk: Unfavourable changes to the exchange rate	
• A formal policy has been formalise and approved by the Board regarding maximum open/un-hedged currency • Procedures have been formalised how to execute the policy	• Regular consultation with financial analysts • Concluding and approval of FX contracts • Daily monitoring of the open positions
Risk: Lack of preventative maintenance planning and execution	
• A policy has been adopted that all critical equipment should be maintained • Procedures are formalised how to perform preventative maintenance	• A computerised maintenance system is in use listing all critical equipment and components linked to maintenance targets, e.g. dates or production hours, etc. • A week before maintenance period, a report is printed and reviewed for reasonability • Job cards are automatically produced and daily followed up on status • Monthly variances from planned maintenance and unscheduled maintenance are reported

5.7 Monitor and Report



Monitoring is a process that assesses both the presence and functioning of its components and the quality of their performance over time. Monitoring can be done through ongoing activities or separate evaluations. Ongoing monitoring is performed real-time and ensures that risk management continues to be applied at all levels and across Automotive Axles. This is primarily designed to focus on compliance with defined risk responses or actions.

Monitoring activities are part of the framework itself, and as such will typically be carried out by people ***within the business*** (although exceptions may be made and outside services engaged e.g. for some types of compliance verification, surveys, investigations).

Key aspects in monitoring are:

- Assessment of the quality and appropriateness of risk responses and control activities
- Implementation of mitigating actions, including the extent to which identifiable risks can be transferred outside Automotive Axles
- Ensuring that monitoring reports are received from all areas within Automotive Axles on a regular basis.

A key component of monitoring is communication. Proactive and frequent communication should be encouraged in various forums, for example department meetings, monthly reports etc, to review the status of risks and action plans. This will facilitate the right types of risk-related information being available and decision making in a timely manner.

Internal audit's role

Internal audit can play an important role in assisting senior management in the monitoring of risks. It is best practice that internal audit includes high-risk business areas in their risk-based internal audit plan. As part of the internal audit fieldwork, internal audit would evaluate whether the risk responses (controls) implemented by management are effective in minimizing the risks. Internal audit may also identify other risk areas during their work that they should share with management, the Risk Management Committee, the CRC and Risk Coordinators. Risk management and internal audit should liase and communicate regularly.

Awareness and Communications

Awareness of risk within Automotive Axles is a key component for identifying and subsequently taking appropriate action to mitigate risks. Equally important is communication within Automotive Axles to facilitate information flows that ensure effective decision-making.

Communication of risk in itself may not successfully resolve all risk management issues, however, inadequate communication will almost certainly lead to failure to develop acceptable risk policies and prevent risk mitigation from occurring in a timely manner.

Risk communication is a key element of effective decision-making. Risk management requires a culture that embraces openness, responsiveness, trust and participation throughout the risk management process.

A “blame-free” and positive approach is necessary to encourage staff involvement, with an “incident management” and lessons learnt process established for the effective management of incidents, near misses and other concerns.

As such, Automotive Axles is committed to risk management training and communication by:

- Promoting risk awareness throughout the organisation
- Ensuring appropriately skilled resources are made available to manage risk to the required standard
- Ensuring management encourages a “risk awareness culture” within the organisation
- Providing risk management training and task-related risks, where appropriate.

Ongoing training and communication of risks to the business are essential components of risk mitigation measures. As such, the Risk Management Committee will ensure that senior management translates these commitments into actions that are driven and made alive throughout Automotive Axles.

Achieved Through Structure

In order to ensure that risk management activities are clearly understood and executed, management of Automotive Axles has defined an organization structure for risk management with individual roles and responsibilities.

Whilst ultimate responsibility for risk management rests with the Board, it is essential that:

- Every member of Automotive Axles clearly understands their individual role in the risk management process; and
- Automotive Axles creates a risk-aware environment and culture, which supports the identification and measurement of risk-related issues.

Achieved Through Daily Initiatives

On a day-to-day basis, management and staff should be aware of what risk management means and how it should be applied. Examples of how this can be achieved include:

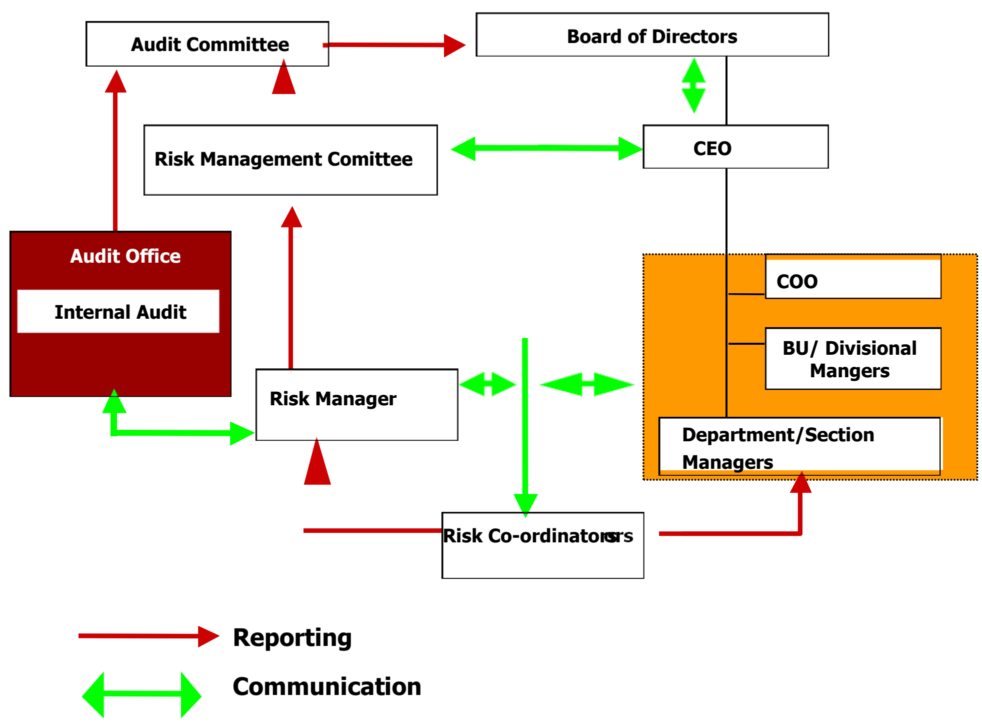
- Distribution of the policy manual to all management teams, with guidance on what is expected from them
- Explanation to new staff of how risk management is applied within Automotive Axles
- Including risk management and in particular significant risks, as a standard agenda item for management meetings

- Application of the risk management process to significant projects
- Involvement of management team members, individually or collectively, to review the appropriateness of risk responses and in monitoring their effectiveness
- Providing staff with easy access to the relevant risk profiles and risk responses, for example through the intranet or web-portal.
- Monitoring Risk-based Key Performance Indicators (RKPI's).

Management and staff are responsible for implementing risk management in their departments and work areas.

Communication and reporting are key components of the risk management framework. This section focuses on reporting structures and formats when identifying and managing risks.

Risks will have "owners", persons assigned responsibility for ensuring the successful management of a particular risk. On a periodic basis, these owners will be required to demonstrate the extent to which they are successful in discharging their assigned responsibilities. The chart below describes the general principle by which risk ownership and accountability is assigned throughout Automotive Axles:



Reviewer of Report and Name of Risk Report	*Frequency*	*Prepared by*
Board of Directors		
Report on Corporate Level Risk Profile, including: • High priority risks – Tier I (aggregate 12 score of probability and impact) • Broad strategies for risk responses	Quarterly	Risk Management Committee
Updated report on Automotive Axles risk profile, including: • Progress report on risk responses • Report on risks requiring Board attention	At least two time a year	Risk Management Committee
Risk Management Committee		
Report on risk profile, including: • Tier I and Tier II risk profile – Strategy – Operations – People and Processes – Finance – IT – HR – New projects etc. • Detailed risk response and risk owners for each of the Tier I and Tier II risks • Progress on action plans • Report on any matters requiring attention by the Risk Management Committee	Quarterly/ Ad-hoc	Chief Risk Coordinator
Report on Corporate Level risks • Tier I and Tier II Automotive Axles Corporate Level risk profile with any updates • Detailed risk response and risk owners for each of the top risks • Progress on any action plans • Any risks or matters requiring special attention by the Risk Management Committee	Quarterly/ Ad-hoc	Chief Risk Coordinator
Report on implementation and compliance with the Automotive Axles's Risk Management framework	Quarterly/ Ad-hoc	Chief Risk Coordinator
Any industry best practice methodology and process	Ad hoc	Chief Risk Coordinator

Content of Reporting: Principles

- Risk information should be clear but concise to enable personnel to influence or make current or future decisions.

- Initial reporting will focus on presenting overall risks and mitigation actions at the corporate/process/project levels. Subsequent routine reporting will encompass reporting material issues on a monthly/quarterly basis and overall risk profiles on a quarterly basis.

- Escalation of risk is envisaged for critical (rated 4 and 5) risks (both impact and probability).

With regard to risk management responsibility, the information provided will allow:

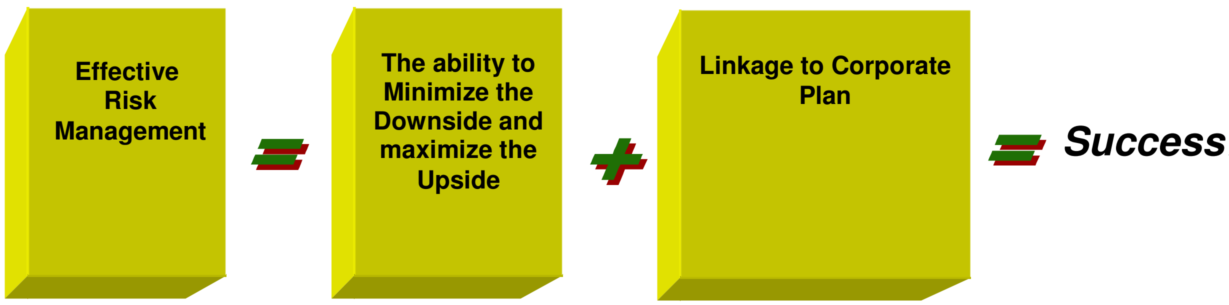
- The Board to ascertain whether Automotive Axles's overall corporate risk profile is consistent with approved risk strategies, and determine whether the delegation of risk management duties is effective and provides strategic insight where necessary.
- Senior executives to identify and understand emerging risks and determine the effectiveness of risk mitigation actions at the strategic and key operational levels.
- Division managers to confirm that controls over key risks have been implemented/ executed successfully and failures/"near misses" have been escalated.

Reporting Documents: "Risk Matrix", "Heat Maps" and "Risk Register"

To promote consistency throughout Automotive Axles, information on significant risks is to be analyzed and presented in "Risk Matrix", "Heat Map" and "Risk Register".

6. Implementation & Integration

Although Risk Management is a business process, it is not a process that functions in isolation. Risk Management is also not an activity that we do for a certain time during the day or week but is something that we do day-to-day as part of our jobs. For Risk Management to be effective, it needs to be linked and integrated with all business processes, from Strategic Planning process to all operational processes.

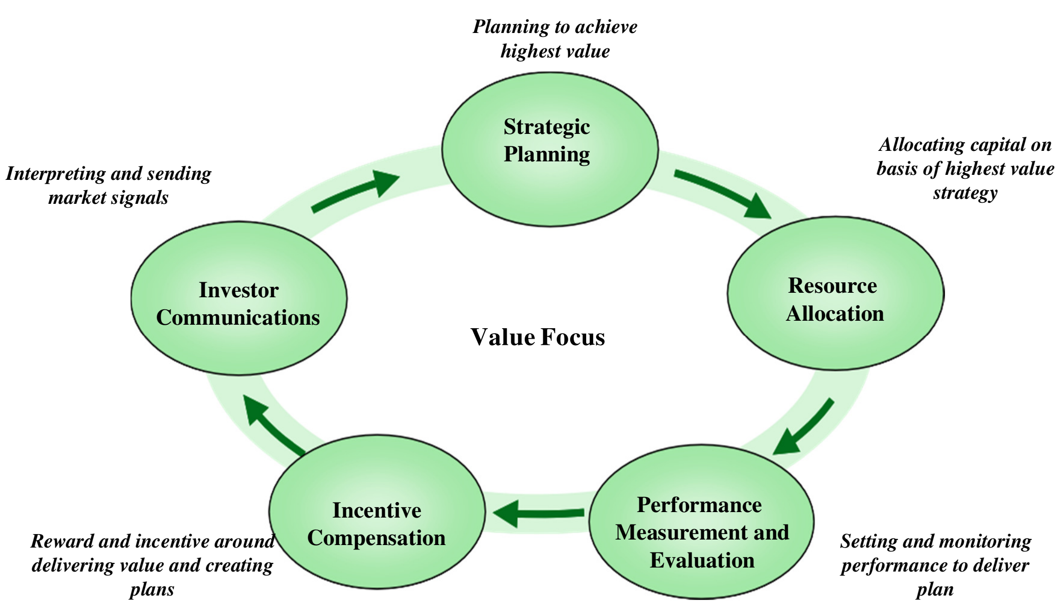


Linkage to Corporate Planning

Automotive Axles's Risk Management Manual is designed to help us achieve our business objectives through the alignment of our vision, mission and strategies with day-to-day activities. Therefore, the risk management process has to be integrated with Automotive Axles's planning, day-to-day operations and measurement processes. The integration of risk management starts with the Strategic Planning Process.

Automotive Axles has adopted the "Value Based Management (VBM)" concept and framework for Strategic Planning. Although this section of the Manual is not intended to explain all the concepts and terminologies associated with VBM, some basic understanding is required for risk management purposes.

A value-based culture is developed and sustained by continuously applying a value focus across all stages of the management cycle. The VBM process is illustrated below:



Corporate Strategic Planning

Each year Automotive Axles has a Strategic Planning Cycle. It starts at Corporate level and focuses on reviewing Automotive Axles's current Vision, Mission and Strategic objectives and identifying new objectives. The Corporate strategic planning phase includes Board members, executive and senior managers. During this stage, risks are identified which may impact Automotive Axles's vision and mission statement, as well as its Strategic Objectives.

Business Unit, Process and Department Strategic Planning

After the approval of Automotive Axles's Vision, Mission Statements and Strategic Objectives, the Strategic Planning Cycle is rolled out to the Business Units, Business Process Owners and Departments. Each Business Unit, Business Process Owners and Departments should identify their business strategies and contribution to achieve the corporate strategies and objectives.

For each business strategy, management should consider the value to be created by the respective business strategies so as to be able to differentiate and choose between alternative strategies. Key value drivers are identified that can optimise the achievement of the approved strategic objectives. During the setting and consideration of different business strategies, management should consider the risks by applying the corporate risk management process,that may prevent the business unit, process or department from achieving their business strategies. Section 5.2 provides an example of how strategic objectives and business unit, process and department objectives should be aligned.

The diagram below illustrate how risk management is integrated with the strategic planning process.

Risks are identified which may prevent initiatives from creating value (opportunity), as well as risks that may prevent initiatives happening.

Set out below is a perspective on how the risk process could be integrated within Automotive Axles for the points illustrated above.

Vision and Mission

The vision and mission represent the starting point for setting Automotive Axles's overall priorities. They establish the direction for Automotive Axles's future and provide a focus for the core business processes and operations. Both the vision and mission are approved by the Board of Directors, and broadly communicated throughout the organization.

Periodically, Automotive Axles will evaluate its mission and vision, and the risk process will be an important component of this evaluation. Risks, including potential threats to achievement of the mission and vision, as well as opportunities for exploitation, will be identified and assessed. We will consider these risks in determining the nature and direction of our business strategy.

Strategic Objectives

Remaining focused on the mission; Automotive Axles will make active decisions on balancing the needs of stakeholders, risks and opportunities, and develop a set of corporate objectives.

Business objectives, aligned with the corporate objectives, will be identified for each business unit and department and specific performance targets will be set for each of these objectives. The risks that might prevent the achievement of each objective should be identified and assessed. In prioritizing these risks, we would consider both the relative importance of the respective objectives and the potential impact of each risk.

Our response to key risks should be addressed in each business unit and department's business plans. The performance measurement process could integrate, and should consider, the key risks and selected risk response strategies in determining the targets to be established for each business objective. This will facilitate ongoing monitoring of performance and risks.

Business Divisions and Departments

Business divisions and department plans would include actions required to translate corporate and business objectives into business division or department objectives that should be used at this stage to identify specific risks that might prevent achievement of objectives for each business division or department.

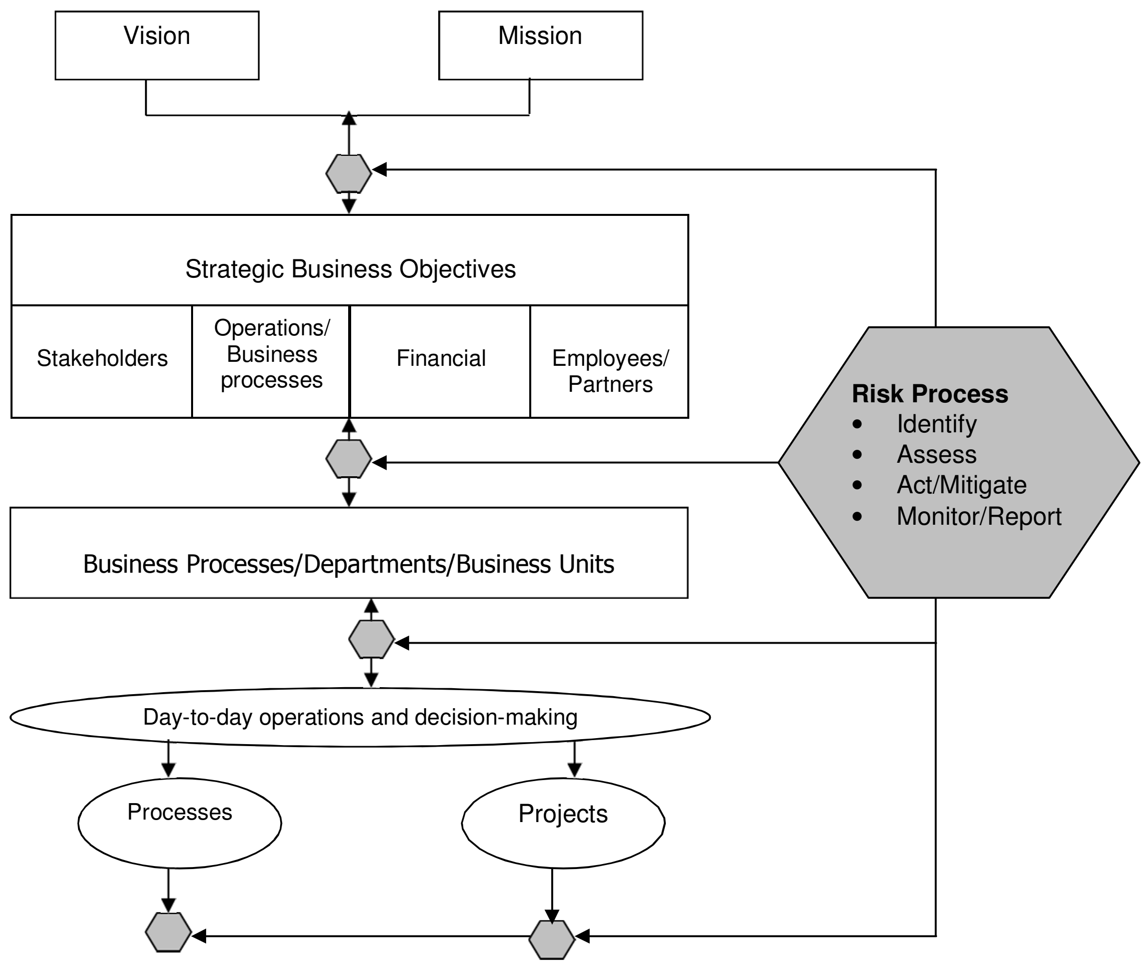
While both internal and external factors pose risks to day-to-day operations, the risk process at this level should also consider the risks of delivering on expectations to support Automotive Axles's vision and mission initiatives. Each business division or department should determine its risk response actions. These actions will serve as the basis for setting the priorities of their people.

Day-to-day operations

Automotive Axles management and staff are accountable for achieving the objectives established in the business division or department business plans. They are also accountable for establishing appropriate and efficient risk management processes related to those objectives.

There should be an ongoing application of the risk management process in response to changing operations due to both internal and external factors. This ongoing application enables staff to identify, assess and respond to risks within their direct areas of responsibility, and to identify risks that require a broader response by Automotive Axles. The risks requiring a broader response should be communicated to individuals with specific risk management responsibilities, (e.g. Chief Risk Coordinator and Risk Coordinators) and to the executive team. These risks can then be properly considered from overall Automotive Axles perspective.

Refer below for all the stages that the risk management process should be applied:



Risk Management Committee - Charter

The Risk Management Committee Charter consists of 5 parts:

- Objectives
- Responsibilities
- Functions
- Membership, and
- Operating procedures.

1. Objectives

The Board of Directors of Automotive Axles (exercised through the Risk Management Committee) recognizes its responsibility for ensuring that a comprehensive Risk Management Framework which includes processes, tools, and competencies for identifying, assessing and managing risk, is put in place to assist senior management manage growth in a rapidly changing environment.

In this regard, the specific objectives of the Committee include ensuring that:

- Management understands and accepts its responsibility for identifying, assessing and managing risk;
- Senior management and divisional management are strategically focused on the enterprise-wide risk strategy;
- Best-in-breed tools and processes are provided to facilitate achievement risk management responsibilities;
- Corporate, divisional, functional, process and project risk assessments are performed periodically and fully;
- Risk responses are successful in:
  - Safeguarding assets;
  - Maintaining appropriate standards regarding the environment and health and safety issues;
  - Meeting legal and regulatory obligations, and
  - Reinforcing the core values of Automotive Axles by focusing on stakeholder needs.
- Proper accounting records are being maintained, appropriate accounting policies have been adopted and financial information is comprehensive and accurate; and
- Effective risk responses/control testing programs are in place and the results are evaluated and acted upon.

2. Responsibilities

2.1 Supporting senior management in fulfilling their responsibilities by providing a framework for managing risks throughout Automotive Axles.

2.2 Defining Automotive Axles' risk management policies and ensuring that the risk strategy is implemented, through the development of appropriate procedures and investment in systems. Promoting awareness of risk management, and ensuring that there is a comprehensive risk management and control framework to identify, assess, measure, mitigate, monitor and report on the levels of risk.

2.3 Exploring any matter falling within its terms of reference, calling on whatever resources (including external professional advice) and information necessary to do so.

3. Functions

3.1 Define the policy framework and processes for risk management;

3.2 Promote and implement the risk strategy and policy by enhancing the level of risk awareness within Automotive Axles, and through the development of appropriate procedures and commitment of resources;

3.3 Provide guidance on the management of risk;

3.4 Monitor progress of any major risk mitigation strategies including status of risk assessments for major project;

3.5 Maintain an enterprise-wide view of risk and risk management activity;

3.6 Support the monitoring of risks across Automotive Axles and report to the Board on the adequacy of systems and controls for managing risk; and

3.7 Ensure all relevant parties are providing adequate level of support to the Chief Risk Coordinator. Report to the Board on the adequacy of systems and controls for managing risk and recommend any improvements necessary;

4. Membership

4.1 Members of the Committee will be appointed by the President/ED (F) & CS

4.2 The Risk Management Committee is to have following members:

- President
- Executive Director (Finance) & Company Secretary
- Head of each Functional Area

4.3 President will chair the Risk Management Committee. The Chief Risk Coordinators will act as the Secretaries. The Chief Risk Coordinators, as secretaries to Risk Management Committee, will normally be in attendance at all meetings along with all Risk Coordinators. Additional attendees will be invited at the discretion of the Committee, as and when deemed necessary.

5. Operating Procedures

5.1 The Risk Management Committee will meet on a quarterly basis.

5.2 The Secretaries shall ensure that an agenda and supporting papers are circulated to committee members well in advance and the notice is given at least 7 days prior to each meeting.

5.3 The implementation of all the decisions taken at the meeting shall be the responsibility of the Risk Coordinators.

5.4 The Committee has the authority to require furnishing of various reports to enable the Committee to fulfil its responsibilities.

Risk Management Procedure Document

Risk Management system will be handled by a central committee called Risk Management Committee. All the heads of the various risk areas identified will be the members of the committee along with the Chief Risk Coordinator (who will be nominated by the president)
The President/CFO will be the head of the committee.
Each risk area will have their own internal risk committee whose members will be nominated by the risk area head.

Format of The risk register:

S..No.	Risk	Impact	Probability	Response	Current controls	Review frequency	Mitigation	Action Plan	Time plan	Risk Owner
1	Forex Exposure	2	2	Take	No cover	Weekly	Rupee appreciation trend is expected to continue so we have decided not to take any forward cover and retain the exposure.			

Rating: Departments need to come up with the risk bands for each risk, which has to be used for the rating.

Eg: Risk: Supplier delivery
>90% 1 80-90 2 75-80 3 75-70 4 <70 5

In case of risks for which quantification is not possible, subjective decisions can be taken by the area risk committee on the rating. This has to be approved by the organization risk committee.

Meeting frequency: The committee will have to meet once in a month to review the changes in the risk profile of various risk areas and decide upon any issues regarding the over all implementation of risk management system in the organization. The area risk management committees have to hold internal meetings similarly.

Every time there is a change in the risk rating it has to be mentioned along with the reason in the risk register so as to ensure proper documentation for any future references

The main manual can be referred for a more detailed understanding of risk management

The ED& S in the main manual is to be read as CFO.
Risk Review: Every Quarter, all the risks (including the low & medium) pertaining to 2 risk areas have to be reviewed at the organization RMC meeting.

Risk Rating: The risk rating criteria to be followed is as mentioned below

IMPACT

Impact	**Criteria**
5	• Financial impact on the organisation is likely to create more than 10crores on sales or 1.5 crore on EBIDTA • potential collapse of the company, or Discontinuance of a business unit or business operations and processes interruptions for 1 month • Any Legal/Compliance issues • Any serious reputation loss causing events • Repeated failures causing customer loss • Any safety issues where there is a reasonable threat to life
4	• Financial impact on the organisation is likely to create5 to 10 crores on sales, 75 to 150 lakhs on EBIDTA • Substantial impact on the achievement of its strategic/operational objectives – potential disruption of the company's operations • High threat to reputation loss • Suspension of a business unit or business operations and processes interruptions for a week • Serious threat to the safety of employees/ environment, permanent injury
3	• Financial impact on the organisation is likely to create 1 to 5 crores on sales or 15 to 75 lakhs on EBIDTA impact • Average impact on the organisation's viability or achievement of its strategic/operational objectives, or • Minor interruption in the operations of the company
2	• Financial impact on the organisation is likely to create up to 1crore impact on sales or 15 Lakhs on EBIDTA • Possibility of impacting the organisation's achievement of its • strategic/operational objectives
1	• Financial impact on the organisation is likely to create less than 1 crore on sales • Negligible impact on EBIDTA loss

PROBABILITY

Probability	Criteria
5	i. Potential of occurring several times within the year ii. Has occurred in the last month/Quarter; iii. Inherent to this type of operation due to external influences; iv. Likely to occur in the coming months.
4	i. Potential of it occurring several times within the year; ii. Has occurred within the last two years; iii. Typical of operations of this type due to external influences; iv. History of occurrence in the organisation.
3	i. Could occur more than once within the year; ii. Has occurred within the last five years; iii. Can be difficult to control due to some external influences.
2	i. Potential of occurring at least once in a year; ii. Has occurred in the last year; and iii. Could be affected due to external influences, but can be iv. Mitigated through appropriate controls.
1	i. Potential of occurring once in a year or once in two years; ii. Has not occurred in the last year; iii. Controllable external influences; and iv. No history of occurrence in the organisation.

Training: Once in every year the training requirement has to be evaluated by the risk management committee and the required action has to be carried out

The above mentioned policy/Procedure overrides all other previous manual/procedure document wrt the points stated above.

Approved By:

President & Wholetime Director: Mr. Ashok Rao