RISK MANAGEMENT POLICY

The company has adopted risk management systems for all material and controllable risks which may affect the company's operations. This includes risks relating to the achievement of the Company's vision and implementation of its strategies, as well as risks in relation to the financial condition of the Company, its operations and other relevant areas. Risk management is carried out on the basis of the probability that an identified risk may materialise and the likely impact it may have on the company, with clear preventative and mitigation measures established. The company retains systems to assess, monitor and report on how these risks change with time.. Some of the risks identified are enumerated below:

1) **Raw Material Risk:**

   Sugarcane being the main raw material for sugar, any disturbance in its timely availability will have a substantial impact on the operational cost. This in turn has a significant adverse effect since the market value does not factor the variable cost determined by the climatic conditions and the cane economics.

   Mitigation Measure:

   The Company always maintains healthy relationship with its farmers. It is one among very few companies in sugar industry paying its farmers within the stipulated time. The risk of raw material short supply is mitigated to a large extent by the goodwill and reputation for ethical dealings earned by the Company since inception. The experiments in farm mechanisation, drip irrigation, improved cane varieties, carefully monitored scheduling of cane planting and harvesting boost the confidence of the Company in mitigation of the risk.

2) **Policy Risk:**

   Central and Provincial governments regulate the cane policies and they have a larger control on this industry by determining the raw material price and also influence the sugar selling price. The controls exercised by the Central and Provencal governments over whole free market of sugarcane.

   Mitigation Measure:

   The Company is a member of Pakisan Sugar Mills Association (PSMA) and works closely with it towards developing appropriate policy recommendations to represent the industry needs to the government. Formulation of policy on cogeneration power policy, and review of sugar weightage in WPI are some of the issues addressed in close liaison with PSMA.

3) Cyclicality / Commodity Risk:

The sugar price is determined by the cyclicality of the sugar business and hence it affects the profitability. Sugar being a commodity traded across the world, its price is influenced by the various factors including the normal supply and demand.

Mitigation Measure:

The Company takes the measure of Integration of sugar with cogeneration power, which enables the Company to insulate itself against price risk.

4) Exceptional input cost increases

This key risk is best described by cost pressures on fuel, electricity, fertiliser, salaries and wages, impacting margins and long-term competitiveness. Any one of these risks, or a combination, could potentially result in a margin squeeze on the business. Among the controls in place to mitigate the risk include:

- Centralised supply-chain contracts;
- Natural hedges to purchase US Dollar goods and services
- Operation's executives CI targets.

5) Country and investment

Broad political/government relations issues as a result for example, of changes in government or civil unrest can cause political uncertainty and lead to lack of availability of foreign exchange, reduction in regulatory support (eg, import tariffs), shortage of basic commodities and a deteriorating infrastructure. The stakeholders engagement initiatives referred to are an important mitigating factor. Additional controls include monitoring of political situations in operating countries through specialist service providers and ongoing country risk assessments.

6) Factory utilisation and performance

Sub-optimal factory utilisation and performance continue to be risks to the business. These risks are caused primarily as a result of no cane stoppages, poor quality of the cane received (which impact recoveries of sugar from cane) and unplanned breakdown of equipment. Risk control measures include:

- Consideration of detailed weekly reports covering factory statistics;
- De-bottlenecking programs
- Securing cane supply; and
- Continuous improvement via capability development and improved logistic management.

7) Interest rate exposure

Exposure to fluctuations in interest rates due to both country risk and macroeconomic factors, for example the inflationary effect of a strengthening US Dollar forcing emerging markets to increase interest rates so as to protect their local currencies, has a significant effect on financing costs as well as putting the affordability of capital projects at risk. The mitigating controls are referred to in the Chief Financial Officer time to time reports to the management

8) Internal Control

The Board of Directors shall ensure an effective and efficient internal control system that covers every aspect of its operations, and complies with related laws, rules and regulations. Effective and adequate check and balance mechanisms are in place to protect shareholder investments in the Company and its assets. The company shall set clear procedures for the delegation of authority and the responsibilities of senior executives and staff. An independent Internal Audit Office has been established to ensure that all departments of the company are in compliance with these procedures. The Internal Audit Office reports directly to the Audit Committee.