

**CORP 600 00  
RISK MANAGEMENT POLICY & METHODOLOGY**

<b>Purpose</b>	<p>In March 2003, the Australian Stock Exchange (ASX) Corporate Governance Council released the first version of its <i>Corporate Governance Principles and Recommendations</i>.</p> <p>This document was further revised in March 2007 (2<sup>nd</sup> Edition).</p> <p>Under ASX Listing rule 4.10.3, “companies are required to provide a statement in their annual report disclosing the extent to which they have followed the Recommendations in the reporting period”.</p> <p>Furthermore “Where companies have not followed all Recommendations, they must identify the Recommendations that have not been followed and give reasons for not following them”.</p> <p>The change in reporting requirements applies from CGL’s disclosures for the FY2008-09.</p> <p>This policy is intended to principally address compliance with the ASX Corporate Governance Council: <i>Principle 7 – Recognise and manage risk</i>.</p> <p>For a further information regarding the <i>Corporate Governance Principles and Recommendations</i>, it and other associated commentary are available at :</p> <p><a href="http://www.asx.com.au/supervision/governance/index.htm">www.asx.com.au/supervision/governance/index.htm</a></p>
<b>Scope</b>	<p>This document will lay out CGL’s Risk Management processes and procedures to comply with <i>Principle 7 – Recognise and manage risk</i> of the <i>Corporate Governance Principles and Recommendations</i>.</p> <p>The process is divided into four phases:</p> <ol style="list-style-type: none"> <li>1. Identification of material business risks;</li> <li>2. Assessment and Prioritisation of material business risks;</li> <li>3. Formulation and implementation of appropriate risk mitigation and management strategies;</li> <li>4. Reporting of the effectiveness of risk mitigation (management) activities to the Audit and Risk Committee of CGL.</li> </ol>
<b>Process Owners / Responsibility</b>	<p>The Senior Management Team (SMT) as a whole is responsible for the establishment of a sound system of risk oversight and management and internal control.</p>

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	<p>To facilitate this, “Risk Management” will be included as an agenda item at every monthly SMT meeting.</p> <p>In addition, divisional Senior Leadership Team meetings will have “Risk Management” included in their meeting agendas – to address specific risk management items relevant to their divisions.</p> <p>The Chief Financial Officer (CFO) and Company Secretary will be responsible for the co-ordination and administration of the risk management process.</p> <p>They shall in addition be responsible for reporting to the Audit and Risk committee on the effectiveness of CGL’s risk management processes.</p>
<b>Objective</b>	To document CGL’s policies and procedures on the oversight and management of material business risks.
<b>Table of Contents</b>	<p><b>Identification of Material Business Risks 2</b>          Definition of Material Business Risk 2</p> <p><b>Assessment and Prioritisation 3</b>          Inherent risk ratings 3</p> <p><b>Risk Mitigation 3</b>          Discussion at SMT and divisional SLT 3</p> <p><b>Monitoring and Reporting 3</b>          Implementation Status 4          Mitigation Effectiveness 4          Internal Audit 4          Residual Risk 4          Reporting to the Audit and Risk committee. 4</p> <p><b>Risk Appetite &amp; Acceptance 4</b></p>
<b>Identification of Material Business Risks</b>	<p>On an annual basis, a risk identification exercise (via survey) will be conducted by the CFO and Company Secretary to identify the material business risks of CGL.</p> <p>Once identified the business risks will consolidated and incorporated into CGL’s Risk Register.</p> <p>During the monthly discussions on Risk Management (at divisional SLT or SMT), any new material business risks identified shall be raised, and documented into the Risk Register (with the approval of SMT).</p> <p>It should be noted that only <i>material business risks</i> will be documented in the Risk Register – according to the definition below. This is to preserve the clarity and effectiveness of the risk management process, and simplify reporting to the Audit and Risk committee.</p>
Definition of Material	A material business risk is the chance that something material (i.e.

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Business Risk	<p>significant) will occur that has an impact upon the goals and objectives of CGL.</p> <p>Risks are measured in terms of likelihood and consequences.</p> <p>Qualitative aspects of materiality include the event's ability to adversely affect group operations and objectives, and influence decisions made by management and internal and external stakeholders.</p> <p>Quantitative measurements of materiality (according AASB 1031 <i>Materiality</i>) refer to between five and ten percent of an applicable base amount. As a guide – this equates to amounts over \$500,000 AUD – using FY2008 EBITA as an applicable base.</p>
<p><b>Assessment and Prioritisation</b></p> <p>Inherent risk ratings</p>	<p>All risks compiled from the previous phase on the risk register will have their consequences recorded, and have its level of inherent risk measured.</p> <p>Inherent risk is a function of the likelihood (of the risk occurring) and impact (of the consequences) of the risk.</p> <p>Refer to the Qualitative Risk Matrix for further details regarding the measurement of the levels of risk.</p> <p>Once measured, each risk will be:</p> <ol style="list-style-type: none"> <li>1. Assigned a risk rating according to the above risk matrix;</li> <li>2. Assigned an officer responsible for its management (mitigation); and</li> <li>3. Prioritised according to its risk rating.</li> </ol>
<p><b>Risk Mitigation</b></p> <p>Discussion at SMT and divisional SLT</p>	<p>Each risk will require mitigation strategies / processes to be formulated and implemented.</p> <p>These mitigation strategies are the responsibility of the assigned CGL officer (and their division if applicable).</p> <p>Documentation regarding these strategies &amp; processes are to be retained. This will allow the verification of the existence of these processes, and assist in the measurement of the effectiveness of the strategy.</p> <p>These strategies will be discussed at monthly SMT and divisional SLT meetings to facilitate their formulation and implementation.</p> <p>Once formulated, the strategies will be documented against their applicable risks on the CGL Risk Register.</p>
<b>Monitoring and Reporting</b>	Once mitigation strategies have been formulated and documented, their

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Implementation Status	<p>implementation status will be recorded on the risk register.</p> <p>Implementation status will either be noted as “Present &amp; Complete”, or as a future date for completion.</p> <p>“Present &amp; Complete” indicates that the strategies documented are in place in their entirety. This will also indicate that the strategy is ready for verification by Internal Audit.</p> <p>If the strategy is to be implemented, or not completely implemented, a date shall be noted on the risk register as the date of complete implementation.</p>
Mitigation Effectiveness	<p>Effectiveness of the mitigation strategies implemented will be measured according to the Risk Reference tables, and are a function of mitigation likelihood and reduction of impact.</p> <p>Mitigation effectiveness is measured according to actions and strategies in place or present. They are not measured according to proposed actions, only actions / strategies which are in place.</p>
Internal Audit	<p>Internal Audit will verify that risk mitigation strategies noted by management as “Present and Complete” are in place.</p> <p>It should be noted that in the absence of documented indicators / evidence that risk mitigation strategies exist, they shall not be verified as in existence – and thus will not have a status of “Present &amp; Complete”.</p> <p>Internal Audit findings will be communicated to the officers responsible for the risk, and to the Audit and Risk committee if appropriate.</p>
Residual Risk	<p>Residual risk is calculated as inherent risk less mitigation effectiveness. This will give a residual risk amount, on which the residual risk rating is based upon.</p>
Reporting to the Audit and Risk committee.	<p>The CFO and the Company Secretary will report to the Audit and Risk committee on the effectiveness of Risk Management on behalf of management.</p> <p>These reports will occur at every meeting of the Audit and Risk committee, which are held four times every calendar year.</p>
<b>Risk Appetite &amp; Acceptance</b>	<p>Whilst it is impossible to completely mitigate all risk, risk can be reduced via mitigation strategies to acceptable levels.</p> <p>CGL will accept a residual risk rating no higher than “<i>Medium</i>” as acceptable.</p> <p>If mitigation strategies in place do not reduce residual risk to (or below) this level, additional strategies must be formulated and implemented.</p>

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	In addition, risks with an unacceptable residual risk rating will be highlighted to the Audit & Risk committee.		
<b>Policy History</b>	<p style="text-align: center;">Description</p> <p>Original Policy Revision # 1 Revision # 2</p> <p style="text-align: center;">Next Review Due</p>	<p style="text-align: center;">Reference #</p> <p>CORP 600 00</p>	<p style="text-align: center;">Date</p> <p>28 November 2008</p> <p style="text-align: center;">30 November 2009</p>

**Appendix One – Qualitative Risk Matrix and supporting descriptions**

Qualitative Risk Analysis Matrix – Level of Risk					
Consequences					
Likelihood	Insignificant	Minor	Moderate	Major	Catastrophic
	1	2	3	4	5
1	L	L	M	H	H
2	L	L	M	H	E
3	L	M	H	E	E
4	M	H	H	E	E
5	H	H	E	E	E

  

Legend:
Extreme risk – detailed research and management planning required at senior levels
High risk – senior management attention needed
Moderate risk – management responsibility must be specified
Low risk – manage by routine procedures

<b>LIKELIHOOD DESCRIPTIONS</b>		
<b>Descriptor</b>	<b>Description</b>	<b>Frequency</b>
<b>1 Rare</b>	The event may occur only in exceptional circumstances	Will occur in exceptional circumstances
<b>2 Unlikely</b>	The event could occur at some time	Will occur once every 10 years
<b>3 Possible</b>	The event should occur at some time	Will occur once every three years
<b>4 Likely</b>	The event will probably occur in most circumstances	Will occur once per year
<b>5 Almost Certain</b>	The event is expected to occur in most circumstances This event could also be currently occurring.	Will occur more than once per year

<b>IMPACT DESCRIPTIONS</b>	
<b>Descriptor</b>	<b>Examples</b>
<b>5 Catastrophic</b>	Multiple deaths and/or significant asset destruction greater than \$10 million and/or national TV news headlines and/or government investigation and/or catastrophic, long term environmental harm and/or total service cessation for a number of months.
<b>4 Major</b>	Single death and/or multiple injuries and/or loss of asset \$1 million - \$10 million and/or local TV news and/or departmental investigation and/or significant long term environmental harm and/or total service cessation for a month and subsequent disruption
<b>3 Moderate</b>	Individual injury and/or loss of asset \$200,000 - \$1 million and/or local newspaper (not front page) and/or regional inquiry and/or significant release of pollutants with mid term recovery and/or total service cessation for a week and subsequent disruption
<b>2 Minor</b>	First Aid and/or loss of asset \$20,000 - \$200,000 and/or suburban newspaper and/or minor transient environmental harm and/or minor disruption
<b>1 Insignificant</b>	No injuries and/or minor loss of asset less than \$20,000 and/or reporting (not front page) suburban newspapers and/or brief pollution but no environmental harm and/or no disruption



## DETECTION / PREVENTION DESCRIPTIONS

Descriptor	Description
<b>1 Insignificant</b>	The detection and/or prevention of the risk event may occur only in exceptional circumstances
<b>2 Unlikely</b>	The detection and/or prevention of the risk event could occur at some time
<b>3 Possible</b>	The detection and/or prevention of the risk event should occur at some time or Detection and/or prevention of the risk event should occur, but may not occur in a timely manner.
<b>4 Likely</b>	The detection and/or prevention of the risk event will probably occur in most circumstances in a timely manner
<b>5 Almost Certain</b>	The detection and/or prevention of the risk event is expected to occur in most circumstances in a timely manner

<b>IMPACT REDUCTION DESCRIPTIONS</b>	
<b>Descriptor</b>	<b>Examples</b>
<b>1 to 4</b>	<p>The impact reduction of the risk as a result of the mitigation strategy process is measured as difference between the inherent impact and the impact prior to the mitigation strategy.</p> <p>An example is that the strategy will reduce the injury or loss from \$1 million (4 - Major) to \$20,000 (2 - Minor), thus the difference is a 2.</p>