

Procedures for the Oversight and Management of Material Business Risks

TASSAL GROUP LIMITED

ABN 15 106 067 270

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Risks**

(Approved by the Board 29 May 2020)

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1 INTRODUCTION

Tassal Group Limited ("Tassal" or the "Company") recognizes that risk is an integral and unavoidable component of our business.

Tassal strives to foster a risk-aware corporate culture in all decision making in order to enhance opportunities, reduce threats and sustain competitive advantage.

To support this commitment, risk analysis is applied throughout the business by Management at appropriate levels, following the principles outlined in these Procedures.

2 RISK MANAGEMENT SYSTEM

The Company's risk management system is generally based on AS/NZS ISO 31000:2009 Risk Management and ASX Corporate Governance Principles and Recommendations.

The following principles form the basis of the Company's risk management policy:

- (a) Risk is an integral element of doing business, and there are regulatory and market requirements for the Company to have a sound system of recognizing and managing risk.
- (b) All material business risks are to be identified, analysed, monitored and reported on.
- (c) Management must regularly assess compliance with policies and procedures and the overall state of risk management and control.

The Board and Management undertake a structured approach to risk management in all aspects of the Company's business activities particularly any:-

- major proposed projects and/or investments;
- changes in the nature of the Company's activities and/or operating environment; or
- when venturing into new operating environments which may present different risk profiles.

Material business risks include, but are not limited to: credit, project, market, liquidity, operational, environmental, compliance /regulatory, strategic, reputation or brand, technological, product /service quality, human resources, tax and financial risks.

Risk ratings are determined by analysing each risk for the likelihood of occurrence and the possible consequence should the risk occur. Consideration is also given to the level of current controls, systems and strategies which exist to manage the risk. Mitigation strategies (where possible) are identified and considered for all materially rated risks until those risks are managed to, and maintained at, a level acceptable to the Board.

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Formal risk management reports on the Company's management of its material business risks are reported to the Strategy Group, the Audit and Risk Committee and the Board. The Company's risk registers and individual risk ratings are also used to document risks, develop mitigation actions and assign accountabilities.

Due to the limitations that are inherent in any system of risk management and internal control, those systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide a reasonable but not absolute level of assurance against material misstatement, adverse events or losses, or more volatile outcomes from arising.

3 RISK OVERSIGHT AND RESPONSIBILITIES

The Board has overall responsibility for overseeing the establishment and implementation of the risk management system. The Board is also responsible for reviewing the Company's policies on risk oversight and management and satisfying itself that Management has developed and implemented a sound system of risk management.

The Board reviews the appropriateness of:

- (a) the Company's risk management policy and strategy;
- (b) the risks identified as the material risks facing the Company;
- (c) the control monitoring and reporting mechanisms in place,

with the assistance of the Audit and Risk Committee and Management.

The Board is appraised, at least on an annual basis, on the 'Risk Profile' of the Company and the adequacy and effectiveness of the risk management system.

The Audit and Risk Committee assists the Board in discharging its responsibility, in the manner set out in clause 4 below.

In relation to the Company's financial reporting the Board obtains on a half - yearly basis, a written declaration from both the CEO and the CFO that the system of risk management and internal control is operating effectively in all material respects in relation to financial reporting risk.

More generally, the Board receives regular report from the CEO and Management on compliance with the Company's management policy. The CEO approves operational risk policy and strategy; reviews operational risk reports for the Company as a whole; and supports an environment that promotes prudent risk management practice.

The Chief Risk Officer (CRO) ensures a structured risk management approach is adopted throughout the Company; co-ordinates overall risk profile and risk action plan reporting; in consultation with the Strategy Group prioritises material risks for the Company; develops and communicates Company policy

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and information about the risk management program to all staff; and establishes appropriate reporting processes to the Audit and Risk Committee and the Board.

All Management and staff are responsible for the management, monitoring and reporting of risks. The Company strives to create an environment where managing risk is accepted as the personal responsibility of each staff member.

The Company also has an obligation to inform the market of a change to its risk profile, where the change is likely to have material impact on the price or value of shares in the Company.

4 INTERNAL AUDIT (OR EQUIVALENT) ACTIVITIES

The Company's integrated risk management system and internal control environment is subject to an extensive audit regime delivered both internally and via external accreditation agencies and key customers.

Via the Audit and Risk Committee and Management, the Board receives briefings which provide an overview of:

- (a) the robustness of the internal control systems Management has implemented to identify, assess, monitor and manage risk;
- (b) the adequacy of computer systems and applications and the contingency plans for processing financial information in the event of a systems breakdown; and
- (c) the internal audit type activities which are conducted throughout the Company, including details of related audit plans, strategies and breadth of activities.

The Audit and Risk Committee reviews and assesses the above and reports to the Board with a view to:

- (a) providing an appropriate level of assurance re the effectiveness of corporate policies and internal control procedures for identifying, assessing, monitoring and managing material business risks;
- (b) ensuring the adequacy of Managements' response to material internal control improvement recommendations and ensuring that any significant findings and recommendations are received, discussed and acted upon on a timely basis;
- (c) evaluating whether Management is setting the appropriate "control culture" by communicating the importance of internal control and the management of risk so that employees have an understanding of their related risk management roles and responsibilities; and
- (d) identifying any gaps in risk management systems that need to be more appropriately dealt with.

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In the event that an internal auditor is appointed, the function will be performed by a person other than the external auditor. The Audit and Risk Committee's duties with respect to that role will encompass selection, remuneration, internal audit plan scope determination and assessment, report review, performance evaluation and replacement.

5 COMPLIANCE AND CONTROL

Specific risk management and internal control monitoring activities undertaken by the Company encompass, but are not limited to the following.

Credit risk

- the Company has adopted the policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate as a means of mitigating the risk of financial loss from defaults.
- the Company has formalised:
 - customer account approval processes to be completed prior to opening a new account for any proposed customers; and
 - customer credit limit and account payment monitoring protocols
- the Company maintains appropriate credit insurance arrangements over a range of major customer accounts.

Market risk

- regular reports are provided to Management, the Audit and Risk Committee and the Board on key performance indicators reflecting interest and foreign currency exposures, liquidity and funding.
- *Interest rate risk:*
 - interest rate risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings and by the use of interest rate swap contracts.
 - interest rate hedging activities are evaluated to align with interest rate views and defined risk appetite; ensuring optimal hedging strategies are applied, by either positioning the balance sheet or protecting interest expense through different interest rate cycles.
- *Foreign currency risk:*
 - foreign currency risk is managed by entering into forward exchange contracts where the Company agrees to sell specified amounts of foreign currencies in the future at a predetermined exchange rate.

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- the objective is to match the contract with anticipated future cash flows from sales and purchases in foreign currencies, to protect the Company against the possibility of loss from future exchange rate fluctuations.
- the forward exchange contracts are only entered into on a commitment basis and are managed within approved policy parameters and limits.
- *Liquidity / funding risk:*
 - liquidity risk is measured by comparing projected net debt levels for the next twelve months, or the review date of the Group's current primary banking facilities, whichever is the later, against total committed facilities.
 - for longer term (beyond one year) management, liquidity projections show expected net debt levels on at least a rolling 12 month basis encompassed within the Company's longer term strategic plan financial model.
 - for short term management, rolling monthly cash flows are provided, and these are updated on a daily basis.

Operational and compliance risk

Product Quality Assurance

- clearly defined standard operating procedures are implemented as part of Tassal's Integrated Management System (TIMS), which cover the elements of good manufacturing practices and food safety regulatory and standards compliance within Tassal;
- training programs are run regularly for technical and operational staff;
- periodic external audits are undertaken by authorities such as Australian Quarantine Inspection Service (AQIS) with regular reports to Management, the Board Audit and Risk Committee and the Board;
- regular customer and approved supplier audits are undertaken;
- stringent laboratory testing program of raw materials and finished product is undertaken.

Workplace Risk

- compliance audits are undertaken to confirm achievement of legislative requirements;
- environmentally sustainable work practices are followed;

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- formally constituted Safety Committees deliver documented outcomes;
- competency assessment is maintained through learning and development programs for operational staff ;
- an active injury management program is maintained.

Insurance

- An insurance program is maintained covering major areas of risk associated with the Company's operations.

In addition to, and consistent with, the above risk management and internal audit type activities, the Company has put in place the following types of internal control to address other key operational risks of the business with particular focus on sustainable aquaculture risk mitigation:

- (a) An organisation structure with well-defined scopes of responsibility, clear lines of accountability, appropriate levels of delegated authority and approval limits, and adequate segregation of duties.
- (b) A process of hierarchical reporting which provides for a documented and auditable trail of accountability.
- (c) A comprehensive set of documented internal policies and procedures for operational, financial and human resource management, which is subject to regular review and improvement.
- (d) Regular and comprehensive information provided to Management, the Audit and Risk Committee and the Board covering financial and operational performance and key business indicators, for effective monitoring and decision making.
- (e) A comprehensive business planning and detailed budgeting process which establishes plans and targets against which performance is monitored on an ongoing basis.
- (f) Monthly monitoring of results against budget by all divisions, with major variances being followed up and Management action taken, where necessary.

6 DISCLOSURE

These Procedures will be made publicly available by posting on the Company's website in a clearly marked Corporate Governance section.

7 WHO TO CONTACT

Any questions relating to the interpretation of these procedures should be forwarded to the Company Secretary.

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8 HISTORY

These Procedures supersede those approved by the Board on 30 May 2019.