

Pact Group Holdings Ltd
ACN: 145 989 644

Risk Management Framework



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1. Purpose

1 Purpose

The purpose of this Framework is to set out the principles and approach for recognising and managing risk at Pact Group Holdings Ltd and its subsidiaries (Group). It comprises of the practical process and tools to support consistent implementation of the Risk Management Policy, including roles and responsibilities, and the approach for risk analysis, including identifying, assessing, responding to and monitoring risks.

2 Objectives

Our Risk Management Policy sets out the Group's commitment to proactive management of material business risks. The Policy states that:

- The Group recognises that risk is an inherent part of business and that it presents both opportunities and threats to our success.
- We promote a risk-aware culture in decision making and are committed to manage all risks that may materially impact the business in a proactive and effective manner. This requires identification and mitigation of risks in a way that protects the businesses' continuity and reputation, informs management decisions and drives competitive advantage.
- We encourage reporting of newly identified risks that may impact our operations across all areas of enterprise risk including, but not limited to, operational, environmental, sustainability, compliance, strategic, ethical conduct, reputation or brand, technological product or service quality, human capital, financial reporting and market related risks.

With this commitment in mind, the objectives of our risk management program are to:

- promote identification and mitigation of risks in a way that protects the businesses continuity and reputation of the Group, informs management decisions and drives competitive advantage;
- manage all risks that may materially impact the business in a proactive and effective manner; and
- disclose all material business risks, including those in the areas of economic, environmental and social sustainability risks.

3 Risk Management Process

Our structured approach to managing risk is based on AS ISO 31000: 2018 Risk Management Guidelines.

The definition of risk which has been adopted is consistent with this Standard, and is "the effect of uncertainty on objectives".

The figure overleaf illustrates the different elements of the process and how they are interconnected.

3. Risk Management Process

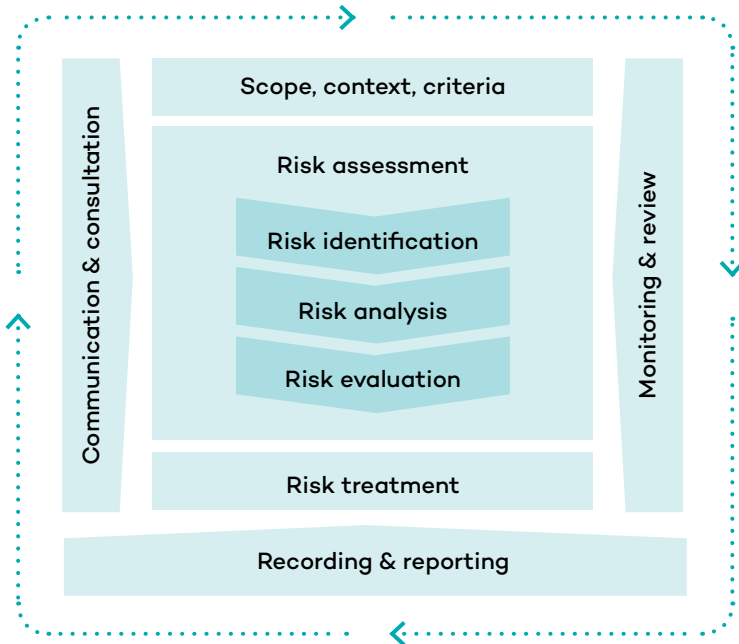


Figure 1: Pact Group risk management process from AS ISO 13000: 2018

The structure of the risk assessment process follows the following five steps. Although this process is stated as sequential, it is iterative in practice.

1. Identify	Identify Risk, assign ownership and record on Risk Register
2. Analyse	Risk assessment – determine inherent risk rating
3. Evaluate	Record current controls Determine risk control effectiveness Assess residual risk rating
4. Manage / Treatment	Escalation and monitoring Risk Mitigation Plans / control actions
5. Review	Control self assessment

3. Risk Management Process

3.1 Step One - Identify

3.1.1 Risk identification

When a significant internal or external change or event occurs, any identified potential or actual risks are recorded on the Group Risk Register (Appendix 1).

Risks may be identified as a result of actual or proposed changes to legislation or the operating environment, business activities such as strategic or operational planning, major projects, acquisitions or divestments.

Relevant information is important, to identifying risks, as well as enlisting appropriate stakeholder engagement.

Categories under which risks are recorded against include:

- Financial,
- Strategic,
- Operational,
- Market, and
- Compliance.

The Executive Management Team are responsible for ensuring any material business risks have been identified and recorded, and that the existing risks remain relevant.

The Group Risk Register is reviewed on a regular basis by the Executive Management Team, with a full review on an annual basis. The Board of Directors and the Audit, Business Risk and Compliance Committee conduct a review on at least an annual basis.

The Group Risk Register is maintained by the Group Governance & Risk Manager.

3.2 Step Two - Analyse

3.2.1 Risk analysis - the risk rating system

To ensure a systematic and consistent approach to assessing risks, a risk rating system, comprising of a consequence/likelihood matrix has been adopted.

Risk analysis takes places at two stages- before any controls have been put in place (inherent risk rating) and after controls have been put in place (residual risk rating).

3. Risk Management Process

3.2.2 Inherent Risk Matrix

The below Inherent Risk Matrix produces a Risk Rating (A-D) informed by the description of consequence and likelihood relevant to that particular risk.

Likelihood rating	Almost certain	C	B	B	A	A
	Likely	C	B	B	A	A
	Possible	D	C	B	B	A
	Unlikely	D	C	C	B	A
	Rare	D	D	C	C	B
		Very Low	Low	Moderate	High	Very High
		Consequence rating				

Figure 1: Pact Group risk management process

The consequence is the term given to ‘the outcome of an event’.

The consequence rating is selected by identifying the most appropriate description from the table (very low – very high), assuming that no controls have been put in place. Consequences are considered across areas of Financial and Reputational impacts, which includes Legal & Compliance, People and External.

The field producing the highest impact across all four categories will be used to rate the consequence.

3. Risk Management Process

Consequence definitions

	Description	Financial	Reputational		
			Legal & compliance	People	External
Very high	Critical impact, likely to permanently impact business and employees	EBITDA >\$25m or NPAT >\$15m	Major litigation or prosecution with damages or fines >\$50m	Workplace fatality. Workplace injury leading to moderate or severe ir reversible disability.	Severely impacts investors sentiment. Significant national or international media coverage.
High	Significant event, major disruption or lasting impact on business or employees	EBITDA \$10m – \$25m or NPAT >\$4m – \$15m	Major litigation or prosecution with damages or fines \$10m – \$50m	Workplace injury leading to hospitalisation, medium term largely reversible disability.	Materially impacts shareholder confidence. National media coverage.
Moderate	Material disruption to or temporary impact to business	EBITDA \$2m – \$10m or NPAT \$800k – \$4m	Major breach of regulations, significant litigation or prosecution with damages or fines \$2m – \$10m	Serious near miss.	Public criticism. Media coverage.
Low	Minimal disruption to business and temporary impact to business	EBITDA \$500k – \$2m or NPAT \$200k – \$800k	Moderate breach of regulations, investigation with potential fine, litigation or prosecution damages or fines \$500k – \$2m	First aid treatment.	Investor concerns. Attention from media.
Very low	Minor event, no disruption to business or employees	EBITDA up to \$500k or NPAT up to \$200k	Minor legal issues, breaches or regulations, litigation or prosecution with damages up to \$500k	Minor near miss.	Minor local complaints.

3. Risk Management Process

The likelihood is the term given to ‘the chance of something happening’.

The likelihood rating is selected by identifying the most appropriate description from the table (rare – almost certain), assuming no controls have been put in place.

Likelihood definitions

Almost certain	Event is expected to occur
Likely	Balance of probability will occur
Possible	May occur
Unlikely	Event is not anticipated to occur
Rare	Event may occur in exceptional circumstances

3.2.3 Recording of Risks

The following table indicates which residual risks are recorded on the Group Risk Register, and which require controls and detailed Mitigation Plans.

Very low	Not recorded on Register
Low and above	Recorded on Register
Medium and above	Must have controls in place and be actively managed
High and very high	Must have detailed Mitigation Plans

3.3 Step Three - Evaluate

3.3.1 Recording of current controls

The Inherent Risk Rating is then entered onto the Group Risk Register, and the management controls currently in place are documented.

Controls can include policies, procedures, systems, audits, inspections, training programs or other activities which contribute to the mitigation of the risk.

3.3.2 Assessment of control effectiveness

Control effectiveness is an assessment of the level and effectiveness of the management controls in place at the time of assessing the risk.

The Control Effectiveness Rating is a self-assessment by the Risk Owner, determined by selecting the appropriate definition from the table below.

3. Risk Management Process

Risk control effectiveness	Description
Fully effective	Management believes that the controls are effective and reliable at all times, OR Controls mitigate the risk and address the root causes.
Effective	Most controls or their compensating controls are in place and effective, OR Some more work to be done to improve operating effectiveness.
Partially effective	Controls largely correct and treat most of the root causes of the risk, however they are not currently very effective, OR Some are operating effectively, some controls do not treat root causes.
Ineffective	Controls in development, OR Management is not confident that any degree of control is being achieved due to poor control design and/or very limited operational effectiveness.

Any additional controls identified while documenting the current controls will be captured in the “Future Actions” column, along with the applicable time frame for completion and person responsible.

3. Risk Management Process

3.3.3 Residual Risk Matrix

The below Residual Risk Matrix produces a Risk Rating (A-D) informed by i) the Inherent Risk Rating; and ii) the Control Effectiveness rating.

The Residual Risk Rating is used to inform priority and extent of mitigating actions, and level of escalation and management required.

Risk assesment rating	A	Moderate	High	Very High	Very High
	B	Low	Moderate	High	Very High
	C	Low	Moderate	High	High
	D	Low	Low	Moderate	Moderate
		Fully Effective	Effective	Partially Effective	Ineffective
		Control effectiveness			

3. Risk Management Process

3.4 Step Four - Manage

3.4.1 Escalation and acceptance of risks

Following identification of the Residual Risk Rating, escalation and monitoring should take place in line with the below table.

This is to ensure there is appropriate oversight, and the applicable person / body accept the risk.

The body to whom the risk is escalated is responsible for acceptance of the risk.

Residual risk	Action
Very high	Action immediately Escalation: Risk reported to CEO and Chair of ABRCC immediately. Monitoring: Control plan monitored by Executive on monthly basis. ABRCC reporting: Detailed Control plan status updates regularly.
High	Escalation: Reported to CEO immediately. Monitoring: bi-annual Control self-assessment. Ownership: Risk Control plans by Executive General Managers. ABRCC reporting: Control plans at next scheduled meeting.
Moderate	Escalation: Reported to Executive General Manager Monitoring: annual Control self-assessment. Ownership: Divisional General/Group Manager. ABRCC reporting: plans not reviewed at this level
Low	Escalation: Reported to Operational General Manager/Site Manager/ Functional Group Manager Monitoring: annual Control self-assessment Ownership: Site Manager/Functional Managers ABRCC reporting: n/a

3. Risk Management Process

3.4.2 Risk Mitigation Plans / Control actions

Depending on the Residual Risk Rating and the risk in question, Mitigation Plans will be developed by the Risk Owners. The Mitigation Plans should include the additional controls identified in step 3.3.2 and those recorded in the “Future Actions” section of the Risk Register.

A template Risk Mitigation Plan is in appendix (2).

These mitigation/control actions shall be monitored by the appropriate body as outlined in the Escalation and Acceptance table, and provide insight into how well the Group is mitigating its business risks.

3.5 Step Five - Review

3.5.1 Control effectiveness reviews

The Effectiveness of the Controls should be re-assessed:

- For all High or Very High risks- biannually,
- For all other risks at least on an annual basis.

This review involves the applicable Executive Management Team member providing a self-assessment on the effectiveness of the risk.

This self-assessment will be supported by reviews from the Internal Auditor (where applicable).

4. Closure of Risks

4 Closure of risks

Where an identified Risk is determined to be eliminated or no longer relevant, the Risk status will be changed to 'closed' on the Group Risk Register. I.e. a major project has been completed, anticipated change did not come to fruition. The CFO (as owner of the risk management process), with the Group Risk & Governance Manager, will make a determination as to when a Risk is officially closed.

5 Reporting

Reporting on the risk management program will be provided to the Executive Management Team and ABRCC on at least a biannual basis.

Annual reporting on material business risks and the effectiveness of the controls in place, will be provided as part of the Group annual reporting process, and in line with the requirements of ASX Corporate Governance Council's Corporate Governance Principles and Recommendations.

Other reports including disclosures relating to risk management may be provided from time to time.

6 Key Responsibilities

6.1 Board of directors

The Board has overall accountability for the risk management system and has nominated the Audit, Business Risk and Compliance Committee with oversight of the risk management program.

6.2 Audit, Business Risk & Compliance Committee (ABRCC)

The responsibilities of the ABRCC are to oversee the Company's overall risk management program including:

1. Operational and environmental risk generally;
2. Company's workplace health and safety management, controls and systems; and
3. The process of identification and management of financial risks.
4. Annual review and monitoring of the adequacy of the Risk Management Policy and Framework.

Further details are included in the ABRCC Charter.

6. Key Responsibilities

6.3 Chief Executive Officer and Executive Management Team

The CEO, with the support of the Executive Management team, is accountable to the Board for day to day management of risk, within the risk appetite set by the Board through the ABRCC. This includes implementation of the Risk Management Framework. Specific responsibilities of the CEO include:

- Champion, review and assess the Group's governance and risk management approach and processes
- Develop the Group's strategic risk profile by identifying and prioritising material business risks
- Review and assess the Group's risk profile and risk mitigation plans
- Ensure the Risk Management Framework is implemented across the Group.

6.4 Risk owners

Have been delegated accountability and authority to manage risks. Specific responsibilities include:

- Development and management of a Risk Mitigation Plan with an objective of effectively managing the risk
- Periodic review, assessment and reporting on Risk Management Plan
- Escalation to management where necessary in the event of an increase in risk

6.5 Group Governance & Risk Manager

The Governance & Risk Manager is responsible for co-ordination of the implementation of the Risk Management Framework, risk profile and mitigation plans. Specific responsibilities include:

- Maintenance of the Group Risk Register.
- Facilitate, challenge and drive risk management development within the Group.
- Periodically report to Executive Management and ABRCC on the risk process.

6.6 All employees

All employees are responsible for working within the stated tolerance of risk which is stated in the Company's Policies and for reporting any identified control failures to their appropriate business Manager. Incidents that may indicate systematic fraud or failure must be reported as soon as practicable to the Internal Auditor, Chief financial Officer or Chief Legal Officer.

7 Related Documents

- Pact Group Risk Management Policy
- Audit, Business Risk & Compliance Committee Charter

These documents along with other Pact Group Policies can be found on the intranet and the Pact Group website.

Specific risk management tools are also available for

- Work health, safety and environment
- Project management

These tools can be found on the respective intranet pages.

8. Definitions

8 Definitions

Control	Measure that maintains and/or modifies risk
Consequence	The outcome of an event
Group Risk Register	The central document where Group-wide risks are recorded
Likelihood	The chance of something happening
Risk	The effect of uncertainty on objectives
Risk Assessment	The process of utilising the risk rating system to assess the consequence and likelihood of a risk occurring
Risk Management	Coordinated activities to direct and control an organisation with regard to risk
Risk Mitigation Plan	A documented action plan to control the risk

Version Control Page

Controlled copy	Pact Group Intranet
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Reviewed and re-issued	1.3	20 June 2018
Reviewed and updated to incorporate changes to AS ISO 31000: 2018 and change to consequence scale	2	22 May 2019

Appendix 1

Group Risk Register Template

CONFIDENTIAL - Pact Group Risk Register

Last updated

#	Category	Risk	Description & potential consequences	Elements of risk	Functional ownership	Risk owner	Likelihood	Consequence	Business impact / rating	Current controls	Effectiveness of controls	Residual rating	Further management required (what are your plans)	Responsibility / timeframe	Status

Appendix 2

Risk Mitigation Plan Template

RISK 1: [INSERT NAME OF RISK]		
RISK OWNER: RISK RATING:	EFFECTIVENESS OF CURRENT CONTROLS: Improvement actions status:	
ELEMENTS OF RISK / RISK DESCRIPTION (note specifically where elements related to specific regions or functions)		
.		
EXISTING CONTROLS OR OTHER ACTIONS TO MANAGE RISK		
.		
EXISTING INFORMATION PERMITTING MANAGEMENT TO KNOW HOW WELL RISK IS BEING MANAGED		
.		
PROPOSED IMPROVEMENT ACTIONS	WHO	BY WHEN
.		