



Risk Management Policy

Australian Dairy Nutritionals Limited – ABN: 36 057 046 607 (the
Company)

Risk Management Policy

1. Introduction

- 1.1 The Company is a listed public company.
- 1.2 The Board is responsible for the corporate governance of the Company and its controlled entities (**Group**).
- 1.3 The purpose of this charter is to:
 - (a) outline the processes for management of risk by the Group;
 - (b) clarify the role and responsibilities of the Board and senior management; and
 - (c) enable the Board to provide effective management and oversight of Group risks.

2. Responsibility for Risk Management

- 2.1 The Board is responsible for assessing and monitoring the Group's risk management system.
- 2.2 The Board determines the Group's risk appetite and is responsible for establishing and overseeing the Group's risk management strategy and framework and assessing the processes and policies for treating and monitoring risks applicable to the Group.
- 2.3 The active identification of risks and implementation of mitigation measures is the responsibility of the management team.
- 2.4 Development of a risk aware culture and adequate reporting in relation to existing and emerging risks is key to ensuring a robust and transparent management of the risks impacting the Group.

3. The Board's role and responsibilities in managing risk

- 3.1 The Board oversees the Group's risk management system by:
 - (a) working with senior management to identify the key risks to the Group and prioritising actions to treat and minimise such risks including ongoing review of existing risks and identification of emerging risks;
 - (b) obtain and review reports by management on the operation and effectiveness of the Group's risk management processes including risk treatments, policies and procedures and insurance arrangements;
 - (c) foster a corporate culture which is open and transparent about the risks facing the Group and adequacy of the controls implemented to treat such risks and strives for continuous improvement in its risk management framework;
 - (d) reviewing and assess the Group's risk management framework, systems, practices and processes, at least annually to ensure effective risk identification and management in compliance with the risk appetite set by the Board as well as external requirements;
- 3.2 The Board is also responsible for identifying and considering risk related requirements set out in the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (4th edition) and reporting against such requirements including:

- (a) identification of material exposure to environmental or social risks:
- (b) identification of material exposure to climate change risk; and
- (c) determining whether the Group is required to report in relation to sustainability and environmental requirements.

4. Risk management processes and controls

4.1 The Group's process of risk management and internal assessment and control includes:

- (a) identifying and assessing strategic and operational risks that could impact the ability of the Group to achieve its objectives.
- (b) Monitoring the internal and external environment for emerging risks and changes to the nature or impact of identified risks;
- (c) Formulating risk management strategies and overseeing the development and implementation of risk management controls and procedures;
- (d) Regular assessment of the effectiveness of such risk management controls and procedures; and
- (e) Risk transference including review of the Group's insurance portfolio.

4.2 The Board delegates the responsibility for implementing risk management controls and assessing the effectiveness of such controls to management. Senior managers report to the Board periodically in relation to key risks impacting the area of the business in which they are responsible.

5. Review of risk management system

5.1 The Board reviews the effectiveness of risk management and internal controls at least annually. This review is conducted with the input of the senior management team.

5.2 On a quarterly basis the Group's risk register is reviewed to ensure that the appropriate risk score has been applied to that risk considering the impact of the risk and the likelihood of occurrence. Both the Board and management discuss any emerging risks which need to be incorporated into the risk register and material movements in the score applied to existing risks.

5.3 Where possible, risk management initiatives are incorporated into the objectives of senior management to ensure accountability for such risks.

5.4 Pursuant to the Corporate Governance Principles and Recommendations the Group will disclose if it has any material exposure to environmental and social risks and, if applicable, how such risks are identified and managed.

5.5 When considering the Group's annual and half year financial statements the Board receives a written statement signed by the Chief Executive Officer and the Finance Consultant (external CFO) that the Group's financial reports give a true and fair view, in all material respects, of the Group's financial positions and comply in all material respects with relevant accounting standards.

6. Risk Appetite Statement

6.1 The risk context in which the Group operates is characterised by several key factors including:

- (a) the unpredictable nature of climate and its impact on agriculture both domestically and internationally;
- (b) the nature of food products and the accessibility of international markets in general as well as to those foods products;
- (c) the regulation of food sales and marketing particularly infant formulas and food products for children;
- (d) the level of marketing investment required to launch new brands and the effectiveness of such marketing investment both domestically and internationally;
- (e) the prevailing economic and market conditions from time to time both domestically and in key international markets;
- (f) the need to deliver financial returns in an increasingly competitive environment; and
- (g) the variety of strict regulatory regimes which apply to the Group including the rules of the Australian Securities Exchange, dairy and broader food safety and quality regulation, international market access requirements.

6.2 The Group has developed a risk appetite statement outlining the level of risk which it is willing to accept to both strategic and operational risks. The appetite recognises that given the nature of agribusiness the Group's performance is dependent on external factors which are often outside the Group's control or ability to influence.

6.3 The Group is cognisant of the dynamic nature of risk and seeks to implement strategic commercial actions designed to capitalise on opportunities and minimise potential negative outcomes. Notwithstanding this, the nature of the Group's business operations and strategy and its growth stage requires it to accept significant levels of residual strategic and operational risk at this point.

7. Management of Risks

7.1 The Group's risk management framework is based on the ISO31000 standard for risk management. The standard aims to prioritise the risks facing the Group based on a risk score and this determines the review and implementation of appropriate risk mitigation and control strategies.

7.2 Within the framework, and in addition to daily management of business activities, each business unit is required to formally profile its risk environment every 6 months including identification of key risks, assess risk score applied to such risk, assess existing risk controls and operation, identify improvements and initiatives to address risks.

7.3 The Board has responsibility for considering management's monthly risk reports and reviewing and evaluating the 6 monthly review of the risk management framework.

7.4 The Board also reviews the Group's insurance policy framework on an annual basis to determine its application to the Group's risk management policy and risk controls and design.

8. Risk Profile

8.1 The Group's activities give rise to a broad range of risks to the Group's financial performance, enterprise value and ongoing commercial viability.

8.2 The Group adopts an enterprise view of the risks impacting the Group and both the Board and management have a role in identifying risks including emerging risks. Identified risks are given a

score based on the impact of the risk (against qualitative and quantitative factors) and the likelihood of occurrence.

- 8.3 The Group's risk register outlines the risks impacting the Group and are typically categorised into Strategic, Operational, Financial and Legal & Regulatory. Each risk is given a risk score and outlines existing controls and areas for change and improvement.
- 8.4 In line with the principles set out in ISO:31000 Risk Management Policy risks are prioritised according to their risk score, which is reviewed on an ongoing basis to adapt to prevailing internal and external circumstances.