NZOG Risk Management System Framework

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1. Purpose, Application and Scope

This Risk Management System (RMS) Framework outlines our approach to risk management. It provides a framework on how to apply consistent and comprehensive risk management practices across all functional areas of NZOG's business.

Applying this consistently and comprehensively will:

- Increase the likelihood of achieving our strategic and business objectives
- Clarifies and drives accountability throughout the company
- Supports sound decision making by providing a better understanding of exposures.
- Creates a cost efficient and effective mechanism for prioritization of resources and work to meet objectives.
- meet compliance and good governance requirements.

This RMS applies to all sites and activites NZOG operationally controls.

This Risk Management System has been developed to

- *align with the International Standard ISO 31000Risk Management- Principles and Guidelines.*
- *meet the requirements of the ASX Corporate Governance Principles and Recommendations, Principle 7:Recognise and Manage Risk.*

Note: this procedure does not cover the management of *issues*.
An *issue* is a situation or risk that has eventuated, there is no remaining uncertainty and it may or may not be the result of actions taken within the organization; it may be a situation which is beyond the limits of influence of the organization to manage directly.

2. Risk Management Principles

Risk is defined as "the effect of uncertainty on our objectives".

For risk management to be effective for NZOG, the following principles apply

Principle 1: **Risk Management creates and protects value.**
Risk management contributes to the demonstrable achievement of objectives and improvement in performance in, for example, health and safety, legal and regulatory compliance, environmental protection, project management and governance.

Principle 2: **Risk Management is an integral part of all NZOG's processes.**
Risk management is not a stand-alone activity, separate from the main activities and processes within NZOG. Risk management is part of the responsibilities of management and an integral part of all business processes, including strategic planning and all project and change management processes.

Principle 3: **Risk Management is part of decision making.**
Risk management helps decision makers make informed choices, priortise actions and distinguish among alternative courses of action.

Principle 4: **Risk Management explicitly addresses uncertainty.**
Risk management explicitly takes account of uncertainty, the nature of that uncertainty and how it can be addressed.

Principle 5: **Risk Management is systematic, structured and timely.**
A systematic, timely and structure approach to risk management contributes to efficiency and to consistent, comparable and reliable results

Principle 6: **Risk Management is based on the best available information.**
The inputs to the process of managing risk are based on information sources such as historic data, experience, stakeholder feedback, observation, forecasts and expert judgment. However managers should inform themselves of, and should take into account, any limitations of the data or modelling used or the possibility of divergence amongst experts.

Risks include, but are not limited to: operational, environmental, sustainability, compliance, strategic, ethical conduct, reputation(brand), technological, product or service quality, human capital, financial reporting and market related risks.

3. Risk Management Responsibilities

Specific responsibilities for the management of risks are required to ensure that the Risk Management framework is integrated and functions effectively.

The NZOG Board is accountable for:

- Overseeing the effectiveness of the RMS
- Monitoring compliance with the requirements of the RMS and reviewing the adequacy of risk controls.
- Reviewing the risk profile of the company and approving the policies and systems for the on-going identification and management of risks.
- Reviewing the company's capacity to absorb risks and approving aggregate exposure limits;
- Requiring management to report on the performance of systems used to identify and manage risks and regularly reviewing these reports.

The NZOG board is responsible for:

- Reviewing and approving the policies required to implement the risk management framework;

- Approving NZOG's overall risk capacity and appetite;
- Reviewing the material risks;
- Reviewing and approving the allocation of exposure limits for different categories of risk
- Overseeing the effectiveness of the RMS;
- Reviewing the risk register.
- Allocating oversight of effective management of risks in relation to accounting standards and principles, compliance and reliability of financial statements and effectiveness of audit processes to the Audit Committee
- Allocating oversight of effective management of risks in relation to HSE and the operations activities of the company to the HSE and Operational Risk Committee.

The Chief Executive Officer (CEO) is responsible for:

- Providing leadership for the business to improve its risk management capability, culture and direction;
- Integrating risk management into core business processes.
- Identifying, documenting and managing NZOG's corporate strategic risks and opportunities;
- Reviewing and accepting risks and approving the associated treatment plans as delegated in Table 1 and
- Regularly reviewing the NZOG risk profile.
- Making recommendations to the Board on risk appetite and capacity.
- Reporting on risks to the Board

Managers are responsible for

- Identifying, documenting and managing risks and opportunities in relation to their roles;
- Reviewing and accepting risks and approving treatment plans as delegated in Table 1.
- Ensuring all risks and their associated treatment plans have been accepted and approved in line with delegations provided in Table 1.
- Ensuring their teams are engaged in the risk management process.
- Regularly reviewing risks within their business role responsibilities.

The Chief Financial Officer is responsible for

- The design, development and improvement of risk management framework.
- Actively challenging the risk assessments of company risks.
- Providing assurance that the RMS and framework is functioning as designed.
- Maintaining the company risk register.

Everyone is responsible for taking all reasonable and practicable steps to perform their responsibilities delegated under this RM framework.

Table 1: Approved Risk Acceptance Levels.

Level of Risk	Action Required	Escalation and approval of treatment plans.	Acceptance authority.
Extreme	Risk treatment plans must be in place and steps taken to reduce the risk immediately. Risk reviewed weekly	CEO and Board for review and approval of the treatment plan. Board review of the treatment plan status monthly.	Board
Severe	Risk treatment must be developed and approved within a month and steps taken to reduce the risks within a further 2 months. Risk reviewed a least monthly Risk Owner.	CEO and Board for review and approval of the treatment plan. Board review of treatment plan status each month.	Board
High	Risk treatment must be considered and if applicable, steps taken to reduce the risk within 9 months. Reviewed monthly by risk owner	Manager (Delegated authority level 2)	CEO (Delegated authority level 1)
Medium	Risk treatment may be considered. Review risk quarterly by owner	Manager (Delegated authority level 3)	CEO
Low	No further treatment required. Risk reviewed annually by owner	Manager (delegated authority level 3)	CEO

4. Risk Management Framework

4.1 When to Risk Manage

Risk management is not a stand-alone discipline and needs to be integrated with existing business processes:

a) Project Delivery Process: Every project must establish the risks relating to the project delivery and a plan for managing these.

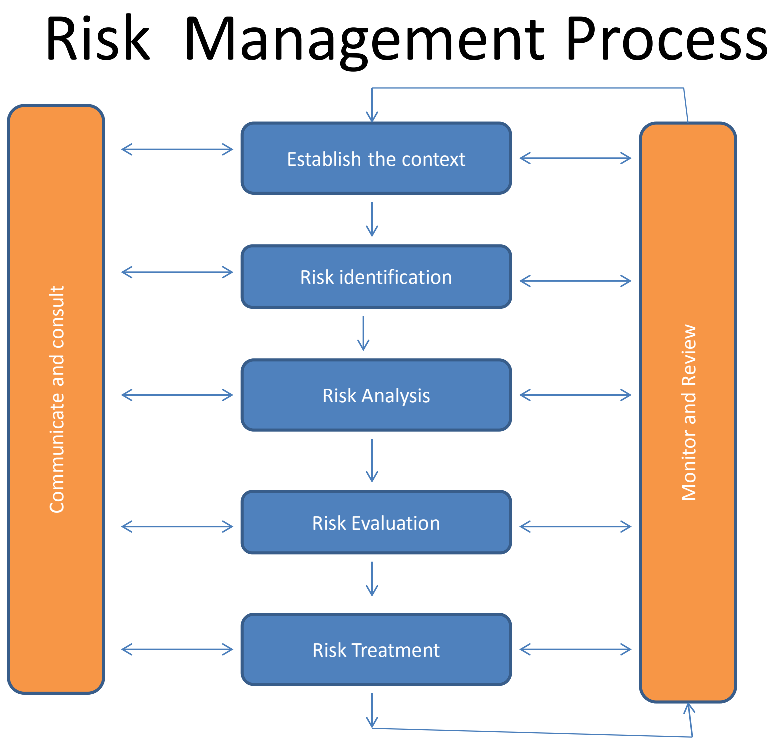
b) Strategic/business Planning: The strategic plan needs to be accompanied by a strategic risk assessment.

c) Budgeting and Forecasting: Budgets must identify key risks and opportunities related to achieving budget objectives. Any risk management action must be costed and included in the budget.

d) Contracts management: Risk relating to the full life cycle of a contract need to be identified, costed and managed.

4.2 The Risk Management Process

Risk Management is a continual process that involves following well defined steps adopted from the International Standard ISO 31000. These steps are defined in the following diagram.



4.3 Risk Assurance

Risk assurance is provided through a prioritized programme of audits of primary risk controls.

Assurance methods should be appropriate to the level of importance and dependency on the risk control. Assurance methods include the following in increasing level of 'rigor':

- Competent employees
- Management oversight
- Peer/management challenge process
- Internal review/audit
- External review/audit.

5. Action, Escalation and Acceptance of Risk

All identified risks need to be assessed and reported to the management team. No employee has the authority to accept a risk without first reporting it.
The Board has risk acceptance authority for risks rated Severe or Extreme
The CEO has risk acceptance authority for risks rated High, Medium or Low.

All risks must have a treatment (or mitigation) plan to manage (mitigate) the risk to a level acceptable to the CEO.

6. Recording Risks

A risk register is a mechanism for ensuring a common approach to recording risks and a management tool to:

a) Consider the risks, review the controls and appreciate the current exposure
b) Assign ownership for a risk
c) Track treatment plans.

A central company risk register will be maintained.

Projects will maintain a risk register.

7. Monitoring and Reviewing Risks

Risks will be formally reviewed by risk owners. The review must include a review of all dimensions of the risk and progress in implementation of the treatment plan.

Management will regularly review the company risk register.

The Board will regularly review the company risk register and results of the audit programme relating to risk controls.

8. Definitions

Term	Definition
Consequence	Outcome of an event affecting objectives
Control	Measure (e.g. process) that is modifying risk
Control effectiveness	A relative assessment of actual level of control that is currently present and effective compared with that which is reasonably achievable for a particular risk.
Event	Occurrence or change of a particular set of circumstances
Level of risk	Magnitude of a risk or a combination of risks expressed in terms of the combination of consequences and their likelihood.
Likelihood	Chance of something happening.
Material risks	Risks with potential exposure of Critical or catastrophic , or a level of risk of severe or extreme.
Monitoring	Continual checking, supervising, critically observing or determining the status in order to identify change from the performance level required or expected.
Potential exposure	Maximum credible impact on NZOG arising from a risk without regards to controls.
Residual risk	Risk remaining after treatment
risk	The effect of uncertainty on our objectives.
Risk acceptance	The informed and formal decision to take a particular risk
Risk analysis	Process of developing an understanding of the risk through consideration of causes and sources and of determining the level of risk through assessment of the consequences and likelihood.
Risk assessment	Risk assessment is the overall process of risk identification, analysis and risk evaluation.
Risk evaluation	Process of comparing the results of risk analysis with risk criteria to determine whether the risk magnitude is acceptable.
Risk exposure	The extent to which an organization is subject to an event.
Risk identification	Process of finding, recognizing and describing risks
Risk Management	Coordinated activities to direct and control an organization with regard to risk.
Risk management Framework	Set of components that provide the foundations and organizational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management throughout the organization.
Risk management process	Systematic application of policies, procedures and practices to the activities of communicating, consulting, establishing the context and identifying, analyzing, evaluating, treating, monitoring and reviewing risk.
Risk Matrix	Tool for ranking and displaying risks by defining ranges for consequence and likelihood.
Risk Owner	Person with the accountability and authority to manage a risk
Risk Profile	A description of any set of risks
Risk Register	A record of information about identified risks
Risk Review	A process to determine the suitability, adequacy and effectiveness of the subject matter to achieve established objectives.
Risk Treatment	A process to modify risk.
Target risk	Aspiration level of risk to be achieved once treatment is complete.

9. References

AS/NZ ISO 31000:2009 Risk Management – Principles and Guidelines