



**RISK OVERVIEW
AND
MANAGEMENT
POLICY**

DECEMBER 2007

1. VISION

To develop organisational wide capabilities in risk management so as to ensure a consistent, efficient and effective assessment and management of risk in the achievement of Wattyl's strategic and business objectives.

Wattyl views risk management as integral to its objective of creating and maintaining shareholder value and the successful execution of its strategies.

2. PURPOSE

Wattyl's Risk Overview and Management Policy provides the framework to manage the risks associated with its activities. It is designed to identify, assess, manage and monitor risk.

Wattyl's Risk Overview and Management Policy supports the achievement of our objectives by:

- ◆ Promoting a more risk aware culture throughout the organisation;
- ◆ Encouraging proactive rather than reactive management;
- ◆ Providing assistance to, and improving the quality of decision making throughout Wattyl;
- ◆ Contributing to more efficient use/allocation of capital and resources within Wattyl;
- ◆ Protecting and enhancing Wattyl's assets and image; and
- ◆ Protecting Wattyl from any unmitigated significant risks in the pursuit of our strategic goals and objectives.

3. RISK MANAGEMENT

Wattyl believes that risk should be managed on a continuous basis.

Wattyl optimises its ability to achieve strategic and business objectives by maintaining a system that assists management decision making and provides early warning of risks.

Risk management is an integral part of Wattyl's strategic planning, business planning and investment/project appraisal procedures.

4. RISK PROFILE

To properly determine and maintain an appropriate risk profile, Wattyl is committed to ongoing processes for the identification, assessment, management and monitoring of risk and for the reporting and consolidation of group-wide risk assessments on a consistent basis for presentation to the Wattyl Board and its Committees, as appropriate.

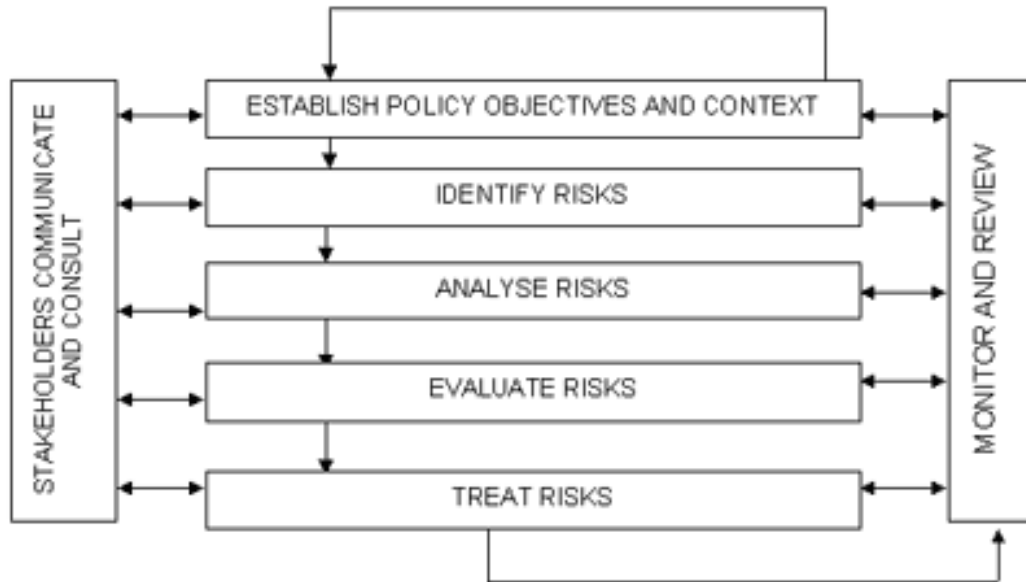
Wattyl focuses on effective management of the following material risks:

- ◆ Strategic risks;
- ◆ Operational risks;
- ◆ Environmental risks;
- ◆ Financial risks;
- ◆ Legal and Regulatory risks;
- ◆ Human Resources risks; and
- ◆ Information Systems risk.

5. RISK PROCESS

Wattyl adopts the Risk Management approach and general methodology specified in the Australian/New Zealand Standard 4360:2004 on “Risk Management”.

The following diagram provides an overview of the risk management process:



The elements of the risk process are:

5.1 Establish policy objectives and context

Clear articulation of the policy context and environment is vital to successful implementation of the risk management process. An important consideration when determining the risk environment relates to the views of key stakeholders.

- ◆ Relationship between Wattyl and its environment and stakeholders.
- ◆ Review of Wattyl’s goals and objectives
- ◆ Establishes Wattyl’s risk culture
- ◆ Determine Wattyl’s risk appetite
- ◆ Defines roles and responsibilities

5.2 Risk identification

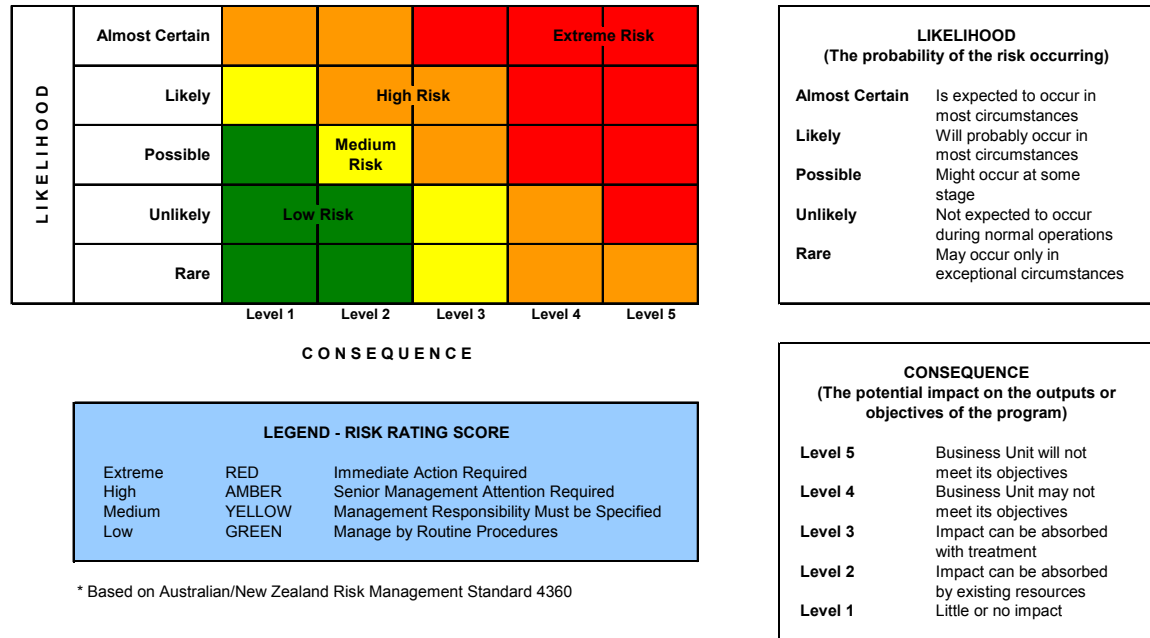
Risk identification sets out to identify Wattyl’s exposure to uncertainty. This step involves identifying those incidents, occurring internally or externally, that could affect strategy and achievement of objectives. Risks will be categorised as follows:

- ◆ Strategic risks;
- ◆ Operational risks;
- ◆ Environmental risks;
- ◆ Financial risks;
- ◆ Legal and Regulatory risks;
- ◆ Human Resources risks; and
- ◆ Information Systems risk.

5.3 Risk Analysis

Risk analysis involves consideration of the sources of risk, their consequences and the likelihood that those consequences may occur in the absence of any controls.

Results may be recorded in a qualitative matrix as below:



5.3.1 Determine existing controls

Document the existing controls in place that mitigate the consequences and / or likelihood of risks identified and review effectiveness.

Rate how well risks are controlled: strong; moderate; weak; uncontrollable.

5.4 Risk Evaluation

Risk evaluation involves comparing the level of risk found during the analysis process against Watty1's known priorities and requirements. Any risks accorded too high or too low a significance are adjusted, and documented accordingly. The output of the risk evaluation is a prioritised list of risks for further action.

Once each risk has been re-assessed in light of current controls or management strategies, mapping the re-assessed risks onto a matrix will assist in determining whether risks should be prioritised for further action.

If the resulting risks fall into the **low or acceptable** risk categories they may be accepted with minimal further treatment. Low and accepted risks should be monitored and periodically reviewed to ensure they remain acceptable. If risks do not fall into the low or acceptable risk category, they should be treated using one or more of the options considered below.

5.5 Risk Treatment

Risk treatment involves identifying the range of options for treating unacceptable risks, assessing those options, preparing risk treatment plans and implementing them.

Risk treatment options include:

- ◆ Eliminate the risk;
- ◆ Avoid the risk (reduce likelihood or consequence);
- ◆ Transfer the risk;
- ◆ Retain the risk.

The action plans adopted will be documented and its implementation tracked as part of the reporting process.

5.6 Monitoring and Review

Few risks remain static. Risks will be continuously monitored and reviewed; and the effectiveness of the controls in place and of the risk action plans is assessed to ensure changing circumstances do not alter risk priorities.

Feedback on the implementation and the effectiveness of the policy will be obtained from the risk reporting process, internal audits and other available information.

5.7 Documentation and Communication

The risk management process will be documented and communicated throughout Wattyl.

6. ROLES AND RESPONSIBILITIES

The following describes only the key roles and responsibilities in Wattyl's risk management framework. All Wattyl's employees have a role to play in the management of risk.

Board

The Wattyl Board is responsible for the oversight of the risk management framework and has delegated responsibility for the implementation of the risk framework to management. The board confirms Wattyl's Risk Management policy and strategy based on quarterly updates provided by management. The Board are appraised on Wattyl's 'Risk Profile' and review the adequacy and effectiveness of the risk management system at least annually. The Board review the Risk Assessment Report submitted by management on a regular basis.

Risk and Compliance Committee

Management has responsibility for implementation of the risk management framework and have delegated day-to-day responsibility for implementation of the risk management framework to the Risk and Compliance Committee. The aim of the Committee is to provide management assurance that the major business risks are being identified and consistently assessed and that management plans are in place to address risk.

The Risk and Compliance Committee is comprised of risk owners for each of the core functions. It is responsible for:

- ◆ Implementation of the principles, actions and requirements of the risk management framework and monitoring its implementation within Wattyl and its business units;
- ◆ Provision of the necessary tools and resources to identify and manage risk;

- ◆ Ongoing assessment of Wattyl's risk profile
- ◆ Regular review of progress against action plans for all risk items;
- ◆ Regular review of the current list of risk items and making any necessary changes to the risk status of individual items;
- ◆ Regular reporting of the status of risk items to management and the Board;
- ◆ Appraisal of risk owners actions taken to manage risk and correction of substandard performance;
- ◆ Internal compliance and control systems for the implementation of the risk management framework;
- ◆ Cooperation necessary to assist the internal audit function in carrying out the internal risk audit under the terms required by the Audit Committee;
- ◆ Compliance with regulatory requirements and best practice.

Management

The Managing Director, Finance Director, Executive Managers and Business unit Managers are responsible and accountable for ensuring that systems, procedures and controls are in place so that risks are managed to an acceptable level.

Executive Managers and managers of business units have primary responsibility for managing risks on a day-to-day basis.

Risk Management Co-ordinators

Risk Management Coordinators are responsible for the coordination within their accountable area and for providing the Board, Risk and Compliance Committee and Management with information on the management of risk throughout Wattyl and to facilitate the implementation of risk management processes

Internal Audit

Internal Audit is responsible for reviewing compliance with internal controls including specific risk policies and procedures and assessing their effectiveness.



7. REPORTING

Immediate

All managers must report **all** new risks and changes to existing risks to the Divisional Risk Management Coordinators as soon as they come to the attention of the manager. Divisional Risk Management Coordinators will report to the Group Risk Coordinator all **material** new risks and changes to existing **material** risks, having regard to the likelihood and consequences of such risk, as soon as reported by management. The Group Risk Coordinator will report any new or emerging **material** risks to the Managing Director and Finance Director.

Monthly

Business unit managers will provide monthly updates on any changes to risk profile and risk action plans to the Divisional Risk Management Coordinators.

The Group Risk Coordinator will report to the Risk and Compliance Committee on a monthly basis regarding:

- ◆ the risk profile of each business unit and a summary of any major changes since the last report;
- ◆ the status of each risk action plan.

8. DEFINITIONS

Wattyl has adopted the following definitions from the Australian/New Zealand Standard 4360:2004 on “Risk Management”.

Consequence	The outcome of an event expressed either in financial terms or qualitatively, being a loss, injury, disadvantage or gain.
Likelihood	The possibility of an event happening.
Risk	The chance of something happening that will have an impact upon objectives. It is measured in terms of consequences and likelihood.
Risk Assessment	The overall process of risk analysis and risk evaluation.
Risk Analysis	A systematic use of available information to determine how often specified events may occur and the magnitude of their consequences.
Risk Evaluation	The process used to determine risk management priorities by comparing the level of risk against target risk levels or other criteria
Risk Management	The culture, processes and structures that are directed towards the effective management of potential opportunities and adverse effects.

9. SCOPE

This policy is applicable to all Wattyl business units and operations.

10. COMPANY CONTACT

Questions about the Risk Overview and Management Policy and its application may be directed to:

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Facsimile: 02 9813 3311