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Treasury Management Policy

Skellerup Holdings Limited

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1. Governing principles and objectives

Skellerup Holdings Limited ("Skellerup") proactively manages its foreign exchange ("FX") and treasury management risks to:

- Reduce volatility of NPAT and mitigate unexpected surprises in financial performance caused by exchange rate and interest rate movements.
- Manage liquidity, debt, funding and cash flow requirements in a prudent and efficient manner.
- Operate the business with a board-approved Policy that adopts a risk-based approach and supports the delivery of financial results within expected ranges.
- Provide protection to earnings relative to Budget and Business Plans to support the delivery of financial results in accordance with Board and shareholder expectations.

Budget and forecast profit margins must be protected to a high degree to ensure appropriate returns to shareholders are achieved and other stakeholders such as staff, bankers, business partners, suppliers and customers have assurance that the Group's FX and treasury risks are identified and prudently managed.

All Skellerup personnel are required to comply with this Policy which applies to all majority-owned subsidiaries, unless strictly specified otherwise by the Chief Financial Officer (CFO). All foreign exchange hedging actions and interest rate risk management actions are made or directed by the Chief Executive Officer (CEO) or CFO.

2. Risk Recognition, Materiality and Measurement

2.1. Transactional FX risks

Skellerup adopts a netting approach to its group-wide financial risks. The netting of foreign exchange payments and receipts is deemed eligible when they occur within a rolling 30-day period.

Skellerup's net foreign currency cash receipts are mainly denominated in USD and AUD and smaller, consistent amounts of EUR and GBP. Skellerup also has net import payments of CNY which are funded in AUD.

Therefore, the transactional FX risks that impact on Gross Profit and Net Profit are:

- NZD appreciation against the USD, AUD, EUR and GBP on the conversion of foreign currency net cash receipts into NZD.
- CNY appreciation against the AUD on the conversion of AUD cash required to meet CNY costs.

Skellerup recognises, measures and manages its NZD/USD, NZD/AUD, NZD/EUR and NZD/GBP transactional FX risks by forecasting forward its net foreign currency cash receipts position (for conversion to NZD) after paying costs.

Skellerup recognises, measures and manages its AUD/CNY transactional FX risks by forecasting forward its net CNY requirements (to be met from AUD).

2.2. Capital expenditure FX risks

Skellerup recognises and measures the FX risks around the import into New Zealand of capital equipment denominated in foreign currency and is covered in Section 3.2.

2.3. Overseas subsidiary companies profit conversion risk (impacting EBIT)

Conversion of monthly accounting profits from overseas subsidiaries denominated in USD, AUD, EUR and GBP into the parent company's NZD Income Statement.

Group EBIT is at risk of being below budget due to FX rate movements if the average monthly NZD/USD, NZD/AUD, NZD/EUR and NZD/GBP profit conversion rates are above FX rates applied to the budget at the commencement of the financial year.

2.4. Materiality/sensitivity to annual Skellerup profit

Transactional FX risk: Materiality/sensitivity of NZD FX movements to Skellerup's Gross Profit and Net Profit on an unhedged basis for 50% of typical annual range = NZD 3.06 million gains/loss (based on annual net exposure of USD 16 million, AUD 17 million, EUR 4 million and GBP 2 million). The anticipated impact of NZD FX movements on EBIT for FY23 has been reviewed and is expected to be in line with the amounts presented in the Policy.

Overseas subsidiary companies profit conversion risk: Materiality/sensitivity of NZD FX movements to Skellerup's EBIT on an unhedged basis for 50% of typical annual range = NZD 1.84 million gains/loss (based on annual net Profits of USD 9 million, AUD 7 million, EUR 2 million and GBP 2 million).

3. Risk control and hedging limits

3.1. Translational FX risks

Forecast conversions of USD, AUD, EUR and GBP net cash receipts into NZDs (phased monthly = exposures) are hedged on a rolling monthly basis (24 months forward) to be compliant at all times with the following minimum and maximum limits, per time bucket:

FX Exposures	Minimum %	Maximum %	Maximum (2) %
0 to 12 months	50%	100%	100%
12 to 24 months	0%	75%	100%
24 to 36 months[1]	0%	50%	75%
36 to 48 months[2]	0%	25%	50%

[1] Conditional Filter-Test trigger: NZD/USD forward rate at least 10% below 7-year average spot rate. (NZD/EUR and NZD/GBP 7.5%, NZD/AUD 5%)

[2] Conditional Filter-Test trigger: NZD/USD forward rate at least 15% below 7-year average spot rate. (NZD/EUR and NZD/GBP 10%, NZD/AUD 7.5%)

Maximum (2): Final component with purchased NZD call options only.

Skellerup management (CFO and Group Financial Controller (GFC)) have discretionary authority to shift hedging percentages between minimum and maximum limits in the 0 to 24-month time buckets.

Prior CEO, CFO and GFC consultation, with approval by the CEO is required for any hedging beyond 24 months and only when the "Conditional Filter-Test" is triggered.

Forecast conversions of AUD funds to meet CNY cost requirements (phased monthly = exposures) are hedged on a rolling monthly basis (12 months forward) to be compliant at all times with the following minimum and maximum limits.

FX Exposures (AUD/CNY)	Minimum %	Maximum %
0 to 12 months	25*%	100%

* Immediately following Board annual budget ratification, a minimum of 50% of the budget years' forecasts must be hedged. Decisions to hedge this minimum may be taken in advance of the annual budget process.

3.2. Capital expenditure FX risks

Skellerup's Policy with respect to one-off Capex payments in foreign currency is:

- 50% hedged when purchase of item is formally approved.
- 100% hedged when the supply contract/procurement order is signed.
- Applies to all Capex items > NZD 250,000.

3.3. Overseas subsidiary companies profit conversion risk (impacting EBIT)

At the time that the annual budget is being set, Skellerup will assess the materiality of the foreign exchange risks associated with the monthly/annual translation and consolidation of overseas subsidiaries profits, with consideration to the impact on both group EBIT and financial covenants. Only purchased options and average rate options may be used to hedge the risk with the aim of protecting the annual budget rate.

The policy to hedge foreign subsidiary profit translational risk is subject to Board approval including a materiality threshold as/when the risk of movement defined in section 2.3 above is >10% of budgeted EBIT (currently 3%).

4. Approved FX hedging instruments

Approved FX hedging instruments: Spot FX transactions, Forward exchange contracts, FX Swap contracts, Purchased FX option contracts (maximum 12-month term), FX collar option contracts (1:1 in amount only).

FX swap contracts (the simultaneous buy NZD/sell Foreign Currency spot and sell NZD/buy Foreign Currency forward) may be used to convert excess Foreign Currency cash reserves into NZDs to fund NZD cashflow deficits for defined periods.

FX orders to buy/sell currencies with the Group's bankers.

FX options may be purchased for shorter-term maturity periods (e.g., 6 months) but ear-marked for longer-dated maturities/exposures (e.g., 24 months).

Other instruments to the above allowable instruments are considered on a case-by-case basis as authorised by the Board of Directors. Conditions for these types of instruments that need to be fulfilled are for the worst-case protection rate to be always known, and the 'obligated' amount / face value of the hedge to always be known.

5. Liquidity, Cash, Debt/Funding and Interest Rate Risk Management

5.1. Liquidity management policy

Liquidity buffer: Skellerup Holdings will always hold liquid resources and/or available committed bank facilities equivalent of at least one month Cost of Sales and at least three months operating cash expenses. Operating cash expenses include for example; distribution, marketing, administration, and finance expenses.

5.2. Cash management policy

A daily (two weeks' forward), weekly (four weeks' forward) and rolling 12-month total Group cash-flow forecast must be kept up-to-date by the Group Financial Controller.

The Group's Policy is to manage the cash resources of the Group centrally at the NZ Head Office Finance function. Surplus funds are repatriated to New Zealand.

Daily Group cash management activities and responsibilities include; calculate and maintain short-term cash flow projections, daily cashflow and bank balance monitoring (including foreign currency bank accounts), accounts receivable/payable flows, utilising cash surpluses to repay short-term working capital

debt, short-term borrowing to minimise overdraft costs and optimising banking arrangements to minimise bank fees/charges.

The GFC oversees the group-wide cash position and also has oversight on Skellerup's subsidiaries to determine daily cash inflows and outflows with the objective of managing the cash position within approved parameters.

5.3. Debt/funding risk policy

The Board must approve all new loans and borrowing facilities, including refinancing.

Funding risk is the risk that the Group cannot command the same or superior debt pricing, conditions/terms and debt tenors in the future as current debt facilities in place.

To mitigate funding risk, the Group will maintain committed external debt facilities with maturity dates conforming to: -

- Core Debt: Between one and five years.
- Working Capital Debt/Liquidity Buffer Requirements: Greater than 12 months at the commencement of each financial year.

Core Debt is the debt that is expected to remain permanently on the balance sheet over the next 12 months.

The CFO is responsible for negotiating, establishing, documenting and maintaining appropriate bank debt facilities that meet the short-term liquidity and long-term funding requirements of the Group.

5.4. Interest rate risk policy

The Group's policy is for interest rate risk on Core Debt to be managed by the following risk control limits when >$20m, using interest rate swaps or fixed rate loans.

	Minimum (%)	Maximum (%)
0 to 3 years	25%	75%
3 to 5 years	0%	50%

5.5. Other policy requirements

The CFO and GFC of Skellerup are responsible for ensuring compliance to all bank lender financial covenants and ratios. The CFO and GFC must prepare rolling 12-month forecasts of the Group's financial covenant ratios and notify the CEO and Board immediately of any potential non-compliance.

The GFC must ensure that transactional banking arrangements and pricing in place are competitive to the banking marketplace.

6. Operating procedures and protocols

FX and interest rate dealing Procedures: The GFC enters FX and interest rate transactions with the bank (up to a maximum of NZD 5 million per day), in line with hedging strategies approved with the CFO. FX (and interest rate) orders may also be placed with the bank by the GFC. CFO daily limit is up to NZD 10 million and the CEO daily limit is up to NZD 15 million (not additive).

Limits on loan drawdowns and repayments are GFC up to NZD 10 million, CFO up to NZD 20 million and CEO within facility limits.

Segregation of duties: Checking of external bank confirmations for all FX hedging contracts to internal records kept by the GFC is completed by the Group Accountant (or equivalent role). Discrepancies must be reported immediately to the CFO.

It is the CFO's responsibility to monitor and report to the Board any anomalies in the back-office confirmation, settlements, reporting and accounting procedures and to ensure that procedures and systems are in place to identify, monitor and manage all operational risks

Any serious negligent action or fraudulent action must be reported through the CFO to the Board.

The GFC is responsible for continually updating Foreign Currency cashflow forecasts 24 months forward to ascertain the net cash receipt position by which hedging percentages are based.

The Group Accountant compiles the monthly FX reports which are approved by the CFO and is also responsible for the settling, recording, reconciling and accounting for all FX hedging contracts.

The GFC ensures the accounting for treasury transactions is in accordance with generally accepted accounting principles/standards and the Group's accounting policies.

The CFO of Skellerup must confirm to the bank annually the Skellerup staff members authorised to enter hedging contracts on behalf of the Group (and also when staff change). The CFO is also an authorised dealer.

FX hedging contracts must only be entered with the counterparties specifically approved by the Board (currently ANZ and BNZ).

7. Decision-making and delegated authorities

The Skellerup Board approves the Policy (and any changes thereto) on the recommendation of Skellerup Holdings' management.

The Board may approve management requests for one-off transactions/risk positions falling outside policy risk control limits.

The CEO and CFO approve the opening and closing of bank accounts.

The CFO is responsible for operating and compliance to the Policy.

The CFO approves all treasury reports.

The CFO and GFC have discretionary authority to vary hedge percentages between minimum and maximum hedge limits. Hedge contracts must be adjusted higher or lower when a change to the exposure forecast causes a breach to the risk control limits.

The CEO, CFO and GFC, providing filter activations apply, are responsible for determining the level of long-term (>24 month) hedging put in place.

8. Reporting, performance and accounting

Monthly Treasury reports to the CEO and Board must include compliance to the FX hedging policy, hedged percentages compared to limits,

Additional monthly treasury reports to the CEO and Board must include compliance to the liquidity, debt, funding risk and interest rate risk policies and compliance to lenders financial ratios/covenants and forward projections for compliance testing.

Semi-annual reports to the CEO and Board must include FX rates achieved compared to budget and benchmark rates (calculated on hedging to mid-points of hedging limits).

The Treasury policy is formally reviewed by the CFO annually and wholly reviewed once every three years to ensure that it remains "fit for purpose" with a review report sent to the Board. The Policy must also be formally reviewed if and when there is a material change in the business operations/size in terms of exports, procurement, markets, debt levels and manufacturing strategy.

Next Review Date: December 2023