



Risk Management Framework Policy

Version 4

ERM Power Limited
ABN 28 122 259 223

Contents

- 1. Introduction2
 - 1.1 Overview2
 - 1.2 Purpose.....2
- 2. Policy2
 - 2.1 Risk Management Objectives2
 - 2.2 Risk Oversight and Governance Structure3
- 3. Policy Information6

1. Introduction

1.1 Overview

ERM Power Limited (“ERM Power” or “Company”) and its consolidated entities (“Group”) operate across a variety of different segments within the energy industry. It does so through Business Units that are managed separately for Risk Management, regulatory and capital purposes. These Business Units are managed under a range of business models consistent with the industry segment in which they operate and the specific business objectives of the Business Unit.

Each Business Unit incorporates staff with expertise within the segment within which it operates; and, according to their specific skills and expertise, those staff are delegated certain responsibilities and authorities that allow them to operate that Business Unit as efficiently and effectively as possible within an overarching framework that conforms with best practice principles of good corporate governance. These delegations are devolved through the ERM Power Board. The Business Units develop and implement policies, procedures and practices that are consistent with the Group’s vision and overarching policy frameworks.

1.2 Purpose

The purpose of this Risk Management Framework Policy is to define the structure within which ERM Power’s Business Units will manage the diversity of risks, both within and external to their business, in a manner which is consistent with the Group’s overall approach to Risk Management.

This document is not intended to prescribe how the Business Units will manage the various risks that they face in the day to day running of the business. Rather it:

Sets out the objectives of the Group’s approach to Risk Management;

Details the structure of the risk oversight function, and how the authority for Risk Management decisions is devolved throughout the organisation; and

Imposes certain responsibilities upon the managers of Business Units within the Group to develop methods and policies that manage those risks consistent with the Group risk tolerance.

2. Policy

2.1 Risk Management Objectives

ERM Power recognises that risk is an inherent part of its business. These risk factors may be generated externally as part of the industry in which it operates, or generated internally through business and investment decisions. ERM Power does not seek to eliminate these risks; rather it looks to manage these risks where possible to ensure the potential range of outcomes is within acceptable boundaries.

Effective Risk Management requires that risk assessment and decision making is introduced into all functions of the business and through all stages of decision making, whether it be strategy, planning, delivering of projects or operation of assets.

The objective of the Risk Management Framework Policy is to guide and assist Business Managers to develop effective Risk Management policies, processes and procedures that are consistent with the overarching Risk Management Framework Policy and that are appropriate for the business itself to achieve its commercial goals.

Risk Management at the Group level and within individual Business Units will be delivered by:

Providing a consistent and clear framework for the management of risks throughout the Group. Integral to this is establishing clear channels of responsibility and authority throughout the organisation for the management of specific items or categories of risk;

Ensuring that the culture of Risk Management is actively promoted by the Board and the Business Managers. A culture of Risk Management that is sponsored by the Board and the Business Managers will embed risk assessment and decision making throughout all levels of the business;

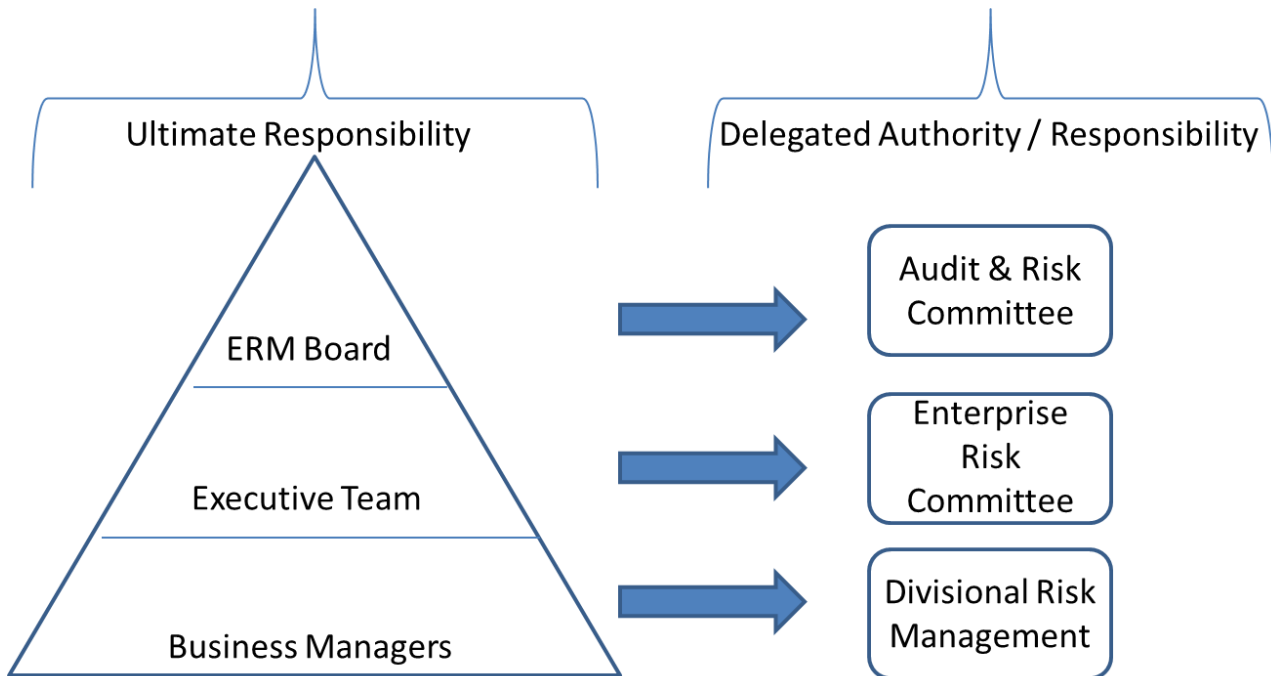
Regularly reviewing and recognising opportunities and threats that are facing the business so that the Business Managers can be proactive in managing those risks;

Developing clear and transparent channels of communication between the Board and the Business Managers; and between the risk takers within the organisation and the Business Managers that are responsible for managing those risks. These communications should take the form of regular meetings to allow these risks to be discussed, and reported in a manner that is appropriately targeted to the audience; and

While it is recognised that many risks cannot be distilled to a single parameter or metric, the Board should seek to articulate a set of clear qualitative and quantitative controls and limits on key risk parameters to provide early indicators of risk factors that may be exceeding the defined tolerances of the organisation.

2.2 Risk Oversight and Governance Structure

All personnel at ERM Power should feel responsible for, and be empowered to take ownership of, Risk Management within their function and for their level of responsibility. This organisation wide adoption of Risk Management principles and practices will be encouraged and promoted by the ERM Power Board and the Executive Team. However final accountability and authority for the Risk Management Framework Policy and decisions will rest with the Board. This section sets out the structure through which the ERM Power Board will devolve its responsibility and delegate authority for Risk Management throughout the organisation.



2.2.1 The ERM Power Board

The role of the ERM Power Board is to represent the shareholders and to promote and protect the interests of the company. The Board is specifically responsible for establishing the delegated limits of authority to the Executive Team and attending to matters reserved for board decision-making. These limits are set out in the Delegation of Authority Policy.

The Board has ultimate responsibility for the Group's approach to risk oversight, management and internal control systems. The Board is responsible for ensuring that the Group risk appetite and tolerance is clearly articulated, that there are appropriate policies in place to manage risk and maintain internal controls and that this framework allows businesses managers to operate appropriately within those boundaries.

The Board has constituted the Audit and Risk Committee to assist in discharging its Risk Management duties and responsibilities.

2.2.2 Audit and Risk Committee

The primary function of the Audit and Risk Committee (the Committee) is as set forth in the Charter and is fundamentally to assist the Board in fulfilling its responsibilities to protect the interests of Shareholders, customers, employees and the broader community through overseeing the Company's risk management practices and to provide Shareholders with timely and reliable financial reports.

This document is reviewed the Committee at least every two years and may only be changed by resolution and adoption by the Board.

2.2.3 Enterprise Risk Committee

The primary function of the Enterprise Risk Committee (the ERC) is as set forth in its Charter and is fundamentally to access and utilise the Group's broader management experience to assist the Managing Director and Chief Executive Officer (MD & CEO) to review and oversee the Group's operational risk and to report and advise the Audit & Risk Committee and the Board of Directors. The Enterprise Risk Committee shall have no additional executive powers other than those already delegated to the MD & CEO who will keep the Audit & Risk Committee and Board of Directors informed of the Enterprise Risk Committee activities.

The Enterprise Risk Committee shall consider various matters relating to the operational risk of the company and its controlled entities including, but not limited to:

- the overall effectiveness and efficiency of the Group's operational and market risk framework;
- the plans, policies, procedures and systems to ensure the effective identification, analysis and treatment of the Group's market and operational risks;
- the monitoring and reporting of standard market and operational risk reports for the Group and the reporting and investigation of any breaches of policy or compliance;
- the review and recommendation of changes to any of the Group's delegations and risk management policies which are in place (including primarily the ERM Business Energy Risk & Trading Policies);
- the review of any new business cases prior to them being provided to the Board of Directors for approval, to ensure that company, market and operational risks have been appropriately identified and considered;
- the review of the Group's culture towards risk management, compliance and reporting and recommend any actions for improvements;
- the review of any internal and external risk audit reports to ensure that where major deficiencies or breakdowns in controls or procedures have been identified, appropriate and prompt action is taken by management and to provide any recommendations to the Board; and
- the review and confirmation of compliance with various statutory and regulatory requirements.

In addition, the Enterprise Risk Committee shall examine any other matters referred to it by the Board of Directors or the Audit & Risk Committee, or as nominated by the Managing Director.

2.2.4 Executive Team

The ERM Power Executive Team are the Business Unit representatives that provide the linkages between the Group commercial activities. The ERC has primary oversight responsibility for corporate group risk,

however each Executive Team member is responsible for communicating to their team the risk framework and structure required by the ERM Power Board.

2.2.5 Chief Financial Officer

The CFO has executive responsibility for market and credit risk management for ERM Business Energy and carriage of the ERM Business Energy market and credit risk management policies. His mandate in this regard includes, but is not limited to:

- Develop and propose to the ERC policies that meet the risk objectives of the Committee and that are consistent with the organisational risk tolerance;
- Develop and approve appropriate risk management processes, procedures and systems that implement the risk objectives of the Committee and that are consistent with any Policy approved by that Committee;
- Oversee and co-ordinate all risk positions and reporting of those positions to the Committee and the ERC;
- Ensure that there is appropriate and reasonable segregation of duties between those that originate risk and those that report and manage risk;
- Undertake, at the instruction of the Board, the Committee or the ERC, any internal or external reviews of risks, events, policies or any other matter;
- Report to the Board, the Committee and the ERC whether the material business risks or breaches of policy or law are being managed effectively; and
- Engage external consultants as appropriate to assist in fulfilling the internal audit requirements of the Group.

2.2.6 Business Managers and Business Unit Risk Management Committees

Each Business Unit within the Group is the commercial interface to the market and usually the point at which risks are identified, managed and reported. The Business Managers within these Business Units are responsible for managing the risks of that business.

It may do so by:

- Developing standalone Risk Management policies and procedures that meet the Group Risk Management objectives. Any such policies must be approved by the ERC unless the business has a component of external ownership and that ownership is managed by a joint Committee, or any amendment to such policy requires the approval of the Board;
- Constituting a Risk Management committee that addresses the specific risks faced by that business. For any such committees constituted by a Business Unit, the CFO shall have a voting membership, a standing invite shall apply to all Audit and Risk Committee members; and any reports or minutes prepared by and for that committee will be made available at request to the Audit and Risk Committee.

2.2.7 Employees and Contractors

It is the responsibility of all ERM Power employees and contractors to:

- Comply with all statutory, regulatory and corporate policies and laws. Any breaches of such laws, regulations or policies must be maintained in a breach register within each business and any material breaches reported to the ERC who will decide whether to advise the Audit and Risk Committee;
- Report any breaches of policies, laws or regulations to their supervisor or the ERC; and
- Report to their supervisor or the ERC any perceived risks that may not be covered by existing Risk Management practices and policies.

3. Policy Information

Document Number	ERM00157.01_250718
Policy Status	V1 Released: 25/08/2010 V2 Released: 12/12/2012 V3 Released: 18/02/2016 V4 Released: 15/06/2016
Approval Body	ERM Power Board
Endorsement Body	Audit & Risk Committee
Related Policies	ERM Power Board Charter Audit and Risk Committee Charter Enterprise Risk Committee Charter Health, Safety, Environment and Sustainability Committee Charter Health, Safety, Environment and Sustainability Committee Policy Securities Trading Policy Code of Business Conduct
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