

# Risk Management Policy

July 2018

## 1. Policy Statement

AGL Energy Limited (AGL) is committed to ensuring that risk management practices are embedded into all business processes and operations in order to drive consistent, effective and accountable action, decision making and management practice.

A strong risk management culture is critical to enabling AGL to achieve its strategic, operational and commercial objectives and can also be a source of competitive advantage.

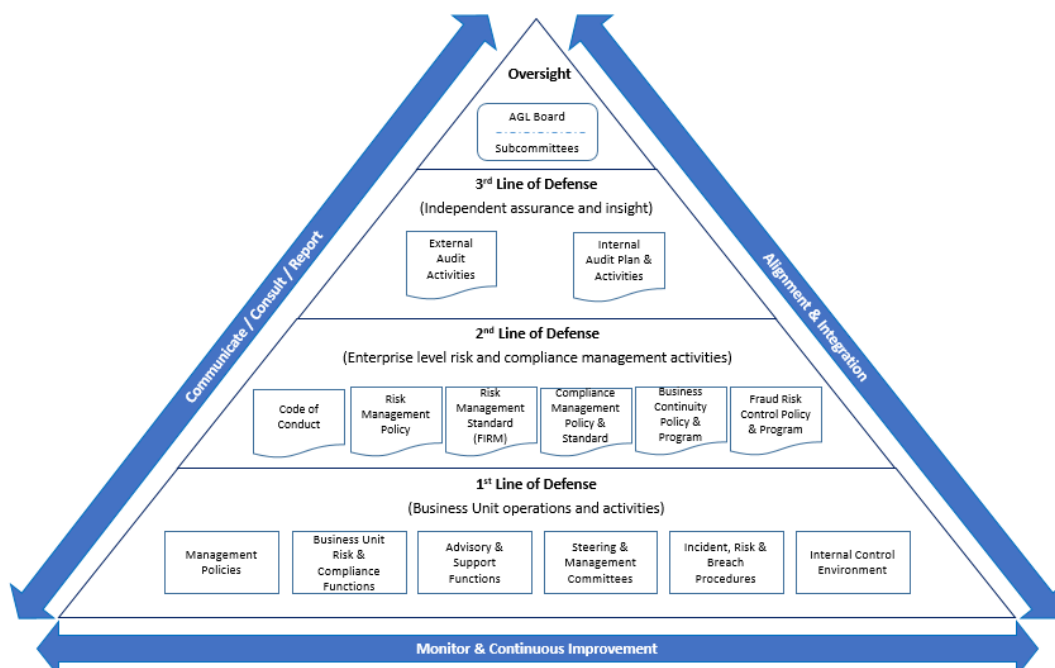
The purpose of this Policy is to set out AGL’s objectives for risk management and to clearly articulate the responsibilities of all AGL personnel in relation to the management of risk.

This Policy is supported by the AGL Risk Management & Assessment Standard (‘the Standard’) which describes the requirements and processes that underpin effective, consistent and integrated risk management practice.

This Policy aligns with the principles and requirements set out in ISO 31000 Risk Management – Principles & Guidelines and has been approved by the AGL Board of Directors (Board).

## 2. AGL Risk Management Model

AGL’s Risk Management model is based on the ‘three lines of defence’ and is illustrated in the diagram below.



### 3. Scope

This Policy applies to AGL, its directors and its employees, including employees working on fixed term contracts and other contracted labour (collectively referred as 'Employees').

### 4. AGL Risk Context

AGL is an integrated energy company, listed on the Australian Securities Exchange. AGL operates four distinct businesses:

- › **Group Operations** which is responsible for managing AGL's diverse power generation portfolio, spread across traditional thermal (coal & gas) generation, gas & LNG storage, and renewable sources including hydro, wind, biofuels and solar.
- › **Wholesale Markets** which is responsible for managing the procurement and hedging of AGL's wholesale electricity and gas requirements, and management of the generation portfolio and wholesale pricing to support AGL's retail business.
- › **Customer Markets** which is responsible for delivering products and services to our retail customers, including business and commercial customers. **Investments** including AGL's equity investment in the ActewAGL Retail Partnership.

Risk is dynamic and is inherent in all external and internal operating environments. AGL is committed to managing all risks effectively. Effective risk management is a means for achieving competitive advantage and is pivotal to enabling the ongoing growth and success of AGL's business.

The environment in which AGL operates has changed significantly in recent years. This in turn has resulted in considerable change to AGL's internal operations, including our risk profile. To continue strengthening our position as a leading integrated energy company, we need to understand the opportunities and challenges AGL's business faces today and into the future.

As our operating environment continues to transform, embedding risk management principles and practices into strategy development and day to day business processes is critical to achieving robust and favourable commercial outcomes.

Just as risk is inherent in our operations, risk management is also inherent in all decision making and management processes. Risk management is essential to good corporate governance and is a fundamental component of good management practice.

### 5. Risk Management Objectives

Effective risk management within AGL has a number of key objectives:

- › promote an enterprise wide approach by integrating risk management processes into each of the following areas:
  - › business strategy, project management, organisational process and decision making;
  - › audit, insurance and specialist risk functions; and
  - › compliance and general governance functions.

- > promote consistency and transparency in methodology, assessment and management processes;
- > promote proactive recognition of external factors and anticipation of uncertainties that may affect the achievement of strategic objectives;
- > promote confidence in operating performance, management decision making and the achievement of expected outcomes;
- > protect the interests of AGL shareholders;
- > demonstrate sound business practice to counterparties, customers, employees and the communities in which AGL operates;
- > sponsor innovation and maximise value from assets, ventures and opportunities;
- > provide appropriate, consistent and transparent ownership and accountability for risk mitigation;
- > enable the design and implementation of controls that:
  - » are structured to promote effective realisation of objectives; and
  - » are resourced appropriately to effectively mitigate risk.
- > recognise that timely and accurate monitoring, review, communication and reporting of risk is critical to:
  - » providing mechanisms for the timely identification and effective management of risk occurrences and consequences;
  - » providing confidence in management practice to the Board;
  - » providing a solid platform for growth; and
  - » generating and maintaining a sound corporate history.

## 6. Accountabilities

In accordance with AGL's Code of Conduct, it is the responsibility of all Employees to comply with the law, AGL's contractual commitments and AGL's policies and procedures (including the Compliance Management System) and to work towards embedding AGL's compliance management objectives within their areas of responsibility.

### AGL Board

The Board is responsible for:

- > approving, and monitoring the implementation of policies governing AGL's systems of internal compliance, risk management and control; and
- > monitoring AGL's compliance with obligations governing AGL's operations.

To assist it in discharging its responsibilities the Board has established the Audit and Risk Management Committee (ARMC).

### AGL Audit and Risk Management Committee

The ARMC has been established to, among other things:

- > review, and recommend to the Board approval of AGL's Risk Management Policy;
- > regularly review, and recommend to the Board for approval, AGL's Tier 1 risks and risk profile;

- › review all material risks and discuss with management the operation and implementation of mitigating controls;
- › monitor the effectiveness of AGL's risk policies, procedures and management practices; and
- › review and approve AGL's insurance policies, including the terms of annual policy renewals and considering the creditworthiness and claims payment histories of AGL's principal insurers.

The ARMC operates and reports within the terms of the ARMC Charter endorsed by the Board.

#### **Chief Executive Officer and Executive Team**

The Chief Executive Officer (CEO) is responsible for managing AGL in accordance with the strategy, business plans and policies approved by the Board, including this Policy.

This includes responsibility for managing the implementation of this Policy and promoting a positive risk culture within AGL.

The Executive Team is accountable to the CEO for:

- › identifying, assessing, managing, reporting, reviewing and monitoring risks that may impact the achievement of AGL's strategic, operational and commercial objectives; and
- › ensuring that there are systems in place to maintain adherence to this Policy.

#### **Group Risk, Compliance & Insurance**

Group Risk, Compliance & Insurance (GRCI) has carriage of the AGL enterprise wide risk management function. GRCI reports to the Company Secretary and is independent from business operations in terms of its reporting line. GRCI is responsible for:

- › facilitating the identification, monitoring and reporting of AGL's Tier 1 risks;
- › promoting and facilitating a standardised approach to effective risk management, including the ongoing review and improvement of the Standard;
- › assisting the business to identify, understand and manage risk;
- › facilitating the integration of AGL's approved processes for managing risk and compliance within the business; and
- › reporting to the ARMC no less frequently than quarterly on material risks.

#### **Risk Managers / Champions**

Risk Manager and Risk 'Champions' within AGL's business units perform critical roles in AGL's first line of defence and are responsible for:

- › assisting the business to implement risk management practices in accordance with this Policy and the Standard;
- › facilitating risk assessments, maintenance of the business units risk registers and monitoring action items within their respective business areas;
- › the provision of technical risk expertise and advice; and
- › analysing and reporting risks in accordance with the Standard, which includes the reporting of material risks to GRCI for inclusion in the regular ARMC risk activity report.

### **Group Audit**

In accordance with its charter, Group Audit provides independent, objective assurance and consulting services to the ARMC and senior management designed to support and assist, both directly and indirectly, AGL to achieve its strategic objectives in an efficient and effective manner and within an acceptable level of risk.

Group Audit is responsible for developing the Internal Audit Plan that will be a risk based flexible plan, using an appropriate risk-based methodology.

Group Audit reviews are designed to assess that activities appropriately mitigate risk and are in compliance with AGL policies and procedures, which are designed to comply with industry standards, legislation and regulations.

### **Employees**

AGL's Employees are required to:

- > familiarise themselves with this Policy and other policies concerning the management of risk relevant to their workplace activities;
- > adhere to relevant legislation and their compliance obligations;
- > incorporate risk management practices into their workplace activities;
- > report and escalate risks in accordance with the Standard; and
- > look for opportunities to improve operational efficiencies and optimise outcomes.

## **7. Risk Management Requirements**

AGL is committed to the development of effective and robust risk management practices and meeting the objectives as outlined in section 5 of this Policy. This commitment is reflected through the following areas:

- > AGL will make available the necessary resources for the management of risk in accordance with this Policy and AGL's risk appetite;
- > each area of the business is accountable for managing its strategic and operational risks and maintaining a register of material risk exposures;
- > risk registers are based on the outcomes of thorough risk identification and assessment processes that are developed in accordance with the Standard;
- > reviews of risk registers are regularly conducted (dependent on business requirements) and reporting and escalations occur in accordance with the Standard;
- > enterprise risk identification, assessment and profiling are conducted on an annual basis by GRCI; and
- > a review of AGL's risk appetite is facilitated by GRCI and discussed with the ARMC on an annual basis.

## **8. Related & Supporting Policies**

This Policy is supported by, and linked to, specific AGL policies and standards as issued from time to time. These policies and standards include, but are not limited to:

- > Risk Management & Assessment Standard.
- > Code of Conduct.
- > Compliance Management Policy.
- > Compliance Management Standard.
- > Wholesale Markets Risk Management Policy.
- > Health, Safety & Environment Policy.
- > Accounting Policies and Procedures
- > Treasury Policy.
- > Whistleblower Policy.
- > Fraud & Corruption Risk Control Policy.
- > Business Continuity Management Policy and Program.

## **11. Reviewing and Maintaining the Policy**

This Policy is administered by GRCI. The Policy is to be reviewed every two years or where there is a material change to AGL's context or objectives. Changes to the Policy require Board approval.

## 12. Glossary of Terms

Term	Description
<b>Compliance Management System</b>	A set of interrelated and interacting elements of an organisation with the purpose of establishing policies, objectives and processes to maintain compliance with the organisation's compliance obligations.
<b>Compliance Obligation</b>	A course of action or behaviour which the organisation is legally bound to do (e.g. law or regulation), or has committed to do (e.g. standards, codes, internal policies).
<b>Compliance Program</b>	Compliance obligation or set of obligations with similar or associated purpose, usually in accordance with the business function or primary business function to which it relates.
<b>Compliance Risk</b>	Effect of uncertainty on the ability to meet compliance objectives.