Summary (v5.0) of Treasury Policy (v 32.0)

1. Introduction

The Treasury Policy is Aurora Energy Pty Ltd's governing document for management and control of treasury-related financial risks.

This Summary Policy is a disclosure document to meet Aurora Energy's governance obligations. Aurora Energy staff are advised that the full Policy applies to their operations and processes.

Aurora Energy requires financial facilities to meet its Australian Financial Services License (AFSL) obligations and the prudential requirements of the Australian Energy Market Operator (AEMO).

Aurora Energy is restricted by legislation (*Electricity Companies Act 1997* (Tas) Clause 3) to undertake borrowings exclusively from the Tasmanian Public Finance Corporation (TASCORP) for debt funding.

In the case of liquidity lines e.g. overdrafts and standby facilities, these are not considered as borrowings and hence can be sourced from the external market, similar to derivatives.

2. Purpose

The purpose of the Treasury Policy is to:

- Ensure the management of treasury-related financial risks is conducted in an appropriate control environment and in such a way that Aurora Energy's financial return is protected against adverse changes in market and financial conditions.
- Provide for the secure and optimum return on the investment of surplus working funds.
- Ensure that all treasury-related compliance obligations, as identified through Aurora Energy's compliance framework, are complied with.

3. Scope

The scope of this policy deals with the treasury-related function as it relates to:

- Finance related risks such as Operational Risk, Liquidity Risk, Funding Risk, Credit Risk, Interest Rate Risk, and Foreign Exchange and Commodity Price Risk. Wholesale energy and carbon risk is covered by the Energy Risk Policy.
- Cash flow management for Aurora Energy.
- Compliance.

4. Policy

The following overarching principles govern the management of Aurora Energy's treasury activities:

- Aurora Energy will operate and manage it treasury activities in accordance with the Treasurer's Instruction for Tasmanian Government Business "Investments" and with the Guidelines for Tasmanian Government Businesses Borrowings" issued by the Department of Treasury and Finance.
- Aurora Energy shall invest its surplus funds with due consideration of risk and at the most favourable rate of interest available at the time, ensuring sufficient liquidity to meet all reasonably anticipated cash flow requirements when they fall due.
- Investment of surplus funds are to be performed in a manner that seeks to ensure security and safeguarding of Aurora Energy's Investment Portfolio. This includes managing credit and interest rate risk in accordance with the requirements of its Treasury Policy.
- While exercising the power to invest surplus funds, consideration is to be given to preservation of working capital liquidity and the opportunity cost of investing.
- Aurora Energy will manage its treasury-related risks in accordance with the requirements of its Treasury Policy.
- Aurora Energy will seek treasury advice from independent external advisors as required.
- There will be periodic monitoring and reporting of compliance and performance against Aurora Energy's policy, contractual and legislative (including AFSL) treasury obligations.

5. Risk Management

5.1 Operational Risk

Operational risk is the likelihood of financial loss associated with the day-to-day functional activities of treasury-related processes. These risks include financial loss due to mismanagement, error, fraud or unauthorised use of techniques and/or financial products or inaccurate cash flow forecasting leading to sub-optimal decisions.

Aurora Energy will manage operational risk by maintaining an adequate level of internal control including:

- Definition of roles, responsibilities and delegated authorities ensuring adequate segregation of duties.
- Use of fit-for-purpose systems enabling timely and accurate settlement, accounting and reconciliation of treasury-related activities.
- Documentation of policies and procedures.
- Transparent and timely breach and incident reporting.
- Treasury activities being subject to internal audit.
- Regular review of Aurora Energy's cash flows and financial position to ensure there is no breach of the Master Loan Facility Agreement with TASCORP or AFSL obligations.
- Periodically monitor and report on operational matters to the Board.

5.2 Liquidity Risk

Liquidity risk is the likelihood that an unforeseen event will result in Aurora Energy not being able to meet its day-to-day cash flow and financial obligations as and when they fall due.

Aurora Energy is required to maintain specific liquidity under its Australian Financial Services License (AFSL). The required surplus is calculated as instructed through Australian Security and Investment Commission's (ASIC) Regulatory Guide (RG) 166 Licensing, Financial Requirements (RG 166) and is a function of current assets, current liabilities and both the 'eligible undertaking' and 'committed standby' as provided by TASCORP. There is a risk that the AFSL license will be revoked if insufficient liquidity is available.

Aurora Energy is at risk of exceeding its AEMO limit, which is a function of guarantees held with AEMO and liquidity facilities. Where the AEMO limit is likely to be exceeded, Aurora Energy is required to "top up" the account (effectively a margin call) to cover the excess.

If Aurora Energy is unable to satisfy this requirement, it will be unable to trade and operate through AEMO.

Aurora Energy will manage its liquidity risk by:

- Regularly reviewing its medium term cash flow forecasts to ensure it has adequate financial facilities to avoid breaching its licensing, regulatory or financial market obligations.
- Obtaining Board approval of its facility limits.
- Regularly reviewing its short term cash flow forecasts to ensure it has sufficient cash to meet its day-to-day operations.
- Only dealing in approved instruments and within delegated financial authorities and limits in accordance with this Policy.

5.3 Funding Risk

Funding risk is the likelihood that Aurora Energy is unable to access funds (i.e. new debt, refinancing existing debt or funding facilities) when required or that the cost of accessing those funds is prohibitively expensive.

Aurora Energy will manage its funding risk by:

- Considering funding risk and specific funding issues when developing and implementing Aurora Energy's Corporate Plan.
- Preparing and reviewing long term cash flow forecasts to identify and communicate emerging funding issues which include both operating and capital cash-flows.
- Engaging with TASCORP and other key stakeholders in timeframes that minimise funding risk issues.
- Only dealing in approved instruments and within delegated financial authorities and limits in accordance with this Policy.

5.4 Credit Risk

Credit risk is the likelihood that Aurora Energy will suffer financial loss due to the inability of a counter party to meet its financial obligations.

Before Aurora Energy transacts with any derivative or foreign exchange counterparty, a duly signed International Swaps and Derivatives Agreement (ISDA) must be in place. In addition, Aurora Energy will assess the credit risk associated with derivative transactions prior to transacting with any derivative counterparty and, where applicable, a credit-related valuation adjustment be calculated.

Credit risk from a treasury perspective is managed by executing transactions and monitoring exposures in accordance with this Policy.

5.5 Interest Rate Risk

Interest rate risk is the likelihood that Aurora Energy's profitability will be impacted by an adverse movement in interest rates. The majority of interest rate risk would arise from borrowings however the Treasury function is also responsible for transacting interest bearing investments in accordance with the controls detailed in this policy.

Aurora Energy will manage interest rate risk by:

- Assessing and reporting the performance of Aurora Energy's debt portfolio against Board approved interest expense and income budgets.
- Considering interest rate risk and the maturity profile of the debt portfolio when developing Aurora Energy's Corporate Plan.
- Executing interest rate risk instruments only after providing prior advice to the Board.
- Only dealing in approved instruments and within delegated financial authorities and limits in accordance with Appendix 1 of this Policy.
- Not dealing in speculative transactions i.e. where there is no underlying exposure.
- Only executing treasury derivative transactions with approved counterparties with International Swap Dealers Association (ISDA) agreements in place.

5.6 Foreign Exchange and Commodity Price Risk

Foreign exchange and commodity price risk is the risk Aurora Energy will suffer financial loss due to adverse movements in exchange rates and/or commodity prices.

Aurora Energy will manage this risk by not entering into contracts with foreign exchange or commodity price exposures without the prior approval of the General Manager People & Commercial Services or the Chief Executive Officer.

Aurora Energy will not engage in speculative activities in the foreign exchange market. This is defined as transacting currency or commodity transactions without a specific exposure being identified.

6. Cash Investment Management

Cash Investment Management establishes appropriate parameters and prudent limits for the management of surplus funds. Aurora Energy's cash investment management objective is to optimise returns, whilst maintaining a low risk profile and working capital liquidity.

Aurora Energy will manage its investment of surplus funds as follows:

- Maintain a diversified investment portfolio to achieve consistent returns over time and reduce overall investment risk and regularly report evidence of the diversification of surplus funds to Treasury Committee.
- All investments (other than daily operating bank accounts) are to be in accordance with permitted instruments.
- All investments are to be in accordance with counterparty credit limits.
- Investments in risk-leveraged derivate instruments are not permitted.
- Regular assessment of the greatest available return on short term cash investments offered by the Board approved Treasury counterparties.

- Regular assessment of cash and fixed interest investment options consistent with Board approved terms.
- A summary of all current investments to be included in the monthly financial performance report to Board.

7. Compliance Management

Aurora Energy has a number of compliance obligations that relate to the treasury functions of the business. As the holder of an AFSL Licence, Aurora Energy must comply with RG 166. In addition, Aurora Energy must also ensure there are sufficient arrangements in place as a market participant operating in the NEM.

In meeting these requirements, Aurora Energy will:

- Establish clear and practical business practices and procedures that address the specific compliance obligations.
- Ensure compliance procedures on licensing requirements are embedded as an integral part of treasury processes.
- Assign specific responsibilities in meeting the compliance requirements under the requirements.

8. Key Stakeholder Responsibilities

8.1 Board

Specific responsibilities of the Board related to treasury financial risk include:

- Approval of the Treasury Policy.
- Approval of Aurora Energy's annual borrowing intentions in accordance with the Master Loan Facility Agreement (MLFA) between Aurora Energy and TASCORP.
- Approval of the Debt Management Strategy.
- Approval of transactions above the delegated authorities and limits.
- Certification of obligations as required in any Loan Documentation.
- Review actual performance against policy parameters.
- Review policy breaches and actions taken.

8.2 Treasury Committee

The Treasury Committee is a management committee responsible for:

- Ensuring compliance with Aurora Energy's Treasury Policy and Related Policies.
- Reviewing proposed changes to the Treasury Policy prior to submission to the Board.
- Ensuring compliance with policies that have an impact to cash flow management.
- Reviewing proposed changes to "Associated Policies", ensuring continued effective and robust controls surrounding cash flow management.
- Monitoring the effective management of cash flow across the entire "connection to collection" and Network Settlement processes.
- Endorsing the cash flow impact from commercial investment proposals.
- Identify and endorse opportunities to improve cash flow management across the business.

8.3 Chief Executive Officer

The CEO has corporate ownership of the implementation of Board approved policies and strategies and is accountable for overseeing actions to achieve Aurora Energy's purpose and strategic objectives. Specific responsibilities related to treasury financial risk include:

- Review and endorse changes to the Treasury Policy and consider emerging strategic issues prior to recommendation to the Board.
- Approve specific financial transactions as per the delegated authorities and limits.
- Approve temporary delegations by delegated authorities within delegated limits when leave taken.

8.4 General Manager People & Commercial Services

The General Manager People & Commercial Services is responsible for the set up and maintenance of the treasury financial risk environment as approved by the Board. Specific responsibilities related to treasury financial risk include:

- Ensure that resources, people, procedures, systems and internal controls are in place to properly manage and monitor treasury-related risks.
- Report material issues to the Board and CEO that relate to treasury financial risk.
- Utilise delegated Financial Authority.
- Report any breaches of the policy to the Board and CEO.
- Ensure the recording and reporting of existing or potential breaches of policy and opportunities for control improvements.
- Other than the tri-annual policy refresh, determining if changes to Policy and the debt management strategy should be made following significant changes to the external environment or internal organisational structure.
- Monitor Aurora Energy's Capital Investment Program.
- Ensure the secure and optimum return on the investment of surplus working funds.
- Co-ordinate the preparation of ad hoc, monthly and annual reporting in relation to the financial charges and the debt portfolio.
- Certify monthly Treasury compliance under Aurora Energy's AFSL Licence.

9. Non-compliance with this Policy

All non-compliances with this Policy will be recorded in accordance with the Compliance Policy.

Any non-compliances that are risk-rated as Severe or Major will be escalated to the Board or a relevant Board Committee through Aurora Energy's non-compliance reporting processes.

Non-compliances that are risk-rated as Moderate or Minor will be reported to the Chief Executive Officer.

Incidents of wilful non-compliance with this Policy are considered to be serious and will be dealt with in accordance with Aurora Energy's normal performance management process, which may include dismissal.

10. Whistleblowing Statement

In extreme circumstances an individual may be concerned that a serious breach of this policy has occurred but considers that it would be personally damaging to pursue it through normal channels. In such circumstances the individual should refer to Aurora Energy's Public Interest Disclosure Policy for information about how to report such a concern and to whom.

Aurora Energy's Public Interest Disclosure Policy ('whistleblower' policy) is based on the Public Interest Disclosures Act 2002. This Policy is available on both Aurora Energy's external website and its internal intranet.

Delegated Officers under the Public Interest Disclosure Policy will do all that is possible and practicable to ensure the identity of the individual and the identity of the person who is the subject of the disclosure are kept confidential.

11. Publication

This summary of the Treasury Policy is approved for publication on Aurora Energy's website in accordance with the Policy Framework.

Approved by the Board on 6 February 2020.

Board Chair