Audit and Risk Committee Charter

1. Introduction

The Audit and Risk Committee ("Committee") has been established to assist the Board in the conduct of its responsibilities and hence will report back to the full Board on all material matters and issues requiring decisions in principle. The Committee does not remove from the full Board of Directors any of its responsibilities and legal obligations. Against this background the roles of the Committee as set out in this Charter will apply.

2. Authority

2.1 The Committee is authorised by the Board to investigate any activity covered by its roles. It is authorised to seek any information it requires from any employee and all employees will be directed to co-operate with any request made by the Committee.

2.2 All employees will have access to the Chairman of the Committee at any time.

2.3 The Committee shall have the authority of the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

2.4 The Committee will obtain the full Board of Directors' approval of this Charter and review and reassess this Charter as conditions dictate (at least annually);

3. Overall Objectives

3.1 The overall objectives of the Committee are:

(a) oversee and appraise the quality of the audits conducted by the Group's internal and external auditors;

(b) maintain open lines of communication among the Board, Management and the internal and external auditors, to exchange views and information, as well as confirm their respective authority and responsibilities;

(c) review the financial information presented by Management to shareholders, regulators and the general public;

(d) determine the adequacy of the Group's administrative, operating internal and accounting controls;

(e) monitor compliance with statutory and regulatory matters relating to financial and corporate reporting;

(f) provide strategic guidance and feedback to the Board and Management on Trustpower's risk management framework;

(g) Assist the Board discharge its responsibilities to exercise due care, diligence and skill in relation to the oversight of the effective management of the Group's material business risks.

4. Committee Membership and Meetings

4.1 The Committee shall be appointed by the Board of Directors from amongst the non-executive directors of the Company, who are independent of Management and free from any relationships which might in the opinion of the Board of Directors be construed as a conflict of interest. It shall consist of not less than three members. The Board may terminate an appointment to the Committee at any time.

4.2 The Chairman shall be appointed by the Board. The Company Secretary or such other person as nominated by the Board shall act as the Secretary of the Committee.

4.3 A quorum shall be two members one of whom shall be the Chairman.

4.4 The Committee may have in attendance such members of Management and such other persons as it may deem necessary to provide appropriate information or explanations.

4.5 The external auditors will attend meetings unless otherwise requested by the Chairman.

4.6 The Committee will hold a minimum of 3 regular meetings per year, and such additional meetings as the Chairman shall decide in order to fulfil its duties. In addition, the Chairman is required to call a meeting of the Committee if requested to do so by any committee members, the organisation's Chief Executive, Chief Financial Officer, internal auditors or the external auditors.

4.7 The Committee will provide sufficient opportunity for the internal and external auditors to meet with the members of the Committee without members of Management present. Among the items to be discussed in these meetings are the external auditors' evaluation of the Group's financial, accounting and auditing personnel, and the co-operation that the external auditors received during the course of audit;

5. Roles and Responsibilities

The roles and responsibilities of the Committee are as follows:

5.1 Financial and Corporate Reporting

(a) The Committee is responsible for ensuring the half yearly and annual Company and Group financial statements fairly state the results for the period and the financial condition of the Company and Group at the date of their issue.

(b) The Committee will in performing its responsibility in (a) above consider:

(i) any changes in accounting policies and practices;

(ii) major judgmental areas for example valuation of assets, commitments and contingencies;

(iii) significant adjustments resulting from the audit;

(iv) all significant variances between the figures for the current year and the previous year and between financial reports and Management reports for the same period;

(v) any legal matters that could have a significant impact;

(vi) the extent to which there are items in dispute with the tax authorities and the adequacy of tax provisions;

(vii) the going concern assumption;

(viii) complex and/or unusual transactions such as restructuring;

(ix) the Group's accounting policies and the application thereof;

(x) generally accepted accounting standards and practice;

(xi) whether the reports fairly state the results and financial condition of the Company and Group; and

(xii) whether compliance with Stock Exchange requirements, Securities Regulations and any other like obligations are met.

(c) Meet with Management and the external auditors to review the financial statements, the results of the audit and the draft Stock Exchange release.

(d) Upon completion of the review of the financial statements the Committee will make recommendations to the Board as to the adoption or otherwise of the statements before release.

(e) Review in detail the compliance with solvency test requirements of the Companies Act prior to making recommendations to the Board regarding distributions to shareholders.

(f) In the case of preliminary announcements, quarterly operating results, semi – annual financial information, and other releases of information review such information and consider whether the information is fairly stated and contains adequate and appropriate disclosures.

(g) Review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on the financial statements.

(h) Review any regulatory reports submitted to the organisation and monitor Management's response to them.

5.2 Internal Control

(a) Evaluate the adequacy and effectiveness of the organisation's administrative, operating and accounting controls through active communication with operating management, the internal auditors and the external auditors.

(b) Gain an understanding of whether internal control recommendations made by internal and external auditors have been implemented by Management.

(c) Monitor the standard of conduct in areas such as arm's length dealings and likely conflicts of interest.

5.3 External Audit

(a) Make recommendations to the Board regarding the appointment or discharge of the external auditors and agree external audit fees.

(b) Review the external auditors' proposed audit scope and approach and ensure no unjustified restrictions or limitations have been placed on scope and agree and sign audit engagement letter.

(c) Have a clear understanding with the external auditors that they are ultimately accountable to the Board of Directors and the Committee, as the shareholders' representatives, who have the ultimate authority in deciding to engage, evaluate, and if appropriate, terminate their services;

(d) Review the performance of the external auditors.

(e) Consider the independence of the external auditor in accordance with Appendix-1 of this charter, including reviewing the range of services provided in the context of all consulting services procured by the Company and Group.

(f) Ensure that significant findings and recommendations made by the external auditors are received and discussed on a timely basis.

(g) Ensure that Management responds to recommendations by the external auditors.

(h) The external auditors will remain responsible to the shareholders for the exercise of their statutory responsibilities to determine that:

(i) the financial statements of the Company and Group present a true and fair view of the results of and the state of the Company and Group's affairs;

(ii) proper accounting records have been kept by the Company and Group; and

(iii) the Company and Group financial statements contain the information required by the Companies Act 1993, or other applicable statutes or regulations.

(i) Arranging meetings with external auditors on matters arising from reports received on the external financial statements. This will normally take the form of a joint meeting with Management, the external auditors and the Committee.

5.4 Internal Audit

(a) Review and approve Management's appointment, termination, or replacement of internal audit service providers.

(b) Approve the annual internal audit plan and scope of internal audit activities.

(c) Review the activities of the internal audit function and ensure no unjustified restrictions or limitations are imposed by Management.

(d) Receive on a regular basis a summary of findings from completed internal audit work and a progress report on the internal audit plan, with explanations for any deviations from the plan.

(e) Ensure that Management responds to recommendations by the internal auditors. The internal auditors will remain part of the management process. Their tasks and responsibilities will, where necessary, be identified in conjunction with the external auditors.

5.5 Other Audits and Assurance Activity

Review and monitor assurance activities undertaken internally or by external parties. For example, ISO audits, Electricity Authority audits.

6. Risk Management

6.1

(a) Review and monitor the effectiveness of Trustpower's Enterprise Risk Management framework and the maintenance of an appropriate risk culture within Trustpower.

(b) Review risk capacity and exposure limits (risk tolerance) and the alignment of Trustpower's risk profile within limits set by the Board.

(c) Review Trustpower's material business risks and Trustpower's management of these risks.

(d) Oversee key risk related processes and functions such as the Group insurance programme and business continuity management.

6.2 In carrying out these responsibilities, the Committee will:

(a) review with Management on a quarterly basis and with the internal auditor and external auditors on at least an annual basis, the significant risks within the Group's Risk Registers and review how they have been assessed, and managed;

(b) assess the effectiveness of the related system of internal control in managing the significant risks, having regard, in particular, to any significant failings or weaknesses in internal control that have been reported;

(c) consider whether necessary actions are being taken promptly to remedy any significant failings or weaknesses;

(d) consider whether the findings indicate a need for more extensive monitoring of the system of internal control;

(e) review accounting and financial human resources and succession planning within the Company and Group;

(f) review the adequacy of insurance at each insurance renewal and recommend to the Board any significant changes to insurance cover; and

(g) Consider the adequacy of business continuity planning.

7. Reporting Responsibilities

(a) Regularly update the Board about Committee activities and make appropriate recommendations.

(b) Ensure the Board is aware of matters which may significantly impact the financial condition or affairs of the business.

8. Other

(a) Perform other oversight functions as requested by the full Board.

(c) Evaluate the Committee's own performance on an annual basis.

Appendix 1

Audit and Risk Committee Charter
Trustpower Limited

External Audit Independence Policy

Objective

The objective of this policy is to ensure that audit independence is maintained, both in fact and appearance, such that Trustpower's external financial reporting is viewed as being highly reliable and credible.

Oversight of Trustpower's external audit arrangements is the responsibility of the Audit and Risk Committee. Ensuring that external audit independence is maintained is one of the key aspects in discharging this responsibility as set out in 5.3(e) of this Audit and Risk Committee Charter. This formal policy on audit independence has been adopted by the Audit and Risk Committee to meet this requirement.

Background

This policy is based on "PROFESSIONAL AND ETHICAL STANDARD 1 (Revised) Code of Ethics for Assurance Practitioners (PES1)" issued by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board pursuant to section 24(1)(b) of the Financial Reporting Act 1993. This standard was revised in February 2014 and became effective 1 January 2014.

The essence of the code of ethics state that some non-audit services do impair independence, some non-audit services could impair independence if appropriate safeguards are not applied to eliminate or reduce the threat to an acceptable level and other non-audit services do not impact upon independence.

This policy covers the following areas:

- provision of non-audit services by Trustpower's external auditors
- fees and billings
- the hiring of staff from the audit firm
- audit team

Provision of non-audit services

Trustpower's external auditors should not:

- undertake any role not permitted under the code of ethics
- audit their own work

- function as Management

A summary of the code of ethics are attached as appendix 1(a).

The auditors are required to confirm their independence to the Audit and Risk Committee annually.

Fee and Billings

All audit and non audit fees are to be reported to the Audit Committee annually.

Non-audit fees greater than $25,000 should be reviewed by the Company Secretary and reported to the Audit and Risk Committee for approval.

Hiring of staff from the audit firm

The hiring by Trustpower of any Partner or audit manager must first be approved by the Chairman of the Audit and Risk Committee.

There are no other restrictions on the hiring of staff from the audit firm.

External Audit Team

No member of the audit team shall:

- Own shares in Trustpower either directly or indirectly through another vehicle (e.g. trust) over which they have control or influence
- Be a close relative of any employee of Trustpower who is in a management position
- Remain on the audit team in excess of seven years unless approval is given by the Audit and Risk Committee Chairman
- Transact with Trustpower in a personal capacity unless that transaction is immaterial and routine (e.g. as an electricity customer)

Trustpower's audit fee cannot be in excess of 15% of the Audit firm's total revenue.

Appendix 1 (a)

Summary of code of ethics – independence in assurance engagements

The framework is based around the consideration of the various types of threats to independence and then the safeguards, if any, that can be put in place to mitigate the threats.

This summary sets out the overriding framework of the code of ethics as well as giving examples of the safeguards needed in certain circumstances.

- Possible threats to objectivity and independence are identified as:The self-interest threat – for example, auditors benefiting by having a financial interest in their clients, potential employment or contingent fees.
- The self-review threat – for example, auditing the auditors own work and preparing material source financial data.
- The advocacy threat – for example, being a promoter of the audit client's shares or acting as a legal advocate.
- The familiarity or trust threat – for example, family relationships and long association of senior team members.
- The intimidation threat – for example, fee pressures and threat of replacement.

Generally the auditors must consider the possibility of these threats arising and where such threats are considered to exist they must put in place appropriate safeguards to eliminate or reduce the threats to an acceptable level, which may include declining to perform the service. The following table gives a guideline of what auditors should and should not do and where safeguards should be put in place.

Bookkeeping	Prohibited for listed audit clients, other than in emergency situations. Generally only permitted for non-listed audit clients where routine or mechanical in nature and staff are not involved in the audit. Managerial decision making prohibited.
Valuations	Prohibited if material to the financial statements and significantly subjective, otherwise permitted with safeguards.
Tax Services	Generally not seen to threaten independence
Internal Audit Services	Generally permitted provided the Company takes responsibility for the internal controls and for evaluating findings.
Provision of IT Systems	Design and implementation of financial IT systems prohibited unless the Company acknowledges its responsibility, makes all management decisions and other safeguards are in place.
Secondments to audit clients	Permitted with safeguards. No management decision making, signing agreements or discretionary authority to commit the client is allowed.
Litigation Support	Permitted with safeguards

Services	
Legal Services	Legal services permitted where immaterial to the financial statements. Services in execution of a transaction (i.e. contract support, legal advice and due diligence/restructuring) are acceptable with safeguards. Acting in a litigation advisory role prohibited on a matter, which is material to the financial statements. Appointment as General Counsel is prohibited.
Executive Search and Selection	Permitted with safeguards. Making selection for the Company prohibited.
Corporate Finance	Permitted with safeguards. Promoting, dealing in or underwriting the Company's securities is prohibited.

The safeguards put in place will be specific to the circumstances of each case. The general rule to be applied is whether an independent third party would consider the safeguards reasonable.