

Audit and Financial Risk Committee Charter

1 Purpose

The purpose of the Audit and Financial Risk Committee is to assist the Board of Mercury NZ Limited (**Mercury**) to fulfil its corporate governance role and responsibilities relating to external audit, integrated reporting (including financial statements and climate-related disclosures), risk assurance and internal audit as it relates to financial and climate-related risk.

This Charter sets out the composition, authority, roles and responsibilities and procedures of the Committee.

2 Composition

- > The Committee is a committee of the Board.
- > The Board will approve all appointments to the Committee.
- > The Committee comprises a minimum of three directors plus the Chair of the Board as an ex-officio member.
- > At least one member will have an accounting or financial background, as that term is defined in the NZX Listing Rules and guidance.
- > All members will be non-executive, independent directors.
- > The Chair of the Committee will be appointed by the Board. The Board Chair shall not be eligible to be Committee Chair. The Committee Chair must not have a long-standing association with Mercury's external audit firm as a current, or retired, audit partner or senior manager at the firm.
- > A quorum will be at least two Committee members.
- > The Committee will appoint a secretary who will be the Company Secretary or other Mercury employee as nominated by the Committee.
- > The Committee may invite members of management, any employee, internal or external auditors or any other person to attend meetings as required.

3 Management role

The Board delegates responsibility for managing risk to the Chief Executive. Management retains responsibility for the implementation and operation of adequate risk assurance, internal control, and audit systems within Mercury.

The Head of Risk Assurance has reporting lines to the Chief Financial Officer, the Chair of the Audit and Financial Risk Committee, and the Chair of the Safety and Enterprise Risk Committee Chairs. The Chief Executive has access to the Head of Risk Assurance as required to enable the Chief Executive to fulfil their risk management responsibility.

The Committee Secretary, in conjunction with the Committee Chair and the Chief Financial Officer, will be responsible for the co-ordination of all Committee business including meeting scheduling, agendas, scheduling policy reviews, distribution of papers, minutes and communication with the Board.

4 Authority

The Committee does not have the authority to make decisions for or on behalf of the Board unless specifically authorised to do so by this Charter or as directed by the Board. The Committee will make recommendations to the Board as set out in this Charter.

The Committee may delegate any of its responsibilities to the Committee Chair or a subset of Committee members from time to time and on such conditions as the Committee considers appropriate.



5 Roles and responsibilities

The Board has delegated authority to the Committee to oversee and monitor Mercury's external audit, integrated reporting (including financial statements and climate-related disclosures) and risk assurance and internal audit relating to financial and climate-related risk.

The Committee has the following specific responsibilities:

5.1 External audit

- > Advise the Board whether the Committee is satisfied as to the competency of any firm of Chartered Accountants to whom the Controller and Auditor-General proposes to delegate the external audit of Mercury.
- > Confirm the independence of the external auditor in line with Mercury's Audit Independence Policy, including reviewing the non-audit services provided by the external auditor and their related fees, conflicts of interest and rotation of the Key Audit Partner.
- > Meet with the external auditor at the beginning of the planning phase to discuss areas of mutual interest and concern, including consideration of the levels of materiality to be adopted by the auditor in respect of Mercury and to review and approve the annual audit plan.
- > Consider and review with the external auditor any significant audit findings, together with management's responses and recommend appropriate actions.
- > Require the external auditor to confirm annually in writing that it has complied with all professional regulations in relation to auditor independence.

5.2 Integrated Reporting

5.2.1 Financial reporting

- > Oversee the establishment and monitoring of processes to keep the Board properly and regularly informed and updated on corporate financial matters.
- > Review with management and the external auditor and recommend for Board approval, Mercury's interim and annual financial statements and all other financial statements prepared by Mercury for disclosure to the NZX and ASX and any other regulatory body. Review to consider:
 - whether the financial statements are prepared in accordance with all applicable legal requirements, regulations, NZX and ASX Listing Rules, accepted accounting practices and provide a true and fair presentation of Mercury's financial position and results;
 - all major accounting policies and practices, including any proposed changes and their application during the reporting period;
 - methods used to account for significant unusual transactions or transactions in emerging areas for which there may be no specific accounting standard;
 - the truth and fairness of financial statements prepared by Mercury and obtaining explanations from management and internal and external auditors on whether:
 - financial results varied significantly from budgeted or projected results;
 - significant or unusual events or transactions are adequately disclosed;
 - financial and operating controls are functioning effectively; and
 - all annual and interim financial statements and announcements contain adequate and appropriate disclosures;
 - discussing with the external auditor any material matters relating to the financial statements, and considering their views as to the accuracy of such financial statements where they are unaudited;
 - meeting with the external auditor without management present as part of the review of Mercury's financial statements; and
 - if the financial statements are audited:
 - the external auditor's audit of the financial statements and their formal audit opinion;
 - any serious difficulties or disputes encountered during the course of the audit; and
 - any other matters related to the conduct of the audit that are to be communicated to the Committee under generally accepted auditing standards.
- > Require annual certification by the Chief Executive and the Chief Financial Officer that:
 - the financial statements present fairly, in all material respects, Mercury's financial condition and operational results and are in accordance with applicable accounting standards; and



- the above statement was based on a sound system of risk management and internal control and compliance which implements the policies adopted by the Board.
- > Consider and recommend for Board approval management's recommendations with respect to dividends and other distributions.
- > Monitor Mercury's internal control environment with respect to controls over the quality and integrity of external financial reporting.

5.2.2 Climate-related disclosures

- > Review with management and the external assurance provider and recommend for Board approval, all climate-related disclosures (**CRDs**). Review to consider:
 - whether the climate-related disclosures are prepared in accordance with all applicable legal requirements and regulations;
 - financial quantification of climate-related risks and opportunities;
 - calculation of greenhouse gas (**GHG**) emissions; and
 - the external assurance provider's review of the GHG inventory and their assurance opinions.
- > Oversee the establishment and maintenance of an appropriate system of controls in relation to climate-related risks and the keeping of proper CRD records.
- > Monitor Mercury's internal control environment with respect to controls over the quality and integrity of external climate-related reporting.

5.3 Risk assurance and internal audit (financial and climate)

- > In respect of financial and climate-related risks:
 - Approve the appointment, replacement, reassignment or dismissal of internal auditors and reviewers.
 - Review and agree the nature, scope, and objectives of Mercury's Risk Assurance Plan with management and internal auditors, and review and approve any planned changes during the year.
 - Review with management the internal audit budgets for the year ahead, including ensuring adequate resourcing.
 - Consider and review with internal auditors and the Head of Risk Assurance any significant findings of internal audits and risk assurance reviews, together with management's responses and recommending appropriate actions.
 - Oversee the process to review and record internal audit and risk assurance review recommendations.
 - Consider and review with management and internal auditors, any difficulties encountered in the course of internal audits and risk assurance reviews, including any restrictions on the scope of the work or access to required information.
 - Meet with internal auditors at least annually without management present.
- > Review the following key policies as required and recommend any proposed changes for Board approval:
 - Audit Independence Policy
 - Energy Markets Risk Management Policy
 - Delegations Policy
 - Treasury Policy
 - Tax Risk and Management Policy

5.4 Other

- > Review policies, procedures and annual reporting with respect to officers' and employees' expense claims and perquisites, including their use of corporate assets and consider the results of any review of these areas by the internal or external auditors.
- > Review and consider management reports of taxation matters in accordance with the Tax Risk and Management Policy.
- > Provide an open avenue for communication between each of the external auditors and the internal auditors and the Board.
- > Identify and direct any special projects or investigations it deems necessary to achieve the Committee's purpose.
- > Report actions to the Board with such recommendations as deemed appropriate.



6 Meetings

The Committee will meet as required, and at least four times per year.

The Committee secretary will produce minutes of each meeting. Following approval by the Committee, these will be signed by the Committee Chair as a correct record of the proceedings of the meeting. The Committee Chair will report the findings and recommendations of the Committee to the Board after each Committee meeting and will provide copies of the minutes to members of the Board.

7 Access and independent advice

The Committee and its individual members are entitled to:

- > have access to any officer, employee, consultant, or advisor of Mercury at any time to request additional information or explanations;
- > have access to internal and external auditors without management present, to request additional information or explanations. Despite the existence of the Committee, the external auditor and internal auditor have direct access to the full Board if required; and
- > with the Committee Chair's consent, seek independent professional advice at Mercury's expense.

8 Review and approval of Charter

This Charter has been approved by the Board. The Committee will review the Charter as required, and at least every two years, and recommend any proposed changes to the Board for approval.

