



## ASX Principles of Good Corporate Governance

For maximum transparency, the Board has responded in turn to each of the ten 'Principles of Good Corporate Governance' issued by the Australian Stock Exchange (ASX)

- **Principle 1:** Lay solid foundations for management and oversight by the Board
- **Principle 2:** Structure the Board to add value
- **Principle 3:** Promote ethical and responsible decision making
- **Principle 4:** Safeguard integrity in financial reporting
- **Principle 5:** Make timely and balanced disclosure
- **Principle 6:** Respect the rights of Shareholders
- **Principle 7:** Recognise and manage risk
- **Principle 8:** Encourage enhanced performance
- **Principle 9:** Remunerate fairly and responsible
- **Principle 10:** Recognise the legitimate interests of stakeholders



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## **A. AGL's Approach to Corporate Governance**

### **A.1 Overview**

The AGL Board (the Board) considers best practice corporate governance standards support sustainable performance by AGL over time. The Board is committed to best practice standards of governance underpinning how AGL conducts its business.

In determining what is best practice governance for AGL, the Board has taken into account the Australian Stock Exchange (ASX) 'Corporate Governance Council, Principles of Good Corporate Governance and Best Practice Recommendations' of March 2003, the Corporations Act 2001 (including CLERP 9 amendments) and other related best practice guidelines. The Board's philosophy is to adopt principles, practices and recommendations that are in the best interests of AGL's stakeholders.

Consistent with the ASX Best Practice Recommendations, AGL's corporate governance practices are regularly reviewed and are available on AGL's website.

### **A.2 Compliance with ASX Corporate Governance Council Best Practice Recommendations**

The ASX Listing Rules require listed companies to include in their Annual Report a statement regarding the extent to which they have adopted the ASX Corporate Governance Council Best Practice Recommendations. To the extent that companies do not adopt any of the Recommendations, they must identify these and provide an explanation for the difference in approach to governance practices.

The Board considers that AGL complies with the Best Practice Recommendations. This statement provides details of AGL's adoption, during the reporting period, of the Best Practice Recommendations. It addresses each principle and describes AGL's response.

ASX Corporate Governance Council Best Practice Recommendations:

- **Principle 1:** Lay solid foundations for management and oversight by the Board
- **Principle 2:** Structure the Board to add value
- **Principle 3:** Promote ethical and responsible decision making
- **Principle 4:** Safeguard integrity in financial reporting
- **Principle 5:** Make timely and balanced disclosure
- **Principle 6:** Respect the rights of Shareholders
- **Principle 7:** Recognise and manage risk
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## B Board of Directors

- **Principle 1:** Lay solid foundations for management and oversight
- **Principle 2:** Structure the Board to add value
- **Principle 8:** Encourage enhanced performance

### B.1 Membership and expertise of the Board

The Board is comprised of seven non-executive directors and one executive director who have a broad range of skills and expertise. The Managing Director is the executive Director and Chief Executive of AGL. The Board's size and composition is subject to limits imposed by AGL's Constitution which provides for a minimum of three Directors and a maximum of ten.

ASX Corporate Governance Council (ASXCGC) Best Practice Recommendation 2.1

Details on Directors of AGL at any time during the financial year, or since, are available on our Board of Directors page, with a brief description of their qualifications, experience, other directorships and special responsibilities.

### B.2 Board responsibilities

The Board of Directors is accountable to Shareholders for the performance of the AGL Group of companies. In carrying out its responsibilities, the Board undertakes to serve the interests of Shareholders honestly, fairly, diligently and in accordance with applicable laws, while having due regard to the interests of employees, customers and the broader community (taken from the Board Charter).

ASXCGC Best Practice Recommendation 1.1

The Board's responsibilities are encompassed in a formal Charter published on AGL's website. The Charter is reviewed annually to determine whether any changes are necessary or desirable. There have been some changes to the published Charter but they are not material and describe existing practices of the Board. The major powers the Board has reserved to itself to fulfil its responsibilities to Shareholders are:

- Review and approve the strategic direction of AGL with management and monitor management's implementation of that strategy;
- Monitor financial outcomes and the integrity of reporting, and in particular, approve annual budgets and longer-term strategic and business plans;
- Set specific limits of authority for management to commit to new expenditure, enter contracts or acquire businesses;
- Monitor the effectiveness of AGL's audit, risk management and compliance systems that are in place to protect AGL's assets and to minimise the possibility of AGL operating beyond legal requirements or beyond acceptable risk parameters;
- Monitor compliance with regulatory requirements (including continuous disclosure) and ethical standards, including reviewing and ratifying codes of conduct and compliance systems;
- Select and appoint (and, if appropriate, remove from office) the CEO, determine conditions of service and monitor performance against established objectives;
- Ratify the appointment (and, if appropriate, the removal from office) of the Chief Financial Officer (CFO) and the Company Secretary;
- Approve conditions of service and performance monitoring procedures to apply to senior management;
- Review senior management succession planning and development regularly; and
- Provide effective and timely reporting to Shareholders.



### **B.3 New Directors**

ASXCGC Best Practice  
Recommendation 1.1

The Board issues a formal letter of appointment for new Directors setting out the key terms and conditions relevant to that appointment, and the expectations of the role of Director. New Directors also receive an induction pack which provides key details about AGL and they receive briefings from AGL management about all aspects of the business.

### **B.4 Selection and role of the Chairman**

ASXCGC Best Practice  
Recommendation 2.3,  
8.1

The Chairman is selected by the Board. The roles of Chairman and CEO are not exercised by the same individual.

The Chairman presides over Board and General Meetings of AGL. He/She has the task of making sure that the Board is well informed and effective, and that the members, individually and as a group, have the opportunity to air differences, explore ideas and generate the collective views and wisdom necessary for the proper operation of the Board and AGL.

The Chairman is responsible for meetings being conducted competently and ethically, and is expected to provide effective leadership in formulating the strategic direction of AGL.

The Chairman must ensure that General Meetings are conducted efficiently, and that Shareholders have adequate opportunity to air their views and obtain answers to their queries.

Among the Chairman's other responsibilities are to:

- See that new Board members are well briefed and have access to information on all aspects of AGL's operations;
- Be the Board's representative in dealings with management ensuring that its views are communicated clearly and accurately;
- Act as the primary counsellor to the CEO; and
- Represent the views of the Board externally on appropriate occasions.

### **B.5 Delegation to the CEO**

ASXCGC Best Practice  
Recommendation 1.1

The Board delegates responsibility for implementing the strategic direction and for managing the day-to-day operations of AGL to the CEO. There are clear lines of communication established between the Chairman and CEO to ensure that the responsibilities and accountabilities of each are clearly understood.

The CEO has a formal service contract setting out duties, responsibilities, rights, conditions of service and termination entitlements. The conditions of service require the permission of the Chairman to be sought before any outside appointment can be taken up by the CEO.

The CEO, has personal objectives as well as objectives related to business units and AGL as a whole. Performance is assessed against those objectives on an annual basis, or more frequently if that is indicated.

The assessment and monitoring of the CEO is handled by the Chairman with the assistance of the People and Performance Committee. The Committee makes an initial assessment and recommendation to the Board. After discussion the Chairman communicates the Board's views to the CEO.



## B.6 Director Independence

ASXCGC Best Practice Recommendation 2.1, 2.2, 2.5

All current non-executive members of the Board are independent. In determining independence the Board has regard to the guidelines on director independence in the ASX Corporate Governance Council Best Practice Recommendations and other best practice guidelines.

The Board has specifically considered the independence of all nonexecutive Directors. The Board has determined that each non-executive Director, including those whose tenure exceeds ten years, remains independent. In forming this view the Board had regard to the conduct of Directors in Board meetings as well as discussions with Directors regarding their independence.

Specific arrangements are in place to deal with any conflict of interest issues that may arise with the Chairman over his role as Deputy Chairman of Macquarie Bank and the possible provision of investment banking services by Macquarie Bank Limited.

Since the previous year, no Director has received or become entitled to receive a benefit because of a contract between any company in the AGL Group and the Director, or a firm in which the Director is a substantial member, or an entity in which the Director has a substantial financial interest, other than:

- In the case of non-executive Directors, remuneration is disclosed in the Annual Report which includes participation in the Shareholder approved AGL Share Purchase Plan; and
- In the case of the CEO a contract of employment and the Shareholder approved entitlements under the Long-Term Incentive Plan.

## B.7 Review of Board and senior management performance

ASXCGC Best Practice Recommendation 8.1

AGL has processes in place to review the performance of the Board and Directors. Each year the Board devotes time to consideration of broad corporate governance matters, including the continuing relevance of existing committees and to reviewing its own and individual Director's performances. The Chairman is responsible, in the first instance, for monitoring the contribution of individual Directors and counselling them on any areas for improvement. In this he is assisted by the People and Performance Committee. In turn, individual Directors use an appraisal form to assess the performance of the Board and the Chairman.

## B.8 Director Education and access to independent professional advice

ASXCGC Best Practice Recommendation 2.1, 2.5, 8.1

Directors have unfettered access to AGL records and information reasonably necessary to fulfil their responsibilities. Directors also have access to the Company Secretary on any matter relevant to their role as a non-executive Director. In addition, the Board has access to other relevant senior management to seek explanations and information. They receive regular detailed reports on financial and operational aspects of AGL's business and may request elaboration or explanation of those reports at any time. Each Director has the added right to seek independent professional advice at AGL's expense. Prior approval of the Chairman is required but this may not be unreasonably withheld.

As set out at B.4, the Chairman is responsible to see that new Board members are well briefed and have access to information on all aspects of AGL's operations. Directors and senior management are encouraged to broaden their knowledge of AGL's business and to keep abreast of developments in business more generally by attendance at relevant courses, seminars, conferences, etc. AGL meets expenses involved in such activities.



## **B.9 Board succession**

ASXCGC Best Practice Recommendation 2.3, 2.5

Succession planning for the Board is reviewed regularly first by the People and Performance Committee and then by the Board. The Board has been implementing a Board renewal program. Now that the corporate direction of AGL is clear, the Board has expedited its consideration of new suitably qualified and experienced non-executive Directors for appointment to the Board of new AGL.

It remains important that this is staged to ensure an orderly transition and enable new Directors to gain the necessary knowledge base given the long-term and cyclical nature of factors influencing the business such as regulatory decisions and long-term gas supply arrangements like PNG gas.

In considering potential new Directors to commend to Shareholders, the Board seeks to identify candidates with appropriate skills and experience to contribute to the effective direction of AGL, who can exercise an independent and informed judgement on matters which come to the Board, and be free of any business or other relationships that may interfere materially with the exercise of that independent judgement.

As set out at B.3, new Directors receive formal letters of appointment from the Chairman that set out the key terms and conditions relative to that appointment and the expectations of the role of Director.



## C. Board Committees

ASXCGC Best Practice Recommendation 1.1, 2.4, 4.2, 9.2

To assist it in carrying out its responsibilities the Board has established three standing committees of its members. They are:

- C.1 Audit & Risk Management Committee
- C.2 People and Performance Committee
- C.3 Health, Safety and Environment Committee

### C.1 Audit & Risk Management Committee

ASXCGC Best Practice Recommendation 4.2, 4.3, 4.4, 4.5, 7.1

The Board has established an Audit & Risk Management Committee, comprising four non-executive Directors, all with appropriate and relevant financial experience. They are Graham Reaney (Chairman), Charles Allen, Carolyn Hewson and Jerry Maycock. Their qualifications are disclosed in the Board of Directors section. The Committee has a formal charter which has been reviewed by the Committee and the Board.

The CEO, CFO, General Manager Finance – Corporate, General Manager Group Strategic Risk, Manager Group Audit and the external auditor attends Committee meetings at the discretion of the Committee. The Committee meets privately with the external auditor on general matters concerning the external audit, and other related matters, including when considering the half-year and full-year financial reports.

The Company Secretary is the secretary to the Committee.

The minutes of each Committee meeting are reviewed at the subsequent meeting of the Board and the Chairman of the Committee reports on the Committee's conclusions and recommendations.

The primary function of the Audit & Risk Management Committee is to assist the Board of Directors in fulfilling its responsibilities to Shareholders by:

- Monitoring the integrity of financial reporting;
- Monitoring and reviewing the effectiveness of Group Audit;
- Overseeing and recommending to the Board matters in relation to the external auditor;
- Monitoring and reviewing the external auditor's qualifications, performance and independence;
- Maintaining and overseeing a sound system of internal controls based on the adoption by the Board of a risk-based approach to the identification, evaluation and management of risks that are significant to the fulfilment of AGL's business objectives; and
- Reviewing AGL's internal controls.

To fulfil its responsibilities and duties the Audit & Risk Management Committee:



### **Financial reporting processes**

- Reviews and discusses with management and the external auditor the half and full-year financial reports, including notes to the financial accounts and other disclosures, and recommends to the Board whether the financial reports should be issued;
- Reviews AGL's accounting and financial reporting practices, including the effect of changes in accounting standards and practices, ASX listing requirements and corporate legislation. This includes discussing with management and the external auditor the application of those practices and standards to the AGL Group's financial reports;
- Reviews and discusses with the external auditor their report regarding significant findings in the conduct of their audit and management's response;
- Discusses with management and the external auditor any major issues relating to the system of internal controls over financial information; and
- Discusses with management and the external auditor the process and related information supporting the statements to the Board by the CEO and CFO, that AGL's financial reports present a true and fair view, in all material respects, of AGL's financial condition and operational results, and are in accordance with relevant accounting standards (ASX Corporate Governance Council, Principle 4.1).

### **Oversight of external auditor**

- Recommends to the Board the selection and termination of the external auditor subject to Shareholder approval;
- Reviews the annual audit plan with the external auditor and approves the plan and audit fees;
- Reviews and discusses with the external auditor any matters relating to the conduct of the audit, including responses from management;
- Receives and reviews quarterly reports on non-audit services to ensure compliance with the Board's policy on maintaining the independence of the external auditor;
- Reviews annually the Board's policy on maintaining the independence of the external auditor and recommends any changes if necessary;
- Reviews the performance of the external auditor having regard to the skills and capabilities of the lead external audit staff; and
- Has the external auditor reporting directly to the Committee.

### **Risk management**

- Reviews and approves AGL's risk management policy and framework for identifying and managing risk;
- Monitors the effectiveness of the risk management framework and the system of internal control. As part of monitoring and assessing the effectiveness of the system of internal control, the Committee regularly receives and reviews reports on internal control, particularly those included in the Annual Report;
- Reviews at least annually the Group's implementation of the risk management policy and framework; and



- Discusses with management and the General Manager Group Strategic Risk and the Manager Group Audit, the process supporting the statements to the Board by the CEO and CFO that the integrity of financial statements is founded on a system of risk management and internal compliance and control, and that AGL's risk management and internal compliance is operating efficiently and effectively in all material aspects (ASX Corporate Governance Council, Principle 7.2).

#### **Internal audit**

- Reviews the appointment and replacement of the Manager Group Audit;
- Oversees, reviews and approves the scope of the annual internal audit plan; and
- Reviews and discusses with the Manager Group Audit significant internal audit reports.

#### **Legislative compliance**

- Monitors the development and ongoing review of appropriate legislative compliance programs where applicable; and
- Receives, reviews and discusses with management regular reports on legislative compliance.

#### **Review**

- The Committee conducts a review of its performance annually as part of the overall Board performance assessment process.
- Directors' attendances are set in the Annual Report.

### **C.2 People and Performance Committee**

The Board has established a People and Performance Committee comprising three non-executive Directors, Mark Johnson (Chairman), Graham Reaney and Max Ould. The Committee has a formal Charter that is reviewed regularly. The purpose of the Committee is to review and ratify remuneration and people policies, procedures and programs designed to:

- Meet long-term people needs through effective talent management and succession planning;
- Achieve clear alignment between the needs and requirements of key stakeholder groups (i.e. customers, Shareholders and communities) and the objectives and values of AGL people;
- Reward AGL people for excellent performance and keep them committed and motivated;
- Encourage teamwork and shared learning;
- Foster the growth of AGL people to enable them to reach their full potential through performance management, development and training;
- Achieve compliance with relevant legislation and corporate governance principles on remuneration practices and employment policies; and
- Effectively overview remuneration practice, including incentives, superannuation and retirement benefits, for people at all levels, enabling AGL to attract and retain people who create value for Shareholders.

ASXCGC Best Practice Recommendation 2.4, 2.5, 8.1, 9.2, 9.5



The Committee is responsible for making recommendations to the Board as follows:

**Recommendations to the Board relating to Board matters**

- Reviewing strategic issues and commercial changes that impact AGL and the energy sector to determine the most appropriate structure, size, composition and tenure of the Board;
- Maintaining a healthy balance of skills, knowledge and experience across the Board by recommending new appointments and ongoing development for Directors;
- Determining Board performance assessment criteria and assessing performance;
- Rewarding Directors responsibly and fairly for their individual contributions to enhancing AGL's performance;
- Recommending to the Board appointment and removal of Directors for the consideration of a General Meeting of Shareholders;
- The time required to be committed to AGL business by non-executive Directors; and
- Recommending in relation to Board succession, planning and Director remuneration policy.

**Recommendations to the Board relating to the CEO**

- Setting and reviewing performance objectives for the CEO and evaluating his/her contribution and effectiveness;
- Rewarding the CEO responsibly and fairly for his/her contribution to enhancing AGL's performance; and
- The recruitment, retention and termination policies and procedures for the CEO.

**Recommendations to the Board relating to the senior leadership team**

- Reviewing the CEO's recommendations on senior leadership remuneration and reward, and on succession plans for key senior positions within AGL;
- Maintaining a balance of skills, knowledge and experience across the senior leadership team, through reviewing recommended structures, new appointments and assessing ongoing leadership development; and
- The recruitment, retention and termination policies and procedures for members of the senior leadership team.

**Recommendations to the Board on AGL philosophy and policy issues**

- Providing counsel and guidance to the business in relation to talent, succession planning and performance management; and
- Monitoring remuneration policies and practices to ensure they enable AGL to attract and retain people who create value for Shareholders and who uphold and develop the culture of AGL.
- Directors' attendances are set out in the Annual Report. The Committee may make use of external consultants if that is deemed appropriate.



### **C.3 Health, Safety and Environment Committee**

The Board meets as the Health, Safety and Environment (HSE) Committee, in order to review the adequacy and effectiveness of AGL's health, safety and environmental management systems. The Chairman of the Board is the Committee's Chairman. The Committee meets at least twice a year, with additional meetings scheduled on an 'as needs' basis. The Committee has its own formal Charter.

The primary function of the HSE Committee is to set and review the implementation of AGL's HSE strategy including:

- Monitoring and reviewing AGL's commitment to the health and safety of its people;
- Reviewing AGL's environmental priorities and commitments, including its greenhouse gas strategy; and
- Integration of these priorities within AGL's corporate strategy, risk management framework, and people and culture priorities.

To achieve this, the Committee is responsible for:

#### **Health and safety management systems**

- Reviewing and monitoring the effectiveness of AGL's HSE management system, including the adequacy of processes for identifying, assessing and avoiding HSE risk;
- Monitoring HSE performance, including lead and lag indicators with a view to providing a desirable outcome for Shareholders, customers, employees and the community;
- Monitoring AGL's compliance with relevant HSE legislation and its HSE Policy;
- Reviewing extreme and very high HSE risks and issues, and action plans put in place to reduce risk and prevent future incidents;
- Reviewing AGL's health and safety initiatives and programs, and their success; and
- Considering reports submitted by management on health and safety performance and issues.

#### **Environment**

- Reviewing AGL's environmental principles and policies;
- Reviewing AGL's environmental and greenhouse gas footprint and tracking performance indicator trends;
- Reviewing priority goals and targets and monitoring implementation; and
- Considering reports submitted by management on environmental performance and issues.



## **Reporting**

The Board Committee will action the preparation of any reports required by law or requested by the AGL Board.

The Chairman of the Board Committee will attend the AGM to respond to any Shareholder questions on the Board Committee's activities.

To the extent the Board Committee deems necessary, it may, at AGL's expense, retain legal, accounting or other advisors. The Board Committee is authorised to seek any information it requires from any employee of AGL in order to perform its duties.

## **Review**

The Committee and the Board reviews the performance of the Committee. The Committee's Charter is reviewed at least every two years. Any changes required are to be approved by the AGL Board.

Director's attendances are set in the Annual Report.



## D. Ethical and responsible decision making

Principle 3: Promote ethical and responsible decision making

AGL is committed to conducting all its business ethically and responsibly.

- D.1 AGL Code of Conduct
- D.2 Policies on share trading and conflicts of interest

### D.1 AGL Code of Conduct

ASXCGC Best Practice Recommendation 3.1, 3.3, 10.1

AGL has a Code of Conduct that applies to Directors as well as employees. It is also part of the induction pack for new Directors. New employees are required to confirm they have reviewed and are aware of AGL's Code of Conduct. It is the Board's objective that all dealings with Shareholders, staff, customers, regulatory authorities and the community should be conducted honestly, fairly, diligently and in accordance with all applicable laws. Any departure from such practice is treated very seriously. The Code provides a mechanism to enable employees to report breaches of the Code without any fear of retribution.

The encouragement of ethical conduct, not only by edict, but also by example from all involved in AGL is fundamental.

AGL has an internal Ethics Panel that oversees the application of the Code of Conduct in AGL, including dealing with breaches of the Code, monitoring compliance and recommending amendments to the Board.

The Ethics Panel oversaw a revised Code of Conduct which was published in 2005 on AGL's website.

AGL has incorporated ethics sessions into its Senior Leadership Program and Emerging Leaders Program.

AGL has a commitment to diversity and has a policy on this issue. AGL has also initiated a Diversity Support Line. Expanding this service to meet AGL's obligations in relation to 'whistle blowing' and questions of ethics is being considered.

For more information, see our Code of Conduct.

### D.2 Policies on share trading and conflicts of interest

ASXCGC Best Practice Recommendation 3.1, 3.2, 3.3

AGL has policies on share trading by Directors and senior managers as well as conflicts of interest. See our Code of Conduct for more information.



## E. Financial reporting

Principle 4: Safeguard integrity in financial reporting

- E.1 CEO and CFO statements on financial reports
- E.2 Audit & Risk Management Committee
- E.3 External Auditor
- E.4 Non-audit services

### E.1 CEO and CFO statements on financial reports

ASXCGC Best Practice Recommendation 4.1

The CEO and the CFO provide detailed written undertakings to the Board confirming that AGL's financial reports present a true and fair view, in all material aspects, of AGL's financial position and are in accordance with relevant accounting standards.

### E.2 Audit & Risk Management Committee

ASXCGC Best Practice Recommendation 4.2, 4.3, 4.4

As set out in the Board Committees, the Board has established an Audit & Risk Management Committee with a formal charter, comprising four non executive Directors, all with appropriate financial experience. They are Graham Reaney (Chairman), Charles Allen, Carolyn Hewson and Jerry Maycock. Their qualifications are disclosed in our Board of Directors section.

### E.3 External auditor

The Audit & Risk Management Committee has oversight of the external auditor and their responsibilities are set out in the Board Committees section. AGL's external auditor is Deloitte Touche Tohmatsu. Deloitte Touche Tohmatsu was appointed in October 1995.

### E.4 Non-audit services

ASXCGC Best Practice Recommendation 4.5

The Board has a formal policy on the provision of auditing and related services. Specifically, the external auditor is precluded from providing any services that might threaten their independence or conflict with their assurance and compliance role. Quarterly reports on the provision of auditing and related services are provided to the Board through the Audit & Risk Management Committee. Directors are satisfied that the provision of \$1,986,000 of non-audit services by the external auditor is compatible with the general standard of independence for auditors.

The policy and procedures in place, and the review by the Audit & Risk Management Committee, enable Directors to conclude that non-audit services provided did not compromise the external auditor's independence requirements under the Corporations Act 2001. There is also in place an agreed rotation policy for the senior auditor of Deloitte Touche Tohmatsu. The external auditor annually provides a letter to the Company Secretary on their independence within the meaning of relevant legislation and professional standards. No officers of AGL were partners or directors of Deloitte Touche Tohmatsu during this reporting period.



## F. Market disclosure

Principle 5: Make timely and balanced disclosure

- F.1 ASX Listing Rules disclosure
- F.2 Market Disclosure Committee
- F.3 Accountability
- F.4 Financial market communications

### F.1 ASX Listing Rules disclosure

ASXCGC Best Practice Recommendation 5.1, 5.2

A continuous disclosure regime operates throughout AGL and is documented in AGL's Market Disclosure Policy and Market Disclosure Plan. The Policy and Plan are in place to ensure matters that a person could reasonably expect to have a material effect on the share price are announced to the ASX in a timely manner. The Market Disclosure Policy describes AGL's continuous disclosure obligations and how they are managed by AGL, as well as how AGL communicates with financial markets. The Policy is complemented by the Market Disclosure Plan which gives effect to it.

### F.2 Market Disclosure Committee

ASXCGC Best Practice Recommendation 5.1, 5.2

As part of its Market Disclosure Plan, to give effect to the Market Disclosure Policy, a Market Disclosure Committee has been established.

This is a senior management committee, and comprises the CEO, Company Secretary (the nominated Continuous Disclosure Officer), CFO and Head of Investor Relations. The General Counsel is an ad hoc member who attends where there are legal matters to be discussed. The Continuous Disclosure Officer is the Convenor. The purpose of the Committee is to help AGL achieve its objective to establish, implement and supervise continuous disclosure within AGL.

The Committee is responsible for ensuring that all AGL announcements are made in a timely fashion, contain material information as well as being objective and factual, and are clearly written to allow investors to assess the impact of information on their investment decisions.

Business Unit Disclosure Officers have been appointed to each Business Unit to co-ordinate the provision of material information to the Convenor of the Market Disclosure Committee. The Committee has endorsed Materiality Guidelines, which are available to employees to enhance their understanding of what may be material information for disclosure purposes.

### F.3 Accountability

ASXCGC Best Practice Recommendation 5.1, 5.2

The Company Secretary as the nominated Continuous Disclosure Officer reports to the Board quarterly on matters that were either notified or not notified to the ASX. In the event a decision is made not to notify the ASX of a particular event or development, the reasons for not doing so are advised to the Board. Directors receive copies of all announcements immediately after notification to the ASX. All ASX announcements are available in the Media centre.

Direct reports to the CEO also confirm in writing to the Board, on a quarterly basis, that matters which might need to be disclosed have been brought to the attention of the Continuous Disclosure Officer for review.



#### **F.4 Financial market communications**

ASXCGC Best Practice  
Recommendation 5.1,  
5.2

Communication with the financial market is the responsibility of the CEO, CFO and Head of Investor Relations. Communication with the media is the responsibility of the CEO, Head of External Affairs and the Media Relations Manager. The Market Disclosure Policy covers briefings to institutional investors and stockbroking analysts, general briefings, one-on-one briefings, blackout periods, compliance and review as well as media briefings. The Market Disclosure Plan provides further guidance on how to give effect to the Market Disclosure Policy. For more information, see the Market Disclosure Policy.



## **G. Shareholders Principle 6: Respect the rights of Shareholders**

G.1 Communication with Shareholders

G.2 External auditor's attendance at the AGM

### **G.1 Communication with Shareholders**

AGL endeavours to keep its Shareholders fully informed of matters likely to be of interest to them. It does this through:

- Reports to the ASX and the media;
- Half-year and full-year profit announcements;
- Annual financial reports;
- Information provided to analysts which is released to the ASX;
- Webcasting of half-year and full-year financial report presentations; and
- Webcasting of the Chairman's address to the AGM.

All the above are on the AGL website. Shareholders have been given the opportunity to provide their email addresses to AGL to enable them to receive reports and announcements made to the ASX without delay.

The Investor Centre section of the AGL website contains an extensive collection of resources for Shareholders. Information available includes:

- An archive of Annual Reports;
- Details from recent General Meetings (including Resolutions, Chairman's Address, Notice of Meeting, Chairman's Letter and proxy form);
- Results for the current year and performance graphs;
- Presentations given by the CEO and the AGL Leadership Team;
- Corporate governance items, including the Board Charter, AGL Code of Conduct, ASX Principles of Good Corporate Governance and Market Disclosure Policy;
- Share price graphs and dividend payment history;
- Information on how to become a Shareholder and how to subscribe to AGL Shareholder communications including the Information Club; and
- Investor calendar.

At the AGM, the Chairman encourages questions and comments from Shareholders and seeks to ensure the Meeting is managed to give the maximum number of Shareholders an opportunity to participate. In the interests of clarity, questions on operational matters may be answered by the CEO or another appropriate member of senior management. New Directors or Directors seeking re-election are also given the opportunity to address the Meeting.

Shareholders provide constructive and helpful feedback. Their ideas regarding improved reporting underpin the Board's commitment to provide Shareholders with information that is helpful to them.

In addition the Board seeks feedback from AGL's largest institutional investors about their expectations of AGL. The Board has also sought feedback during the year from a cross section of retail and smaller Shareholders on their views of AGL. This process of feedback is very important in informing the Board of the views of AGL's investors.

ASXCGC Best Practice  
Recommendation 6.1



## **G.2 External auditor's attendance at the AGM**

ASXCGC Best Practice  
Recommendation 6.2

The external auditor attends AGL's AGM. Shareholders may submit written questions to the auditor to be considered at the AGM in relation to the conduct of the audit and the preparation and content of the Independent Audit Report by providing the questions to AGL at least five business days before the day of the AGM. Shareholders are also given a reasonable opportunity at the AGM to ask the auditor questions relevant to the conduct of the audit, the Independent Audit Report, the accounting policies adopted by AGL and the independence of the auditor.



## H. Managing risk

Principle 7: Recognise and manage risk

- H.1 Audit & Risk Management Committee
- H.2 Risk management policy and program
- H.3 Risk management roles and responsibilities
- H.4 Adoption of COSO model
- H.5 Action to address any deficiencies
- H.6 Written assurances from the CEO and CFO

### H.1 Audit & Risk Management Committee

ASXCGC Best Practice Recommendation 4.2

As set out at C.1, the Board has established an Audit & Risk Management Committee, comprising four non-executive Directors, all with appropriate financial experience. They are Graham Reaney (Chairman), Charles Allen, Carolyn Hewson and Jerry Maycock. Their qualifications are disclosed in the Board of Directors section.

### H.2 Risk management policy and program

ASXCGC Best Practice Recommendation 7.1, 7.3

Any company faces a wide variety of risks depending on the nature of its operations and the regions in which it operates. AGL has a formal holistic enterprise wide risk program based on Standards Australia's AS/NZS 4360:2004 (Risk Management).

This program is supported by AGL's Risk Management Policy, which has been endorsed by the Board on the recommendation of the CEO and the Audit & Risk Management Committee.

### H.3 Risk management roles and responsibilities

ASXCGC Best Practice Recommendation 7.1, 7.3

A Peak Risk Management Committee comprising AGL's senior management monitors and oversees the continuous improvement of risk identification, assessment, treatment and reporting, including legislative compliance. AGL's Group Strategic Risk department supports AGL's business units in the implementation of the AGL-wide risk management framework.

AGL's Group Audit department performs regular audits of the internal systems of control and risk management compliance across the Group. These audits take account of both the nature and materiality of risk.

The Audit & Risk Management Committee review quarterly reports of the activities and findings of Group Strategic Risk and Group Audit.

All outstanding audit issues are monitored through to satisfactory completion. The external auditor also reports findings on relevant risk and control issues to the Audit & Risk Management Committee and to the Board on a six-monthly basis.

### H.4 Adoption of COSO model

ASXCGC Best Practice Recommendation 7.1, 7.3

AGL has adopted the Committee of Sponsoring Organisations of the Treadway Commission's report, Internal Framework (COSO) model as a means of evaluating the effectiveness of its risk management, internal compliance and control systems as well as the effectiveness of their implementation. This is complemented by the application of Principles 7.1 and 7.2 from the ASX Corporate Governance Council Best Practice Recommendations Report.



## H.5 Action to address any deficiencies

ASXCGC Best Practice Recommendation 7.1, 7.3

Where weaknesses are identified, immediate action is taken to address the deficiency. However, in circumstances where corrective action is yet to be fully implemented and tested, increased monitoring and review by management, Group Strategic Risk and Group Audit are initiated to provide the Board with assurance that risks are identified and appropriately addressed and no material error or misstatement occur in AGL's financial statements.

## H.6 Written assurances from the CEO and CFO

ASXCGC Best Practice Recommendation 7.2

The CEO and the CFO have also provided the Board with written assurances supplementary to their Principle 4.1 representation that:

The integrity of the Financial Statements are founded on a sound system of risk management and internal compliance and control which, in all material respects, implements the policies adopted by the Board; and

The risk management and internal compliance and control systems of AGL and the consolidated entity relating to financial reporting objectives are operating efficiently and effectively, in all material respects.

Ernst and Young were engaged in 2005 to undertake a review of AGL's assurance processes supporting the Principle 7 sign-offs. This was instigated by the Board as part of its overall approach to safeguarding the integrity in financial reporting. Ernst and Young's overall finding was that AGL's processes and accountabilities for the ASX Principle 7 sign-off were in line with good practices established by other ASX100 companies.

AGL is continuously reviewing opportunities to improve existing Principle 7 processes.



## I. Remuneration policies and packages

Principle 9:  
Remunerate fairly  
and responsibly  
ASXCGC Best Practice  
Recommendation 9.1,  
9.2, 9.3, 9.4, 9.5

The Board has established a People and Performance Committee to consider and report on, among other things, remuneration policies and packages applicable to Board members and to senior managers of AGL. Three non-executive Directors, Mark Johnson (Chairman), Graham Reaney and Max Ould are members of the Committee. The Committee has a formal Charter which is reviewed regularly.

The full terms of reference of the Committee are detailed in the Board Committees section.

The CEO attends meetings of the People and Performance Committee by invitation when required to report on and discuss senior management performance and remuneration and related matters. A Remuneration Report, required under Section 300A(1) of the Corporations Act 2001 is provided in the Directors' Report of the Annual Report.



## J. Legitimate interests of stakeholders

Principle 10:  
Recognise the  
legitimate interests of  
stakeholders

- J.1 Code of Conduct
- J.2 Sustainability Report

### J.1 Code of Conduct

ASXCGC Best Practice  
Recommendation  
10.1

AGL has a Code of Conduct which sets out the behaviour required of Directors, employees and contractors. The Code provides a mechanism to enable employees to report breaches of the Code without any fear of retribution. There is also in place the Ethics Panel that deals with breaches of the Code, monitors compliance and approves amendments.

### J.2 Sustainability Report

AGL believes that a sustainable business is one that adds measurable value by its financial success and its positive contribution to society as a good corporate citizen.

In 2004, AGL published its first Sustainability Report. This Report identified goals, strategies and the activities of AGL's wholly-owned Australianbased businesses and assets from 1 July 2003 to 30 June 2004 and listed actions for 2004/2005.

This Report established the framework for ongoing public reporting about the sustainability of AGL's social, environmental and economic activities. Where appropriate, the Global Reporting Initiative framework was used in the construction of this Report.

AGL has:

- Been selected as an index component in the 2006 Dow Jones Sustainability World Index (DJSI World); and
- Met FTSE's corporate responsibility criteria and is a constituent company in the FTSE4Good Index Series. This Index is designed to identify and facilitate investment in companies that meet globally recognised corporate responsibility standards.

AGL also participated in the Corporate Responsibility Index for the second year and improved our outcome from 71.8% to 85.2%, the third biggest improvement across all participants in the Australian survey. AGL continues to participate in the DJSI World Index survey. AGL participated in these two surveys in order to benchmark AGL's performance across a number of categories with other utilities in Australia and the United Kingdom and with other Australian listed companies. Feedback assists in AGL improving its business performance for the benefit of Shareholders.