

CORPORATE GOVERNANCE

This statement outlines the main Corporate Governance practices which were in place throughout the financial year.

Board of Directors and its Committees

The Board is accountable to Proprietors for the business and affairs of the Group. Specifically the Board: sets the strategic direction of the Group; establishes goals for management; reviews the performance of the Managing Director and senior executives; and ensures that Proprietors' funds are prudently safeguarded. The responsibility for implementing the strategic direction and the day-to-day affairs of the Group is delegated to the Managing Director.

The Board is supported by several committees of its members. The main continuing committees are Nomination Committee, Remuneration Committee, Audit & Risk Management Committee, and Health, Safety and Environmental Committee.

Composition of the Board

The Board of The Australian Gas Light Company consists of eight Directors. Seven of these, including the Chairman and Deputy Chairman, are non-executive Directors. The Managing Director is an executive Director. The Board may appoint any person as a Director to fill a casual vacancy. However, Directors appointed by the Board are subject to election by Proprietors at the next Annual General Meeting, and re-election at regular intervals in accordance with the Company's Constituent Documents. The Chairman and Deputy Chairman are elected annually by the full Board. The names of the Directors and their attendance at meetings during the financial year are set out in the Directors' Report on pages 38 to 42.

Non-executive Directors are remunerated by fees determined by the Board within the present aggregate limit of \$900,000 approved by Proprietors in October 2000. External professional advice is sought when Directors' fees are being determined to ensure their compatibility with fees paid to directors of other major corporations. Directors may also apply part or the whole of their remuneration to the purchase of the Company's shares under the AGL Share Purchase Plan. Directors also have an entitlement to retirement benefits in accordance with arrangements approved by Proprietors in 1985. Further details of Directors' remuneration are set out in the Directors' Report on page 41.

Nomination Committee

The Nomination Committee comprising three non-executive Directors, Mr M J Phillips (Chairman), Mr M R G Johnson and Mr G J Reaney, met three times during the year. Its terms of reference are to:

- Review and make recommendations to the Board on the composition of the Board and the criteria for Board membership;
- Ensure that a proper succession plan is in place and consider and nominate a panel of candidates with appropriate expertise and experience for consideration by the Board;
- Where considered necessary, recommend to the Board the terms of appointment of any proposed new non-executive director;
- Review the membership of other Board Committees and make recommendations to the full Board; and
- Perform other related tasks as directed by the Board.

Remuneration Committee

Three non-executive Directors, Mr M J Phillips (Chairman), Mr M R G Johnson and Mr G J Reaney form the Remuneration Committee which met three times during the year. The primary functions of the Committee are to review and report to the Board on:

- The remuneration of the Managing Director and his direct reports;
- The remuneration policies for the AGL Group;
- Proposals for issues under, or changes to, the AGL Share Reward Plan;
- Proposals for issues under, or changes to, the AGL Share Loan Plan;
- Proposals for other reward initiatives;
- Succession plans for Executive Management; and
- Other related matters as directed by the Board.

The Managing Director is invited to the Remuneration Committee meetings as required to discuss his direct reports' performance and remuneration packages.

The Committee is empowered to seek independent advice on any matter brought to its attention for review.

Audit & Risk Management Committee

Membership of the Audit & Risk Management Committee comprises four non-executive Directors, Mr G J Reaney (Chairman), Mrs C J Hewson, Mr D C K Allen and Mr A B Daniels.

The Managing Director, Chief Financial Officer, General Manager Accounting, Manager Group Audit & Risk Management and the external auditor attend meetings at the discretion of the Committee. During the year four meetings of the Committee were held. Minutes of the Committee are reviewed by the Board at its subsequent meeting.

The responsibilities of the Audit & Risk Management Committee include:

- Reviewing the annual audit plan with the external auditor;
- Reviewing and approving the annual Group Audit Services audit plan ensuring appropriate coverage of significant business risks;
- Reviewing the Group's accounting and financial reporting practices, including the effect of changes in accounting standards and practices, Australian Stock Exchange (ASX) listing requirements and corporate legislation;
- Reviewing significant transactions which are not a normal part of the Group's business;
- Reviewing half-year and full-year accounts;
- Receiving and reviewing significant Group audit reports;
- Reviewing the performance of the external auditor and proposing changes where considered necessary;
- Reviewing and approving Management's use of auditors to provide consulting and other services beyond their core audit activities;
- Receiving and reviewing reports on the Group's risk management activities; and
- Considering any other financial matters of the Group which the Audit & Risk Management Committee or the Board determines is desirable.

During the year the Board introduced a formal policy relating to auditing and audit services. Specifically, the external auditor is precluded from providing any services

which might threaten its independence or conflict with its assurance and compliance role.

As part of an agreed rotation policy, the current senior audit partner of Deloitte Touche Tohmatsu assigned to the AGL Group will be replaced at the conclusion of the 2001/2002 annual accounts' audit.

Health, Safety and Environmental Committee

The full Board meets, at least twice a year in Committee, to review the Group's commitment to health, safety and the environment and the effectiveness of its policies in those areas. The Committee also reviews the results of environmental facility audits of the various business units.

Independent Professional Advice

Each Director has the right to seek independent professional advice at the Group's expense. Prior approval of the Chairman is required, which may not be unreasonably withheld.

Directors' Share Dealings

To be eligible for election as a Director of the Company a person must hold 2,000 shares. A formal policy on share dealings is in place whereby Directors and senior management may buy or sell the Company's shares only during the four-week periods following the release of the half-year results, full-year results and the Annual General Meeting unless exceptional circumstances apply. They are also precluded from buying or selling AGL's shares at any time if they are aware of any price-sensitive information which has not been made public. The policy reinforces the prohibition on insider trading contained in the Corporations Act 2001.

The current shareholdings of Directors are shown on page 38.

Risk Management Framework

During the year, the Board formally adopted a holistic, enterprise-wide risk management framework. This framework brings together the various risk management activities which have previously been conducted in different parts of the Company without formal co-ordination. AGL's risk management framework is based on Standards Australia's AS/NZS 4360:1999 (Risk Management).

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The implementation programme includes:

- Identification of the 'Top 20' risks facing the Group;
- Formal oversight and review by the Audit & Risk Management Committee of the risk management plan, framework and processes;
- Quarterly reporting and review of significant risks by AGL's Leadership Team;
- The seamless integration of risk management into both the planning and budgeting processes;
- Procedures for the immediate notification of unacceptable risks to senior management and/or Board as appropriate;
- Specialist training of 'risk champions' and staff awareness training across the Group;
- Responsibility for the identification, management and monitoring of risk and ensuring it is clearly defined and included in the performance measures of individuals and business units; and
- Expanding audit activity to include review of risk management outcomes.

Internal Control Framework

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control options will preclude all errors and irregularities. There are well-established procedures at Board, corporate and business unit levels designed to safeguard the Group's assets and interests and to ensure the integrity of its reporting. These include: accounting, treasury, energy trading and personnel policies; insurance programmes; environmental systems; a Trade Practices compliance programme; and a legislative compliance policy.

The Board has set specific limits of authority for Management to incur expenditure, enter contracts or acquire businesses without prior Board approval.

Bi-annually the Board requires assurance letters from Management concerning accounting practices, legislative compliance and reliability of assets.

The Board is acutely aware of the ringfencing obligations under the National Third Party Access Code and Gas Pipelines Access Law which apply to entities which own

or operate networks and pipelines. Formal ringfencing protocols are in place to ensure the Group's obligations are not breached.

A continuous disclosure regime operates through the Group. The Company Secretary is the nominated Continuous Disclosure Officer and he reports to the Board quarterly on matters notified to the ASX. In the event a decision is made not to notify the ASX of a particular event or development, the reason for non-notification is advised to the Board. Directors receive copies of all announcements immediately after notification to the ASX.

AGL's Values

The Company recognises the need for Directors, Management and staff to observe the highest standards of behaviour and business ethics when engaging in corporate activity.

AGL's Values define the principal patterns of conduct expected of everyone in the AGL community.