

# Corporate Governance

The Board has decided to reorganise this section of the Annual Report to indicate the extent of its conformance with the 'Principles of Good Corporate Governance' issued by the Australian Stock Exchange (ASX). For maximum transparency, it responds to each of the ten Principles in turn:

**PRINCIPLE 1:**  
**Lay solid foundations for management and oversight by the Board**

The Board's responsibilities are encompassed in a charter which is published on the Company's website. The major roles it has defined to fulfil its responsibilities to Shareholders and the community are:

1. Set the strategic direction of the Group with Management and monitor Management's implementation of that strategy;
2. Select and appoint (and, if appropriate, remove from office) the Chief Executive, determine his/her conditions of service and monitor his/her performance against established objectives;
3. Ratify the appointment (and, if appropriate, the removal from office) of the Chief Financial Officer and the Company Secretary;
4. Approve conditions of service and performance monitoring procedures to apply to senior management;
5. Monitor financial outcomes and the integrity of reporting, in particular approve annual budgets and longer-term strategic and business plans;
6. Set specific limits of authority for Management to commit to new expenditure, enter contracts or acquire businesses;
7. Ensure that effective audit, risk management and compliance systems are in place to protect the Company's assets and to minimise the possibility of the Company operating beyond legal requirements or beyond acceptable risk parameters;
8. Monitor compliance with regulatory requirements (including continuous disclosure) and ethical standards;
9. Review senior management succession planning and development on a regular basis; and
10. Provide effective and timely reporting to Shareholders.

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

- Audit & Risk Management Committee;
- Nomination Committee;
- Remuneration Committee; and
- Health, Safety and Environmental Committee.

To date new Directors have not received formal letters of appointment, though they have received less formal letters from the Chairman in response to their letter of consent to act as a Director. In future it is the Company's intention to issue formal letters of appointment.

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

The Chief Executive and the Chief Financial Officer (and other senior management) have service contracts setting out their duties, responsibilities, conditions of service and termination entitlements.

**PRINCIPLE 2:**  
**Structure the Board to add value**

The Board determines Board size and composition, subject to limits imposed by the Company's Constitution. The Constitution provides for a minimum of three Directors and a maximum of ten.

For the time being, the Board has determined that there shall be eight Directors, seven of whom, including the Chairman and the Deputy Chairman, are non-executive.

The Directors of the Company at any time during the financial year, or since, are listed below with a brief description of their qualifications, experience and special responsibilities.

**M J Phillips AM BEc –  
Chairman, Age 73**

A non-executive Director since 1992 and appointed Chairman in October 1996. Chairman of the Nomination, Remuneration and Health, Safety and Environmental Committees. Mr Phillips is Chairman of the Foreign Investment Review Board and Chancellor of the University of Western Sydney. He is also Chairman of the Australian Charities Fund. Formerly Deputy Governor and Deputy Chairman of the Reserve Bank of Australia.

**M R G Johnson LLB MBA –  
Deputy Chairman, Age 62**

A non-executive Director since 1988 and appointed Deputy Chairman in October 1996. Member of the Nomination, Remuneration and Health, Safety and Environmental Committees. Mr Johnson's other appointments include Deputy Chairman of Macquarie Bank Limited and Chairman of Macquarie Infrastructure Group. He is also Chairman of the Advisory Board to Axis Australia.

**G J W Martin BEc LLB –  
Managing Director, Age 43**

Appointed Managing Director from 1 March 2001. Member of the Health, Safety and Environmental Committee. Mr Martin has been with AGL for twenty-two years. He is Chairman of NGC Holdings Limited of New Zealand, Deputy Chairman of the Electricity Supply Association of Australia Limited and Deputy Chairman of the Australian Gas Association. His community activities include board and trustee roles with the Muscular Dystrophy Foundation and the Royal Botanic Gardens and Domain Trust respectively.

**Sir Ronald Brierley, Age 66**

A non-executive Director since 1987 and a member of the Health, Safety and Environmental Committee. Sir Ronald is also a director of Tooth & Co. Limited. His offices overseas include Chairman of Guinness Peat Group plc.

**G J Reaney BCom CPA, Age 60**

A non-executive Director since 1988, Chairman of the Audit & Risk Management Committee and a member of the Nomination, Remuneration and Health, Safety and Environmental Committees. Mr Reaney is Chairman of PMP Limited. He is also a director of St George Bank Limited and So Natural Foods Limited.

**D C K Allen AO MA MSc, Age 67**

A non-executive Director since 1996 and a member of the Audit & Risk Management and Health, Safety and Environmental Committees. Mr Allen is Chairman of the National Australia Bank Limited, a director of Amcor Limited, Earthwatch Australia and Air Liquide Australia Limited. Mr Allen retired as Managing Director of Woodside Petroleum Limited in 1996.

**C J Hewson BEc (Hons) MA, Age 48**

A non-executive Director since 1996, a member of the Audit & Risk Management and Health, Safety and Environmental Committees, and Chairman of Trustees of the AGL Superannuation Funds. Mrs Hewson is a director of CSR Limited, Westpac Banking Corporation and a member of the Economic Development Board (South Australia). Her community involvement includes board or advisory roles with the YWCA of Sydney, the Royal Humane Society of New South Wales and the Australian Charities Fund.

**A B Daniels OAM, Age 68**

A non-executive Director since 1999, a member of the Audit & Risk Management and Health, Safety and Environmental Committees. His other directorships include the Commonwealth Bank of Australia and Orica Limited. Mr Daniels retired as Managing Director of Tubemakers Limited in December 1995. He has also worked with government in competition policy, export facilitation and superannuation.

The Nomination Committee of the Board comprises three non-executive Directors, Messrs M J Phillips, M R G Johnson and G J Reaney with the following terms of reference:

- 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 appropriate, 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 Board; and
- Perform other related tasks as directed by the Board.

The Committee met twice during the year.

The Committee may make use of external consultants if that is deemed appropriate.

Succession planning for the Board is reviewed regularly, first by the Nomination Committee and then by the Board. 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 the Company, who can exercise an independent and informed judgement on matters which come to the Board, and who are free of any business or other relationship that may interfere materially with the exercise of that independent judgement.

The Chairman and Deputy Chairman are selected by the full Board.

The Managing Director is an executive Director and Chief Executive of the Company.

All current members of the Board are 'independent' within the ASX definition, to the extent that the components of that definition can be objectively assessed. They are not 'independent' of course in the sense that they are totally committed to the interests of the Company, its Shareholders and its other stakeholders.

**PRINCIPLE 3:  
Promote ethical and responsible  
decision making**

The Company's practice does not depart from the ASX Principle in any significant way. It has policies on share trading by Directors and senior managers and on conflicts of interest. It has a Code of Conduct, which applies to Directors as well as employees. These are available on the Company's website.

These are important, but equally important is the encouragement of ethical conduct not just by edict but also by example from all involved in the Company. It is the Board's objective that all dealings with staff, with customers, with regulatory authorities and with the community should be conducted honestly, fairly, diligently and in accordance with all applicable laws. Any departure from such practice is treated very seriously.

**PRINCIPLE 4:  
Safeguard integrity in financial  
reporting**

The Company complies with all the ASX recommendations under this Principle.

The Managing Director and the Chief Financial Officer, for many years, have provided detailed written undertakings to the Board providing assurances that the Group's financial reports present a true and fair view and are in accordance with relevant accounting standards.

The Board has established an Audit & Risk Management Committee, comprising four non-executive Directors, all with appropriate experience. They are Mr G J Reaney (Chairman), Mr D C K Allen, Mrs C J Hewson and Mr A B Daniels. Their qualifications are disclosed under Principle 2.

The Chief Executive, Chief Financial Officer, Group Manager Corporate Services & Company Secretary, General Manager Accounting, Manager Group Audit & Risk Management and the external auditor attend Committee meetings at the discretion of the Committee. The Committee also meets privately with the external auditor without Management presence.

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 Committee meets, at least, four times during the year.

The role and responsibilities of the Audit & Risk Management Committee include:

- Reviewing the annual audit plan with the external auditor;
- Reviewing and approving the annual Group internal 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, 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 formalised its policy on the provision of auditing and related services. Specifically, the external auditor is precluded from providing any services that might threaten its independence or conflict with its assurance and compliance role.

As part of an agreed rotation policy, the senior auditor of Deloitte Touche Tohmatsu assigned to the Group was replaced at the conclusion of the 2001/2002 annual accounts' audit.

#### **PRINCIPLE 5:**

##### **Make timely and balanced disclosure**

A continuous disclosure regime operates throughout the Group. Policies and procedures 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 Company Secretary is the nominated Continuous Disclosure Officer and he reports to the Board quarterly on matters notified to the ASX.

In addition, direct reports to the Managing Director 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.

In the event a decision is made not to notify the ASX of a particular event or development, the reasons for non-notification are advised to the Board. Directors receive copies of all announcements immediately after notification to the ASX. All announcements are posted on the AGL website.

#### **PRINCIPLE 6:**

##### **Respect the rights of Shareholders**

The Company 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 press;
- Half-yearly profit announcements;
- Annual Reports;
- Information provided to analysts, (which is also released to the ASX);
- Webcasting of half-yearly and annual accounts presentations; and
- Webcasting of the Chairman's address to the Annual General Meeting.

All the above are notified on the AGL website. Prior to the 2003 Annual General Meeting, Shareholders will also be given the opportunity to provide their email addresses to the Company to enable them to receive reports and announcements to the ASX without delay.

At the Annual General Meeting, 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 Chief Executive or another appropriate member of senior management.

The external auditor attends the Company's Annual General Meeting and is available to respond to questions about the conduct of the audit and the preparation and content of the Independent Audit Report.

#### **PRINCIPLE 7:**

##### **Recognise and manage risk**

Any company faces a wide variety of risks depending on the nature of its operations and the regions within which it operates. AGL has a formal holistic, enterprise-wide risk programme based on Standards Australia's AS/NZS 4360:1999 (Risk Management).

This programme is supported by AGL's Risk Management Policy, which has been endorsed by the Board on the recommendation of the Chief Executive and the Audit & Risk Management Committee. A Peak Risk Management Committee comprising the Company's senior management monitors and oversees the continuous improvement of risk identification, assessment, treatment and reporting.

AGL's Group Audit & Risk Management department perform regular audits of internal controls and risk management compliance across the Group. These audits take account of both the nature and materiality of risk. Quarterly reports of Group Audit & Risk Management's activities and findings are reviewed by the Board Audit & Risk Management Committee. All outstanding audit issues are monitored through to satisfactory completion. The external auditor also reports findings on relevant risk issues to the Audit & Risk Management Committee and to the Board on a half-yearly basis.

Current processes provide a mechanism for assessing the overall effectiveness of AGL's risk management compliance and control systems. This assessment is presented to the Board by, or under the authority of the Chief Executive. The ASX recommendations suggest a formal sign-off by the Chief Executive and the Chief Financial Officer. Given the formal responsibilities of the Chief Executive and the nature of the assurances already provided to the Board, this may be seen as a duplication of process. However, to avoid any suggestion that the Company does not comply, a review of risk and control documentation has been put in place and the formal sign-off to the Board will be part of the 2003/2004 financial accounts and Annual Report preparation.

**PRINCIPLE 8:****Encourage enhanced performance**

AGL has processes in place to review the performance of senior management and Board members. Arrangements for the former are, as might be expected, more formal and quantitative than for the latter. Each senior manager, including the Chief Executive, has personal objectives as well as objectives related to business units and the Company as a whole. They are assessed against those objectives on an annual basis, or more frequently if that is indicated.

The assessment and monitoring of the Chief Executive is handled by the Chairman with the assistance of the Remuneration Committee. A full report is provided to, and discussed in detail by, the Board. Assessment and monitoring of other senior managers is handled by the Chief Executive who reports in detail to the Chairman and the Remuneration Committee.

Each year the Board devotes time to consideration of broad corporate governance matters, including the continuing relevance of existing committees etc. and to reviewing its own performance. 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 Nomination Committee. The Deputy Chairman, a member of the Nomination Committee, plays a similar role in respect of the Chairman's performance.

Subject to normal privacy requirements, Directors have unfettered access to Company records and information, to the Company Secretary and other relevant senior officers. They receive regular detailed reports on financial and operational aspects of the Company'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 the Company's expense. Prior approval of the Chairman is required but this may not be unreasonably withheld.

Directors and senior management are encouraged to broaden their knowledge of the Company's business and to keep abreast of developments in business more generally by attendance at relevant courses, seminars, conferences etc. both in Australia and overseas. The Company meets expenses involved in such activities.

**PRINCIPLE 9:****Remunerate fairly and responsibly**

The Board has established a Remuneration Committee to consider and report on, among other things, remuneration policies and packages applicable to Board members and to senior managers of the Company. Three non-executive Directors, Mr M J Phillips (Chairman), Mr M R G Johnson (Deputy Chairman) and Mr G J Reaney are members of the Remuneration Committee which meets at least twice during the year. Its main functions encompass reviewing and reporting to the Board on:

- Conditions of service and remuneration of the Chief Executive and his direct reports;
- Performance of the Chief Executive and senior managers;
- Remuneration policies for the AGL Group;
- Proposals for new issues under, or changes to, the AGL Share Reward Plan;
- Proposals for issues under, or changes to other Share Plans;
- Proposals for other reward initiatives;
- Succession plans for senior management; and
- Other related matters as directed by the Board.

The Chief Executive attends meetings of the Remuneration Committee by invitation when required to report on, and discuss, senior management performance, remuneration matters etc.

The Committee is empowered to seek external professional advice on any matter within its terms of reference.

Non-executive Directors receive fees determined by the Board, but within the aggregate limit approved by Shareholders at a General Meeting. The present limit of \$900,000 was approved at the Annual General Meeting in October 2000. External professional advice is sought in determining Directors' fees to ensure they are appropriate relative to fees paid by comparable listed companies. The Board has available to it data on fees paid by a wide range of companies.

Directors may elect to take part of their fees in shares of the Company under the AGL Share Purchase Plan. These shares are purchased by a trustee at market price (no discount is applied) and are not vested in the Director's ownership until ten years after purchase or until the Director retires from the Board whichever comes earlier. Non-executive Directors do not receive incentive payments of any type.

Directors who joined the Board before December 2002 had, as a condition of their service with the Company, an entitlement to a deferred benefit payable at retirement from the Board. This arrangement was approved by Shareholders in 1985. After three years' service a Director is entitled to the equivalent of the emoluments received over the most recent twelve months. After ten years' service, the entitlement rises to the equivalent of emoluments received during the most recent three years. No additional entitlement accrues after ten years. For periods between three and ten years the entitlement is calculated on a pro rata basis. Amounts are accrued and provided for in each year's accounts.

In December 2002 the Board resolved to discontinue this arrangement for new Directors.

The deferred benefit arrangement was earlier approved by Shareholders and was a condition under which existing Directors had agreed to serve on the Board. It was deemed unfair and possibly illegal for the Board to seek to withdraw the scheme entirely. However, it was resolved that for Directors joining the Board after December 2002, no retirement benefits will apply other than any provisions required under the Commonwealth Government's compulsory Superannuation Guarantee scheme. The fee to be paid to new Directors is under review. Any increase in compensation following the removal of the deferred benefit will not apply to existing Directors.

Senior managers of the Company receive a balance of fixed and variable ('at risk') remuneration. The proportions vary at different levels within the Company, reflecting the capacity of the senior managers to influence the overall outcome of the Company's operations and returns to Shareholders. The variable component is based on the economic profit earned by the Company and a series of personal Key Performance Indicators. Part of the remuneration is in the form of a short-term incentive, payable in cash, and part is in the form of a long-term incentive, payable in shares subject to vesting provisions. The aggregate of short and long-term incentives is subject to a maximum limit.

No options are issued to AGL Directors or employees. Long-term incentive payments are in fully-paid shares, which are acquired or issued, and accounted for in the Company's accounts, as they are allocated. The shares are vested progressively over a three year period and staff are not permitted to 'hedge' the shares in the 'non-vesting' period.

As reported earlier, each senior executive has a service contract, which sets out, among other things, termination payments to apply, depending on the conditions under which termination occurs.

Some years ago a retention arrangement was set in place for a small number of key senior leaders as part of the succession plans for key top positions. It was done at a time when energy companies were being privatised around Australia and the competition for experienced executives, particularly from overseas entities entering the Australian market was intense. The Managing Director withdrew from the programme when appointed to his present position in March 2001, however, the arrangement continues for two of his direct reports. On this basis the Group Manager Investments and the Group Manager Energy Sales & Marketing will both receive a first payment under the arrangement in the 2003/2004 financial year, being \$327,828 and \$352,975 respectively.

Remuneration arrangements for the Managing Director are comparable in all respects, except the level of emoluments, with those applicable to other senior executives. He receives no options and any share issues are subject to approval by Shareholders at an Annual General Meeting.

**PRINCIPLE 10:  
Recognise the legitimate interests  
of stakeholders**

The AGL Group 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 a senior management committee that deals with breaches of the Code, monitors compliance and approves amendments. The full Code is published on the Company's website.

AGL has a Legislative Compliance Committee which is responsible for ensuring the Group complies with Australian and overseas (where AGL operates) legislative requirements. Bi-annually the Managing Director reports to the Board on legislative compliance matters.

**EMOLUMENTS OF NON-EXECUTIVE DIRECTORS OF THE AUSTRALIAN GAS LIGHT COMPANY:**

	Directors' Fees Including Committee Fees (Excluding AGL Share Purchase Plan)	Superannuation Contributions*	Value of Shares Issued Under AGL Share Purchase Plan	Total	Retirement Benefits Accrued 2002/2003	Accrued Retirement Benefits Total#
	\$	\$	\$	\$	\$	\$
M J Phillips	168,751	20,250	56,249	245,250	50,500	598,000
M R G Johnson	2,812	10,125	109,687	122,624	7,900	338,500
Sir Ronald Brierley	1,875	6,750	73,125	81,750	10,000	215,000
G J Reaney	57,000	8,280	35,000	100,280	13,200	260,000
D C K Allen	1,047	7,470	81,950	90,467	30,857	169,900
C J Hewson	46,501	8,370	46,499	101,370	37,268	186,900
A B Daniels	66,000	7,920	22,000	95,920	30,685	110,700

\* 9% Superannuation Guarantee only.

# Total provided for at year end.

**EMOLUMENTS OF THE MANAGING DIRECTOR AND THE SIX MOST HIGHLY PAID OFFICERS OF THE COMPANY AND THE CONSOLIDATED ENTITY:**

	Base Salary	Super- annuation Contri- butions	Other*	Short Term Incentive	Payment at Cessation#	Total	Number of Shares Issued Under AGL Share Plans	Issue Price
	\$	\$	\$	\$	\$	\$		\$
G J W Martin Managing Director	888,801	159,375	263,952	368,000		1,680,128		
M A Fraser Group General Manager Energy Sales & Marketing	673,200	111,562	47,717	266,000		1,098,479	95 20,000	10.52 9.99
I C K Woodward† Group Manager Strategic Projects	244,769	35,567	13,795		708,660	1,002,791	95 12,000	10.52 9.99
J A Fletcher Group Manager Investments	605,225		58,408	222,480		886,113	95 17,500	10.52 9.99
L J Fisk Group Manager Corporate Services & Company Secretary	376,475	65,896	34,551	159,480		636,402	95 12,500	10.52 9.99
P M James CEO NGC Holdings Limited	375,835	50,765	21,813	166,374		614,787	95 12,000	10.52 9.99
M R Harper Group General Manager Operations	360,557	49,028	17,070	156,560		583,215	95 11,500	10.52 9.99

\* This represents the interest on loans provided to fund shares under AGL Share Loan Plans.

# Termination payment including all leave entitlements and eligible termination pay.

† Ceased AGL employment in December 2002.