



Our values

Corporate governance

This statement provides details of AGL's conformance, during the reporting period, with the 'Principles of Good Corporate Governance' issued by the Australian Stock Exchange (ASX). For maximum transparency, each of the ten Principles are dealt with 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;
- People and Performance Committee (combining the Nomination and Remuneration Committees); and
- Health, Safety and Environmental Committee.

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, 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.

Mark Johnson LLB MBA – Chairman, Age 63

A non-executive Director since 1988. Appointed Deputy Chairman in October 1996 and Chairman on 3 December 2003. Chairman of the People and Performance, and Health, Safety and Environmental Committees, Mr Johnson's other appointments include Deputy Chairman of Macquarie Bank Limited and Chairman of Macquarie Infrastructure Group.

Previous appointments over the last three years were as a director of Biota Holdings Limited, SFE Corporation and New Zealand Futures and Options Exchange Ltd.

Greg Martin BEC LLB – Managing Director, Age 44

Appointed Managing Director from 1 March 2001. Member of the Health, Safety and Environmental Committee. Mr Martin has been with AGL for twenty-three years. He is Chairman of NGC Holdings Limited of New Zealand and Chairman of the Energy Supply Association of Australia Limited. He is also Chairman of the Royal Botanic Gardens and Domain Trust, a trustee of the Committee of Economic Development of Australia and a member of the Business Council of Australia.

Sir Ronald Brierley, Age 67

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

Within the last three years, he was also a director of Adsteam Marine Limited.

Graham Reaney BCom CPA, Age 61

A non-executive Director since 1988, Chairman of the Audit & Risk Management Committee and a member of the People and Performance, 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 Australia Limited.

Prior appointments over the last three years were as a director of Queensland Cement Limited, Australian Rural Group Limited and Open Telecommunications Limited.

Charles Allen AO MA MSc, Age 68

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

Within the last three years he was a director and Chairman of National Australia Bank Limited.

Carolyn Hewson BEC (Hons) MA, Age 49

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 and Westpac Banking Corporation. Her community involvement includes board or advisory roles with the YWCA NSW, the Royal Humane Society of New South Wales and The Australian Charities Fund.

Within the last three years Mrs Hewson was also a member of the Economic Development Board (South Australia), a director of AMP Limited and the South Australian Water Corporation.

Tony Daniels OAM, Age 69

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

During the last three years Mr Daniels was also a director of Orica Limited and Pacific Dunlop Limited.

Max Ould BEC, Age 57

A non-executive Director since 1 January 2004, a member of the People and Performance, and Health, Safety and Environmental Committees. Mr Ould was previously Managing Director of National Foods Limited. He is also a director of Pacific Brands Limited and Foster's Group Limited.

John Phillips AO BEC – Chairman, Age 74 (Retired)

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.

Within the last three years he was also a director of WMC Limited, QBE Insurance Group Limited and Woolworths Limited.

Mr Phillips retired as Chairman on 3 December 2003 and as a Director on 31 December 2003.

A new Committee, covering the previous Nomination and Remuneration Committees, was formed in May 2004 entitled the People and Performance Committee. Three non-executive Directors, Mark Johnson (Chairman), Graham Reaney and Max Ould comprise the Committee.

The People and Performance Committee's purpose is to ensure appropriate remuneration and people policies, procedures and programmes are in place to:

- Ensure long-term people needs are met through effective talent management and succession planning;
- Ensure clear alignment between the needs and requirements of key stakeholder groups (ie. 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 growth of AGL people to enable them to reach their full potential through performance management, development and training;
- Ensure 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.

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 and assessing Board performance criteria; and
- Rewarding Directors responsibly and fairly for their individual contributions to enhancing the Company's performance.

Recommendations to the Board relating to the Managing Director:

- Setting and reviewing performance objectives for the Managing Director and evaluating his contribution and effectiveness; and
- Rewarding the Managing Director responsibly and fairly for his contribution to enhancing the Company's performance.

Recommendations to the Board relating to the Senior Leadership Team:

- Reviewing the Managing Director's recommendations on senior leadership remuneration and reward, and on succession plans for key senior positions within the Company; and
- Maintaining a balance of skills, knowledge and experience across the senior leadership team, through reviewing recommended structures, new appointments and assessing ongoing leadership development.

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.

The Committees met four times during the year. The Committees may make use of external consultants if that is deemed appropriate.

Succession planning for the Board is reviewed regularly, first by the People and Performance Committee and then by the Board. Over the next three to four years the Board intends to implement a maximum ten years' tenure for Directors. This will ensure an orderly transition and enable new Directors to gain the necessary knowledge base. Whilst the Board does not have a formal age limit, there is an understanding that Directors would not nominate for re-election beyond 70 years of age.

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 relationships that may interfere materially with the exercise of that independent judgement. New Directors receive formal letters of appointment from the Chairman.

The Chairman is selected by the full Board. During the year the Board also decided to eliminate the position of Deputy Chairman. 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' in the sense that they are totally committed to the interests of the Company, its Shareholders and its other stakeholders.

Specific arrangements are in place to deal with any conflict of interest issues that may arise with the Chairman over the 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 on page 44, participation in the Shareholder approved AGL Share Purchase Plan and the entitlements from the closure of the Shareholder approved deferred benefits payable on retirement; and
- In the case of the Managing Director, a contract of employment and the Shareholder approved Long-Term Incentive Plan.

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

The Company wishes to conduct all its business ethically and responsibly. 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.

Equally important is the encouragement of ethical conduct, not only 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 Managing Director and the Chief Financial Officer, provide 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 Graham Reaney (Chairman), Charles Allen, Carolyn Hewson and Tony Daniels. Their qualifications are disclosed under Principle 2.

The Managing Director, Chief Financial Officer, Group Manager Corporate Services & Company Secretary, General Manager Finance – Corporate, Manager Group Audit & Risk Management and the external auditor attended Committee meetings at the discretion of the Committee. The Committee meets privately with the external auditor without Management presence. The full Board also meets privately with the external auditor, without Management presence, when considering the half-year and full-year financial reports.

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 met five 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 approving 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.

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 its independence or conflict with its assurance and compliance role. Quarterly reports on the provision of auditing and related services are provided to the Board. Directors are satisfied that the provision of \$1.3 million 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 of 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 its independence within the meaning of relevant legislation and professional standards. No officers of AGL were partners or directors of Deloitte Touche Tohmatsu.

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 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 media;
- 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. Shareholders have been given the opportunity to provide their email addresses to the Company to enable them to receive reports and announcements to the ASX without delay. The Company Secretary also contacted, during the year, a representative sample of Shareholders seeking their views on AGL's Annual Report and the conduct of the Annual General Meeting.

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. New Directors or Directors seeking re-election are also given the opportunity to address the Meeting.

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 in 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 Board 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 business unit performs regular audits of internal controls and risk management compliance across the Group. These audits take account of both the nature and materiality of risk. The Board Audit & Risk Management Committee review quarterly reports of Group Audit & Risk Management activities and findings. All outstanding audit issues are monitored through to satisfactory completion. The external auditor also reports findings on relevant risk issues to the Board Audit & Risk Management Committee and to the Board on a half-yearly basis.

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.

Where weaknesses have been identified, immediate action has been taken to address the deficiency. However, there are circumstances where corrective action is yet to be fully implemented and tested. In these circumstances, increased monitoring and review by both Management and Group Audit have been initiated to provide the Board with assurance that no material error or misstatement has occurred.

Accordingly, the Managing Director and the Chief Financial Officer have also provided the Board with written assurances supplementary to their Principle 4 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 the Company and consolidated entity relating to financial reporting objectives are operating efficiently and effectively, in all material respects.

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 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 Chief Executive. Assessment and monitoring of other senior managers is handled by the Chief Executive who reports in detail to the Chairman and the People and Performance 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 People and Performance Committee. In turn, individual Directors use an appraisal form to assess the performance of the Chairman.

Subject to normal privacy requirements, Directors have unfettered access to Company records and information, to the Company Secretary and other relevant senior management. 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 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 the Company.

The full terms of reference of the Committee is detailed under Principle 2.

The Chief Executive attends meetings of the People and Performance Committee by invitation when required to report on and discuss senior management performance and remuneration matters etc. A Remuneration Report, required under Section 300A(1) of the Corporations Act 2001 is provided in the Directors' Report on pages 42 to 44.

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.