

Corporate Governance



The Directors and management of ENERGEX and its subsidiaries are committed to the highest possible standards of corporate governance. Accordingly, they have ensured that mechanisms and processes are in place to give assurance that the consolidated entity undertakes its duties and responsibilities:

- In accordance with the law
- In the best interests of its shareholders
- In a legal and ethical environment which meets contemporary standards
- In a manner that is responsible to all stakeholders.

By fostering a culture of compliance, ENERGEX is able to deliver against its legal, governance and social obligations in a sustainable way.

Corporate Governance Capability

ENERGEX operates under a corporate governance framework that includes the elements proposed in the Queensland Audit Office (QAO) Governance and Risk Management framework, consisting of:

- Management structure and operations
- Management standards
- Control, monitoring and reporting
- External accountability
- Risk management.

During the 2003/04 financial year, a corporate governance project focused on a number of initiatives in support of further refinement of ENERGEX's corporate governance capability. Activities and outcomes included:

- Issue of a Corporate Governance Manual aimed at providing all key corporate governance information in a single manual for easy reference by directors
- Reissue of a completely revised ENERGEX Code of Conduct to all employees and directors
- A number of Board Committee Charters reviewed and reissued
- A policy on reporting allegations of fraud and unethical conduct was issued in December 2003
- Board delegations were revised and incorporated in a corporate policy, approved by the Board in July 2004
- Pecuniary interest declarations were completed by senior management.

In June 2004, Ernst & Young conducted an independent audit of ENERGEX's systems of governance. The audit considered ENERGEX governance capability and examined this against the Australian Stock Exchange (ASX) Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations". Ernst & Young found that "the ENERGEX system is consistent with good practice in the majority of the components of the system of corporate governance".

The Ernst & Young report did highlight the significant attention paid by governance review bodies to risk management and internal control. In this regard, further initiatives to verify systems are being undertaken, including:

- Independent audit of Trading Risk Management Compliance
- Independent review of the Trading Risk Management Policy and Procedures.
- Risk-management review workshops.

ENERGEX first presented its corporate governance capability in terms of the ASX Best Practice Recommendations in the 2002/03 Annual Report. In the subsequent year a number of governance initiatives were undertaken, including those listed above. This year is the first year that listed companies are required to report against the ASX Best Practice Recommendations. Again ENERGEX has considered its governance practices with reference to ASX Best Practice Recommendations and consider that they are generally consistent with those recommendations in so far as the principles would apply to a Government Owned Corporation.

Corporate Governance (continued)

Best Practice Recommendation	ENERGEX Governance in Summary
1. Lay solid foundation for management and oversight	<ul style="list-style-type: none"> The role and responsibilities of the Board and Committees of the Boards are clearly defined in Charters for each body. Management's responsibilities are well-defined and documented through formal position descriptions, performance agreements and Board-approved delegation of authority policies. Monthly Board meetings are convened (focusing on strategy and structure with a clear delineation between the Board and management). A comprehensive Corporate Governance Manual defines the Board governance systems and supports directors and senior managers in undertaking their governance responsibilities.
2. Structure the Board to add value	<ul style="list-style-type: none"> The ENERGEX Limited and ENERGEX Retail Pty Ltd Boards are independently appointed by the Governor-in-Council. All Directors of ENERGEX Limited and ENERGEX Retail Pty Ltd are non-executive Directors (including the Chairmen). Details of Director's experience, expertise and attendance at Board and Committee meetings are disclosed in the ENERGEX Annual Report.
3. Promote ethical and responsible decision making	<ul style="list-style-type: none"> The ENERGEX Group Code of Conduct was substantially revised and reissued to all employees and Directors in December 2003. Board Delegations Policy was revised during 2003/04 and was approved in July 2004 for reissue. An extensive system of documented and controlled operating policies is in place (ENERGEX Business Management System). As a Government Owned Corporation, no Director or employee holds or trades securities in any ENERGEX Group Company.
4. Safeguard integrity in financial reporting	<ul style="list-style-type: none"> The CEO and CFO routinely certify the accuracy of the financial statements to the Boards. Separate Audit Committees operate in each of ENERGEX Limited and ENERGEX Retail Pty Ltd and are constituted by independent Directors. The Audit Committees have clear operating Charters. Audit Committee membership and attendance is disclosed in the Annual Report. The internal audit function is performed by Ernst & Young. The external audit function is performed by the QAO.
5. Make timely and balanced disclosure	<ul style="list-style-type: none"> ENERGEX is an unlisted public company to which the ASX Listing Rules do not apply. Nonetheless, an extensive continuous reporting regime is in place in relation to the ENERGEX Group's shareholders (including quarterly reporting in relation to the ENERGEX Statement of Corporate Intent which is negotiated and completed with the shareholders on an annual basis).
6. Respect the rights of shareholders	<ul style="list-style-type: none"> Under the Government Owned Corporations Act, shareholders are to be advised in a timely manner of all issues likely to have a significant financial, operating, social or environmental impact. Shareholder approvals are to be sought as appropriate, pursuant to legislation and shareholder policy guidelines.
7. Recognise and manage risk	<ul style="list-style-type: none"> ENERGEX Limited has in place the following risk-related committees: <ul style="list-style-type: none"> Audit and Compliance Committee (constituted by independent Directors). Risk Management and Compliance Committee (constituted by senior managers). Executive Committee (constituted by the CEO and General Managers). Investment Committee (constituted by senior managers). ENERGEX Retail Pty Ltd has in place the following risk-related committees: <ul style="list-style-type: none"> Audit Committee (constituted by independent Directors) Trading Risk Management Committee (constituted by independent Directors). A risk-management framework and associated policies are overseen by the Committees.
8. Encourage enhanced performance	<ul style="list-style-type: none"> The Board performance framework is established and overseen by the Board's Remuneration Committee (as reflected in its Charter). Board induction processes are in place and on-going education and advice is available to all Directors at ENERGEX's cost. A comprehensive and formal management performance evaluation regime is in place. The regime includes: <ul style="list-style-type: none"> Individual executive performance agreements "At risk" performance-based remuneration on an annual basis (based on the achievement of well-defined corporate, commercial and personal goals). The Group Company Secretary is responsible to the Boards, through the Chairmen of ENERGEX Limited and ENERGEX Retail Pty Ltd, for all governance matters.
9. Remunerate fairly and responsibly	<ul style="list-style-type: none"> Directors' remuneration is established independently by the Governor-in-Council. The Remuneration Committee of the Boards oversees employee remuneration and performance policy (in accordance with its Charter). Shareholder guidelines and policy in relation to employee remuneration are followed (and no individual is directly involved in deciding his or her own remuneration outcomes). Senior executive remuneration is disclosed in the Annual Report (in a manner substantially similar to ASX-listed companies). ENERGEX does not have in place any equity-based remuneration.
10. Recognise the legitimate interests of stakeholders	<ul style="list-style-type: none"> ENERGEX has a clear view of its wider group of stakeholders (including shareholders, employees, customers, the community, unions and regulatory authorities). The ENERGEX Code of Conduct identifies comprehensive social and business integrity objectives. The Code of Conduct is adopted by the Board and driven by a 'top down' approach. Community communication processes have been substantially upgraded in 2004.

Government Owned Corporations Act

ENERGEX Limited is a 'company Government Owned Corporation' by virtue of the Government Owned Corporations Act 1993 (GOC Act). ENERGEX Retail Pty Ltd is a prescribed Government Owned Corporation subsidiary under the GOC Act. The GOC Act provides that the Corporations Act 2001 applies to ENERGEX Limited except so far as the GOC Act otherwise provides. A similar situation applies to the subsidiary companies for which ENERGEX Limited is the ultimate holding company.

Role of the Boards of Directors

The Boards set the framework for the consolidated entity's long-term success. They consider and approve the Statement of Corporate Intent and Statutory Corporate Plans including annual business plans and budgets, key strategic issues, performance targets and assess future growth strategies. The Boards monitor environmental and safety performance on a continuing basis and have systems in place to review controls and ensure compliance with laws and ethical behaviour.

The GOC Act requires that the Boards:

- Be responsible for commercial policy and management
- Ensure that the consolidated entity achieves and carries out its objectives as set out in the Statement of Corporate Intent
- Be accountable to their shareholders for performance
- Ensure that their functions are performed in a proper, effective and efficient way.

Composition of the Boards of Directors

The Directors are appointed to ENERGEX Limited and ENERGEX Retail Pty Ltd by the Governor-in-Council. All are non-executive Directors and their names and profiles are outlined separately in this report. Individual appointments have been made for varying periods.

Director Disclosure

Details of directors' benefits and relevant interests are provided at Note 30 to the financial statements.

Payments for legal fees and other services were made to businesses associated with certain directors of ENERGEX Limited, as detailed below. These fees were provided in the normal course of business and on normal commercial terms.

Director	Firm	Accounts 2003/04 (excluding GST)
Sally Pitkin	Clayton Utz	\$2,381,778
Khory McCormick	Minter Ellison	\$1,166,092
Brian Kilmartin	Sciacca's Lawyers and Consultants	\$262,446

Directors' Meetings

During the year ENERGEX Limited and ENERGEX Retail Pty Ltd each held 11 meetings of Directors. The attendance of the Directors at meetings of the Boards were:

ENERGEX Limited Board Meetings

Director's name	Attended	Maximum possible
Donald Nissen (Chairman)	10	11
Barry Braithwaite	11	11
John Dempsey	11	11
Grace Grace	11	11
Brian Kilmartin	11	11
Khory McCormick	11	11
Sally Pitkin	11	11

ENERGEX Retail Pty Ltd Board Meetings

Director's name	Attended	Maximum possible
Michael Brown (Chairman)	11	11
Mark Bucknall	10	11
Fiona Guthrie	10	11
Ken Howard	8	11
Khory McCormick	9	11
Donald Nissen	10	11
Emilia Seibold	10	11

Committees of the Boards

The Board of ENERGEX Limited has appointed an Audit and Compliance Committee and a Corporate Development Committee.

The Board of ENERGEX Retail Pty Ltd has appointed an Audit Committee and a Trading Risk Management Committee.

The Boards have also established a Joint Remuneration Committee.

In each case the membership of these Committees comprises a number of Directors appointed by the Boards. Several of the Committees are assisted in their duties by suitably qualified external advisers. Representatives of senior executive management also attend the meetings by invitation.

During the year membership of the committees was reviewed and a number of changes were made to diversify the directors' experience and involvement with the business and to ensure the best possible composition of Committees.

The specific responsibilities of each of these Committees are as follows.

Audit Committees

The roles of the Audit and Compliance Committee (ENERGEX Limited) and the Audit Committee (ENERGEX Retail Pty Ltd) are documented in Charters that are approved by the respective Boards. The objectives of these Committees are to provide assurances to their respective Boards that the Companies are properly meeting their obligations in relation to:

- Financial integrity
- Legal compliance
- Business risk management.

The composition of the Audit Committees and attendance at Committee meetings were:

ENERGEX Limited Audit and Compliance Committee

Director's name	Attended	Maximum possible
Khory McCormick ¹	3	3
John Dempsey (Chairman)	6	6
Donald Nissen	6	6
Barry Braithwaite ²	3	3

1. Chairman prior to the Committee reorganisation

2. Appointed to the Committee in February 2004

ENERGEX Retail Pty Ltd Audit Committee

Director's Name	Attended	Maximum possible
Mark Bucknall (Chairman)	5	5
Ken Howard	4	5
Emilia Seibold ¹	4	4

1. Appointed to the Committee in August 2003

The internal and external auditors, the Chief Executive and senior executives are invited to Audit Committee meetings at the discretion of the Committees.

The responsibilities of the Audit Committees of the ENERGEX Group of companies can be summarised as follows:

- Reviewing the financial statements and other financial information distributed externally
- Reviewing any new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles
- Monitoring the activities of the internal audit function
- Reviewing internal and external audit reports to ensure that where major deficiencies or breakdowns in controls or procedures have been identified, appropriate and prompt remedial action is taken by management
- Liaising with the external auditors and ensuring that the annual statutory audit is conducted in an effective manner
- Monitoring the establishment of an appropriate internal control framework and considering enhancements
- Monitoring the establishment of appropriate ethical standards
- Monitoring the procedures in place to ensure compliance with the *Corporations Act 2001* and all other regulatory requirements
- Addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, financial institutions and State Government
- Reviewing reports on any major defalcations, frauds and thefts from the Company
- Improving the quality of the accounting function
- Reviewing the declaration from the Company Secretary on compliance with statutory responsibilities.

Internal Audit

Ernst & Young were contracted to support the ENERGEX internal audit department and carry out the ENERGEX Group's internal audit plan. During the year, a range of reviews were carried out in conjunction with the ENERGEX Internal Audit Department, with the reports ultimately submitted to the Audit and Compliance or Audit Committee.

External Audit

The Audit and Compliance Committee reviews the performance of the external auditors on an annual basis and meets with them during the year to:

- Discuss the external audit plan
- Discuss any significant issues that may be foreseen
- Discuss the impact of any proposed changes in accounting policies on the financial statements
- Review the nature and impact of any changes in accounting policies adopted by the consolidated entity during the year
- Review the status of actions in response to audit recommendations
- Review the fees proposed for the audit work to be performed.

Corporate Development Committee

The role of the Committee is to consider the appropriateness of and make recommendations in relation to significant and complex corporate development proposals prior to their presentation to the Board of ENERGEX Limited. The Committee also considers post-implementation project reviews.

The composition of the ENERGEX Limited Corporate Development Committee and attendance at Committee meetings were:

Director's name	Attended	Maximum possible
Barry Braithwaite ¹	2	2
Grace Grace	1	2
Brian Kilmartin	3	4
Khory McCormick (Chairman)	2	4
Sally Pitkin	1	2
Ken Howard ²	1	2

1. Chairman prior to Committee reorganisation
2. ENERGEX Retail Pty Ltd Director

Joint Remuneration Committee

The Joint Remuneration Committee provides to the ENERGEX Limited and the ENERGEX Retail Pty Ltd Boards, on behalf of organisational stakeholders, quality assurance relating to the integrity of the ENERGEX Group's remuneration policies and practices, including ensuring that remuneration strategies support the ENERGEX Group's performance.

Under the Joint Remuneration Committee Charter, the Committee's responsibilities include maintaining a sound corporate governance framework, assessment of the Directors' professional development requirements and review of the Board performance criteria.

The composition of the Joint Remuneration Committee, and attendance at the meetings were:

Director's name	Attended	Maximum possible
Sally Pitkin ^{1,2}	2	2
Mark Bucknall ³ (Chairman)	0	0
Michael Brown ³	2	2
Donald Nissen ²	2	2
Grace Grace ²	0	0

1. Chairman prior to Committee reorganisation
2. ENERGEX Limited Director
3. ENERGEX Retail Pty Ltd Director

Trading Risk Management Committee

The Trading Risk Management Committee assists the Board of ENERGEX Retail Pty Ltd in fulfilling its oversight responsibilities in the areas of energy purchasing, trading and associated risk management. It undertakes its activities within the following broad areas:

- Philosophy, policies and processes
- Compliance audit
- Performance review.

The composition of the ENERGEX Retail Pty Ltd Trading Risk Management Committee, and attendance at Committee meetings were:

Director's name	Attended	Maximum possible
Fiona Guthrie (Chairman)	9	10
Michael Brown	7	10
Donald Nissen	8	10
Sally Pitkin ¹	3	5

1. ENERGEX Limited Director (and not Retail)

Directors' Terms of Appointment

Terms of appointment, including remuneration, termination and retirement benefits, are determined by the Governor-in-Council under Part 3 of Schedule 1 of the GOC Act. Directors do not hold shares in the Company.

Independent Professional Advice

Directors may seek independent professional advice as necessary, at the Company's expense, for the proper performance of their duties.

Auditor's Appointment

In accordance with the provisions of the Financial Administration and Audit Act 1977, the QAO is the external auditor for ENERGETX Limited and ENERGETX Retail Pty Ltd and their respective subsidiaries.

Internal Control Framework

The Boards acknowledge that they are responsible for the overall internal control framework, but recognise that no cost-effective internal control system will preclude all errors and irregularities. To assist in discharging this responsibility, the Boards have instigated an internal control framework that can be described under five headings:

- **Financial reporting** – there is a comprehensive budgeting system with an annual budget approved by the Directors. Monthly actual results are reported against budget and revised forecasts for the year are prepared regularly. ENERGETX reports to its shareholders quarterly.
- **Quality and integrity of personnel** – ENERGETX's detailed policies are identified in the Code of Conduct document. Written confirmation of compliance with policies is obtained from all operating units. Formal appraisals are conducted at least annually for all employees.
- **Operating unit controls** – financial controls and procedures including information systems controls are detailed in procedures manuals.
- **Functional specialty reporting** – ENERGETX has identified a number of key areas which are subject to regular reporting to the Board such as Treasury and Derivatives Operations, Environmental, Legal and Self Insurance matters.

- **Investment appraisal** – ENERGETX has clearly defined guidelines for capital expenditure. These include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses are being acquired or divested. The Investment Committee, an executive management committee, undertakes reviews and makes recommendations to the Chief Executive Officer in relation to all significant projects and investment proposals.

Internal auditors assist the Boards in ensuring compliance with these internal controls. The Audit and Compliance Committee is responsible for approving the program of internal audits to be conducted each financial year and for the scope of the work to be performed at each location.

Ethical Standards

All Directors, senior executives and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the consolidated entity. They are charged with performing their duties in a lawful, objective and professional manner.

The public statement of ENERGETX's business philosophy is made through the corporate Code of Conduct. The Code clearly enunciates the consolidated entity's business ethics, social objectives and the required standards of conduct by all employees. The Code of Conduct was substantially revised in 2003 and reissued to all employees and Directors.

Remuneration Standards

The remuneration strategy and practices of the ENERGETX Group are aimed at assisting the organisation to attract, retain and motivate high calibre employees at all levels by providing an appropriate combination of competitive fixed and variable remuneration components. The Joint Remuneration Committee of the Boards oversees employee remuneration and performance pay.

The fixed component of remuneration is provided to all staff and is linked to objective assessment of the job size and value, either against the grading structures within the Award for Award employees, or related to independent market evaluation for staff employed under contract conditions.

Performance pay schemes are available to all staff across the ENERGEX Group and are designed to effectively reward a combination of key behaviours, capability and performance aligned with business goals and targets. Performance payments are provided from a performance payment pool, which is determined based on the ENERGEX Group's financial performance.

The Role of Shareholders

The Board of Directors aims to ensure that the shareholders are informed of all major developments affecting ENERGEX's affairs. Information is communicated to shareholders through:

- The full Annual Financial Report
- The Quarterly Report to Shareholders
- The Annual Statement of Corporate Intent and Statutory Corporate Plan
- Investment proposals as required by Investment Guidelines
- Notices of all meetings of shareholders.

Business Risk Management

ENERGEX has implemented a risk management program that identifies and controls major business risks. The risk management plans are regularly reviewed to analyse their ongoing relevance and effectiveness. Regular reports on progress against the plans and any recommendations for change are provided to the Audit Committees.

Legal Compliance

ENERGEX is committed and organised to meet its various legal requirements. Compliance is assessed through an audit program and continual monitoring of changes to the legal framework in which it operates. In addition, an executive committee, the Risk Management and Compliance Committee, has been established to consider and review risk management and compliance practice across the ENERGEX Group. Legal compliance training is routinely undertaken by staff who are closely involved with compliance matters, such as Financial Services and Trade Practices legislation. The structure and systems support a culture of compliance.

International Travel

REGION	Country	Purpose	No. of visits	Expenditure \$	Subtotal \$
PACIFIC RIM	New Zealand	• Network servicing contracts	17	67,495	
		• Business meetings	23	55,234	122,729
ASIA	Hong Kong	• Contract work for China Light and Power	10	54,970	
	Malaysia	• Contract work	1	2,100	57,070
EUROPE	Portugal	• Industry conferences	1	15,453	15,453
USA	(and Canada)	• Study tour*	1	0	
		• Business meeting	1	12,116	12,116
TOTAL			54		207,368

*To participate in the Study Tour sponsored by the Australian Gas Association (AGA). All costs paid by AGA.