



**CORPORATE
GOVERNANCE
STATEMENT**

AUSTRALIAN POWER AND GAS COMPANY LIMITED (COMPANY) AND ITS BOARD ARE COMMITTED TO ACHIEVING AND DEMONSTRATING THE HIGHEST STANDARDS OF CORPORATE GOVERNANCE. AN EXTENSIVE REVIEW OF THE COMPANY'S CORPORATE GOVERNANCE FRAMEWORK WAS COMPLETED IN JULY 2009 IN LIGHT OF THE BEST PRACTICE RECOMMENDATIONS RELEASED BY THE AUSTRALIAN STOCK EXCHANGE CORPORATE GOVERNANCE COUNCIL IN AUGUST 2007. THE BOARD CONTINUES TO REVIEW THE FRAMEWORK AND PRACTICES TO ENSURE THEY MEET THE INTERESTS OF SHAREHOLDERS. THE COMPANY AND ITS CONTROLLED ENTITIES TOGETHER ARE REFERRED TO AS THE GROUP IN THIS STATEMENT.

The relationship between the Board and senior management is critical to the Group's long-term success. The Directors are responsible to the shareholders for the performance of the Company in both the short and the longer term and seek to balance sometimes competing objectives in the best interests of the Group as a whole. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Group is properly managed.

Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the Board to the Managing Director and senior executives as set out in the Group's delegations policy. These delegations are reviewed on an annual basis.

A description of the Company's main corporate governance practices is set out below. The Corporate Governance Statement was updated on 28 July 2009.

THE BOARD OF DIRECTORS - The Board operates in accordance with the broad principles set out below.

Board composition - The composition of the Board is based upon:

- both executive and non-executive Directors with a majority of non-executive Directors. Non-executive Directors bring a fresh perspective to the Board's consideration of strategic, risk and performance matters and are best placed to exercise independent judgement and review and constructively challenge the performance of management;
- in recognition of the importance of independent views and the Board's role in supervising the activities of management, the Chairman must be an independent non-executive Director, the majority of the Board must be independent of management and all Directors are required to bring independent judgement to bear in their Board decision making;

- the Chairman is elected by the full Board and is required to meet regularly with the Managing Director;
- the Company is to maintain a mix of Directors on the Board from different backgrounds with complementary skills and experience; and
- the Board is required to undertake an annual Board performance review and consider the appropriate mix of skills required by the Board to maximise its effectiveness and its contribution to the Group.

The Board composition presently comprises an independent non-executive Chairman (Ian McGregor), an executive Managing Director and Chief Executive Officer (CEO - James Myatt) and two non-executive Directors (Richard Poole and Michael Hogg).

Responsibilities - The responsibilities of the Board include:

- providing strategic guidance to the Company including contributing to the development of and approving the corporate strategy;
- reviewing and approving business plans, the annual budget and financial plans including available resources and major capital expenditure initiatives;
- overseeing and monitoring:
 - the Group's capital structure;
 - organisational performance and the achievement of the Group's strategic goals and objectives;
 - compliance with the Group's Code of Conduct;
 - progress of major capital expenditures and other significant corporate projects including any acquisitions or divestments;
- monitoring financial performance including approval of the annual and half year financial reports and liaison with the Group's auditors;
- appointment, performance assessment and, if necessary, removal of the Managing Director;
- ratifying the appointment and/or removal and contributing to the performance assessment for the members of the senior management team including the Chief Financial Officer (CFO) and the Company Secretary;

- ensuring there are effective management processes in place and approving major corporate initiatives;
- enhancing and protecting the reputation of the organisation; and
- overseeing the operation of the Group's system for compliance and risk management reporting to shareholders.

Board members - Details of the members of the Board, their experience, expertise, qualifications, term of office and independent status are set out in the Directors' Report on page 26. As at the date of this report, there are four Directors, three of whom are non-executive Directors, and one of whom is deemed independent under the principles set out below.

The Board seeks to ensure that:

- at any point in time, its membership represents an appropriate balance between directors with experience and knowledge of the Group and directors with an external or fresh perspective; and
- the size of the Board is conducive to effective discussion and efficient decision making.

Directors' independence - The Board has adopted specific principles in relation to Directors' independence. These state that to be deemed independent, a Director must be non-executive and adhere to the following criteria.

- Not be a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company.
- Within the last three years, not have been employed in an executive capacity by the Company or any other Group member, or been a director after ceasing to hold any such employment.
- Within the last three years not have been a principal of a material professional adviser or a material consultant to the Company or any other Group member, or an employee materially associated with the service provided.
- Not be a material supplier or customer of the Company or any other Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer.
- Must have no material contractual relationship with the Company or a controlled entity other than as a director of the Group.
- Not have been on the Board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.
- Be free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

Materiality for these purposes is determined on both quantitative and qualitative bases. An amount of over 5% of annual turnover of the Company or Group or 5% of the individual Director's net worth is considered material for these purposes. In addition, a transaction of any amount or a relationship is deemed material if knowledge of it may impact the shareholders' understanding of the director's performance.

Non-executive Directors - The non-executive Directors met four times during the 2009 financial year in scheduled sessions without the presence of management, to discuss the operation of the Board and a range of other matters. Relevant matters arising from these meetings were shared with the full Board.

Term of office - The Company's Constitution specifies that all non-executive Directors must retire from office no later than the third Annual General Meeting (AGM) following their last election. Where eligible, a Director may stand for re-election.

Chairman and Chief Executive Officer - The Chairman is responsible for leading the Board, ensuring Directors are properly briefed in all matters relevant to their role and responsibilities, facilitating Board discussions and managing the Board's relationship with the Company's senior executives.

The CEO is responsible for implementing Group strategies and policies.

The Board Charter has specified that these are separate roles to be undertaken by separate people.

Commitment - The Board held 13 Board meetings during the 2009 year.

Non-executive Directors are expected to spend at least 40 days a year preparing for and attending Board and committee meetings and associated activities.

The number of meetings of the Company's Board of Directors and of each Board committee held during the year ended 30 June 2009, and the number of meetings attended by each director is disclosed in the Directors' Report.

It is the Company's practice to allow its executive Directors to accept appointments outside the Company with prior written approval of the Board. No appointments of this nature were accepted during the year ended 30 June 2009.

The commitments of non-executive Directors are considered by the nomination committee prior to the Director's appointment to the Board of the Company and are reviewed each year as part of the annual performance assessment.

Prior to appointment or being submitted for re-election, each non-executive Director is required to specifically acknowledge that they have and will continue to have the time available to discharge their responsibilities to the Company.

Conflict of interests - Entities connected with Richard Poole and Michael Hogg had business dealings with the Group during the 2009 year, as described in 2009 Financial Report. In accordance with the Board Charter, the Directors concerned declared their interests in those dealings to the Company and took no part in decisions relating to them or the preceding discussions. In addition, those Directors did not receive any papers from the Group pertaining to those dealings.

Independent professional advice - Directors and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense. Prior written approval of the Chairman is required, but this will not be unreasonably withheld.

Performance assessment - The Board undertakes an annual self assessment of its collective performance, the performance of the Chairman and of its committees. Management are invited to contribute to this appraisal process which may be facilitated by an independent third party. The results and any action plans are documented together with specific performance goals which are agreed for the coming year.

The Chairman undertakes an annual assessment of the performance of individual Directors and meets privately with each Director to discuss this assessment.

Corporate reporting - The Board considers that in respect of the 2009 Financial Report:

- the Company's Financial Reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and Group and are in accordance with relevant accounting standards; and
- the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that the Company's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

Board committees - The Board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the Board are the nomination/remuneration, risk and audit/finance committees. The committee structure and membership is reviewed on an annual basis. A policy of rotation of committee members applies.

Each committee has its own charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. All of these charters are reviewed on an annual basis. All matters determined by committees are submitted to the full Board as recommendations for Board decisions.

Minutes of committee meetings are tabled at the subsequent

Board meeting. Additional requirements for specific reporting by the committees to the Board are addressed in the charter of the individual committees.

Due to the current size of the Company and the Board, it was resolved that all actions carried out by the committees would be carried out at a full Board level.

Nomination and remuneration committee - The nomination and remuneration committee is presently carried out at the full Board level.

Details of the Directors' attendance at nomination and remuneration committee meetings are set out in the Director's Report on page 27.

The nomination and remuneration committee, operates in accordance with its charter. The main responsibilities of the committee are to:

- conduct an annual review of the membership of the Board having regard to present and future needs of the Company and to make recommendations on Board composition and appointments;
- conduct an annual review of and conclude on the independence of each Director;
- propose candidates for Board vacancies;
- oversee the annual performance assessment program;
- oversee Board succession including the succession of the Chairman; and
- assess the effectiveness of the induction process.

When a new Director is to be appointed, the committee reviews the range of skills, experience and expertise on the Board, identifies its needs and prepares a short list of candidates with appropriate skills and experience. Where necessary, advice is sought from independent search consultants.

The full Board appoints the most suitable candidate who must stand for election at the next Annual General Meeting of the Company. The committee's nomination of existing Directors for reappointment is not automatic and is contingent on their past performance, contribution to the Company and the current and future needs of the Board and Company.

Notices of meetings for the election of Directors comply with the ASX Corporate Governance Council's best practice recommendations.

New Directors are provided with a letter of appointment setting out the Company's expectations, their responsibilities, rights and the terms and conditions of their employment. All new Directors participate in a formal induction program which covers the operation of the Board and its committees and financial, strategic, operations and risk management issues.

The nomination and remuneration committee advises the Board on remuneration and incentive policies and

practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive Directors, other senior executives and non-executive Directors.

Each member of the senior executive team signs a formal employment contract at the time of their appointment covering a range of matters including their duties, rights, responsibilities and any entitlements on termination. The standard contract refers to a specific formal job description. This job description is reviewed by the remuneration committee on an annual basis and, where necessary, is revised in consultation with the relevant employee.

Further information on Directors' and executives' remuneration is set out in the Directors' Report on page 28.

The nomination and remuneration committee's terms of reference include responsibility for reviewing any transactions between the organisation and the Directors, or any interest associated with the Directors, to ensure the structure and the terms of the transaction is in compliance with the *Corporations Act 2001* and is appropriately disclosed.

The committee also assumes responsibility for management succession planning, including the implementation of appropriate executive development programmes and ensuring adequate arrangements are in place, so that appropriate candidates are recruited for later promotion to senior positions.

Audit and finance committee - The audit and finance committee is presently carried out at the full Board level.

Details of these Directors' qualifications and attendance at audit and finance committee meetings are set out in the Directors' Report on pages 26 to 27.

The audit and finance committee has appropriate financial expertise and all members are financially literate and have an appropriate understanding of the industries in which the Group operates.

The audit and finance committee operates in accordance with a charter. The main responsibilities of the committee are to:

- review, assess and approve the annual full and concise reports, the half yearly financial report and all other financial information published by the Company or released to the market;
- assist the Board in reviewing the effectiveness of the organisation's internal control environment covering:
 - effectiveness and efficiency of operations;
 - reliability of financial reporting;
 - compliance with applicable laws and regulations;
- determine the scope of the internal audit function and ensure that its resources are adequate and used effectively, and assess its performance, including independence;

- oversee the effective operation of the risk management framework;
- recommend to the Board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, the scope and quality of the audit and assess performance;
- consider the independence and competence of the external auditor on an ongoing basis;
- review and approve the level of non audit services provided by the external auditors and ensure it does not adversely impact on auditor independence;
- review and monitor related party transactions and assess their propriety; and
- report to the Board on matters relevant to the committee's role and responsibilities.

In fulfilling its responsibilities, the audit and finance committee:

- receives regular reports from management, the internal and external auditors;
- meets with the internal and external auditors at least twice a year, or more frequently if necessary;
- reviews the processes the CEO and CFO (upon appointment) have in place to support their certifications to the Board;
- reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved;
- meets separately with the external auditors at least twice a year without the presence of management; and
- provides the internal and external auditors with a clear line of direct communication at any time to either the Chairman of the audit committee or the Chairman of the Board.

The audit and finance committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

External auditors - The Company and audit committee policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. Deloitte Touche Tohmatsu was appointed as the external auditor in November 2006. It is Deloitte Touche Tohmatsu's policy to rotate audit engagement partners on listed companies at least every five years; the 2009 financial year is the third year of this process.

An analysis of fees paid to the external auditors, including a break down of fees for non audit services, is provided in the Directors' Report and Notes to the 2009 Financial Report. It is the policy of the external auditors to provide an annual declaration of their independence to the audit committee.

The external auditor is requested to attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

Risk management committee - The risk management committee is presently carried out at the full Board level.

The risk management committee is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. In summary, the Company's policies are designed to ensure strategic, operational, legal, reputation and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the Group's business objectives.

Considerable importance is placed on maintaining a strong control environment. There is an organisation structure with clearly drawn lines of accountability and delegation of authority. Adherence to the Code of Conduct is required at all times and the Board actively promotes a culture of quality and integrity.

The Group's risk management policy and the operation of the risk management and compliance system are managed by the risk management committee.

Detailed control procedures cover management accounting, financial reporting, project appraisal, environment, health and safety, IT security, compliance and other risk management issues. In addition each business unit reports on the key business risks in their area to the Risk Management Group. The basis for this report is a half yearly review of the past performance of their area of responsibility, and the current and future risks they face. The review is undertaken by business unit management away from the day to day pressure of their operational activities.

The risk management committee consolidates the business unit reports for meetings attended by the Board and senior management. This reviews the Group's strategic direction in detail and includes specific focus on the identification of the key business and financial risks which could prevent the Company from achieving its objectives. The risk management committee is required to ensure that appropriate controls are in place to effectively manage those risks. This is monitored by the Board.

In addition, the Board requires that each major proposal submitted to the Board for decision is accompanied by a comprehensive risk assessment and, where required, management's proposed mitigation strategies.

The environment, health and safety management system (EHSMS) - The Company recognises the importance of environmental and occupational health and safety (OH&S) issues and is committed to the highest levels of performance. To help meet this objective the EHSMS was established to facilitate the systematic identification of environmental and OH&S issues and to ensure they are managed in a structured manner. This system allows the Company to:

- monitor its compliance with all relevant legislation;
- continually assess and improve the impact of its operations on the environment;

- encourage employees to actively participate in the management of environmental and OH&S issues;
- work with trade associations representing the Group's businesses to raise standards;
- use energy and other resources efficiently; and
- encourage the adoption of similar standards by the Group's principal suppliers, contractors and distributors.

Information on compliance with significant environmental regulations is set out in the Directors' Report on page 27.

Communication and Disclosure - The Company has a Disclosure and Communication Policy and a Disclosure and Materiality Guideline. These policies ensure timely and balanced disclosure of material matters concerning the Company. The policy provides that the Company must immediately disclose to the market any information concerning the company that a reasonable person would expect to have a material effect on the price or value of the Company's securities. Disclosure of any such price sensitive information is not required where:

- a reasonable person would not expect the information to be disclosed;
- the information is confidential and the ASX has not taken a contrary view; and
- one or more of the following applies:
 - it would be a breach of law to disclose the information;
 - the information concerns an incomplete proposal or negotiation;
 - The information comprises matters of supposition or is insufficiently definite;
 - The information is generated for internal management purposes; or
- The information is a trade secret.

Senior management is responsible for monitoring all information regarding the Company's day to day activities and if a potential disclosure obligation arises, senior management is to report to the Managing Director who will determine whether disclosure to the ASX is required.

The Company's policy outlines the procedures in place to ensure effective communication with Shareholders. The Company seeks to ensure that shareholders are well informed of the Company's activities. The Company communicates with shareholders through annual, half yearly and quarterly reports, ASX releases, general meetings and the Company's website. The Company encourages shareholder participation at general meetings.

Code of Conduct - The Group has developed a statement of values and a Code of Conduct (the Code) which has been fully endorsed by the Board and applies to all Directors and employees. The Code is regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Group's integrity.

In summary, the Code requires that at all times all Group personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of the law and Group policies.

The purchase and sale of Company securities by Directors and employees is only permitted as outlined in the Share Trading Policy.

The Code and the Group's Share Trading Policy are discussed with each new employee as part of their induction training and all employees are asked to sign an annual declaration confirming their compliance.

The Code requires employees who are aware of unethical practices within the Group or breaches of the Group's Policy to report these. This can be done anonymously.

The Directors are satisfied that the Group has complied with its policies on ethical standards, including trading in securities.

A copy of the Code and the Share Trading Policy are available on the Group's website at www.australianpowerandgas.com.au.

Set out is a review of the principles set as recommended by the Australian Stock Exchange's Corporate Governance Council (ASXCGC). The principles are discussed in the publication by the ASXCGC Corporate Governance Principles and Recommendations (Guide).

ASXCGC's Best Practice Recommendations

Principle 1 Lay Solid Foundations for Management and Oversight		
1.1	Formalise and disclose the functions reserved to the Board and those delegated to management.	Comply
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Comply
1.3	Provide information indicated in the Guide to reporting on Principle 1.	Comply
Principle 2 Structure the Board to Add Value		
2.1	A majority of the Board should be independent Directors.	Ian McGregor is an independent Director on a Board of four. Therefore the Board does not have a majority of independent Directors. However over time as the company continues to grow, the Board will seek to address this issue through the appointment of further independent non-executive Directors to provide a majority of independent Directors.
2.2	The Chair should be an independent Director.	Comply
2.3	The role of the Chair and Chief Executive Officer should not be exercised by the same individual.	Comply
2.4	The Board should establish a nomination committee.	Partially comply, due to the size of the Company and Board, the committee is conducted at a full Board level
2.5	Companies should disclose the process for evaluating the performance of the Board, its committees and individual Directors.	Comply
2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2.	Comply
Principle 3 Promote Ethical and Responsible Decision Making		
3.1	Companies should establish a code of conduct and disclose the code or a summary as to: <ul style="list-style-type: none"> the practice necessary to maintain confidence in the Company's integrity; the practice necessary to take into account their legal obligation and the expectations of their stakeholders; and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. 	Comply
3.2	Companies should disclose the policy concerning trading in Company securities by Directors, officers and employees	Comply
3.3	Companies should provide the information indicated in the Guide to reporting on Principle 3.	Comply

ASXCGC's Best Practice Recommendations cont.

Principle 4 Safeguard Integrity In Financial Reporting

4.1	The Board should establish an audit committee.	Partially comply. Due to the size of the Company and Board, the committee is conducted at a full Board level
4.2	The audit committee should be structured so that it consists of: <ul style="list-style-type: none"> • only non-executive Directors; • a majority of independent Directors; • an independent Chair, who is not Chair of the Board; and • at least three members 	Qualified compliance ¹ Do not comply ² Do not comply ³ Comply
4.3	The audit committee should have a formal charter.	Comply
4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4.	Comply

Principle 5 Make Timely and Balanced Disclosure

5.1	Companies should establish written policies and procedures designed to comply with ASX Listing Rules disclosure requirements and accountability at a senior management level for that compliance. The policies or summary should be disclosed.	Comply
5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5.	Comply

Principle 6 Respect the Rights of Shareholders

6.1	Companies should design and disclose a communication policy for promoting effective communication with shareholders and encourage their participation at general meetings. A summary of the policy should be disclosed.	Comply
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6.	Comply

ASXCGC's Best Practice Recommendations cont.

Principle 7 Recognise and Manage Risk		
7.1	Companies should establish and disclose policies on risk oversight and management and disclose a summary of these policies.	Comply
7.2	The Board should require management to design and implement the risk management and internal control framework to manage the Company's material business risks. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks and whether the Board is satisfied that those risks are being managed in accordance with the Company's risk appetite.	Comply
7.3	The Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) should state to the Board in writing that the declaration given in accordance with section 295A of the <i>Corporations Act 2001</i> is founded on a sound framework of risk management and internal control and that the framework is operating effectively in all material aspects.	Comply
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	Comply
Principle 8 Remunerate Fairly and Responsibly		
8.1	The Board should establish a remuneration committee.	Partially comply. Due to the size of the Company and Board, the committee is conducted at a full Board level.
8.2	Companies should clearly distinguish the structure of non-executive Directors' remuneration from that of executive, Directors and senior executives.	Comply
8.3	Companies should provide the information indicated in the Guide to reporting on Principle 8.	Comply

¹ The audit and risk committee did not consist of only non-executive Directors for the full financial year, however the overriding premise in determining the composition of the committee is that the committee consists of members with relevant experience and expertise.

² Refer Principle 2.1

³ The Chair of the audit and risk committee is required to be a non-executive independent Director. Due to the size of the Company and Board, the committee is conducted at a full Board level, with the independent Chair acting as the Chair for these purposes as well.