

our corporate governance framework

Aurora Energy is a State-owned company. Its shareholders are the Treasurer and the Minister for Energy and Resources.

In October 2008 the shareholders issued a Governance Framework Guide for Tasmanian Government Businesses. The Guide referenced the eight core principles underlining good corporate governance as recommended by the ASX Corporate Governance Council for listed companies. While noting that the principles were not mandated, the shareholder Ministers expressed an expectation that the core principles, where relevant, would be adopted by Government business boards.

Aurora Energy has adopted, where applicable, practices in compliance with those principles and the guidelines. In some instances, full compliance with all aspects of the guidelines has not yet been achieved, but plans are in place to reach that objective.

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

The Board sets the strategic directions and objectives for the company. It approves and monitors the business plan and operating budgets. A Delegations Manual details limits of delegated authority to management and reserved functions for the Board. The Board receives and reviews operating, financial, energy trading risk, safety and environmental performance on a monthly basis.

The Board has put in place Governance Protocols and Charters for the oversight of its subsidiary companies. These provide for protocols in relation to group policies, delegations and reporting to the parent company.

Senior management has established a key committee structure to provide the level of assurance across diverse areas of the business.

Committees chaired by members of the executive management team include Energy Risk Assurance, Credit Risk, Treasury, Safety Health and

Environment, Regulatory Environment, Customers and Commercial Review. Senior management also participates in a number of issue or project-specific steering or management committees.

The company has an established performance management process for all levels of staff and management. The company makes extensive use of 360 degree evaluations, which include performance in relation to company values and behaviours.

The Board has established a formal performance assessment process for the evaluation of individual directors and the performance of the Board as a whole. These assessments are based on peer review, input from senior management and external evaluation.

The Board Chair, Chief Executive Officer and senior management annually attend and respond to questions before the annual Government Businesses Scrutiny Committee.

2. Structure the Board to add value:

The composition of and appointments to the Board are prescribed by the company's constitution. Appointments are made directly by the two shareholders. The qualifications and experience of the directors appear on pages 86-87.

The Board has adopted the processes as recommended in the guidelines for the selection and appointment of new directors to the Board and for the re-appointment of directors whose terms expire. This process involves a director selection panel and a past performance evaluation for those directors seeking reappointment.

3. Promote ethical, responsible decision-making:

The company has adopted a code of values and behaviours in relation to its internal and external dealings. Individual performance is measured against compliance with those values and behaviours. A strategic objective of the company as provided in its Balanced Scorecard is to be a model corporate citizen. The company has a comprehensive conflict of interest policy

providing guidelines for avoidance and disclosure of potential conflicts.

The company is subject to the *Public Interest Disclosures Act 2002*.

The Board-approved policy in relation to legal and regulatory compliance provides that in both its commercial and non-commercial activities, Aurora shall endeavour to act as a model corporate citizen by acting in an ethical manner and in accordance with the spirit, as well as the letter of the law.

4. Safeguard integrity in financial reporting:

The Chief Executive Officer 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 a Board Audit and Risk Committee as reported on elsewhere in this report. The Internal Audit function is provided through a co-sourced function model utilising external as well as internal resources. The external auditor is the Auditor-General for Tasmania. The Auditor-General or his representative regularly attends meetings of the Audit and Risk Committee.

Financial reporting is part of the monthly management reporting to the Board.

5. Make timely and balanced disclosure:

Aurora Energy is not a listed company and therefore does not have reporting obligations to the stock exchange. However, it reports to its shareholders in accordance with statutory obligations, shareholder directions and obligations provided in the company's constitution.

The Aurora constitution places an obligation on directors to notify shareholders where matters arise that may prevent or significantly affect the achievement of strategic or financial objectives or targets.

Shareholders are given regular, less formal briefings on key issues and developments.

6. Respect the rights of shareholders:

The company has formal reporting obligations under its constitution and applicable legislation. The relationship with the shareholders and the wider community is recognised implicitly in the company's stated purpose – "To see the Tasmanian community prosper from our efforts."

The shareholders are regularly briefed on the company's strategic plans. For further information on stakeholder engagement, refer to pages 81-83.

7. Managing risk at Aurora:

Aurora manages its business risks in accordance with a Risk Management Framework.

The Framework and supporting policy documents are based on the risk management standard AS/NZS 4360 and are approved by the Board Audit and Risk Committee (BARC). The BARC reviews quarterly reports of audit and business risk activities and findings.

The Framework provides guidelines, techniques, definitions, tools and templates to be used in Aurora for communicating, establishing the context, identifying, analysing, evaluating, treating, monitoring and reviewing risks.

It provides everyone in Aurora with a structured and systematic approach to managing the risks that are integral to their responsibilities. The Framework is also flexible enough to allow for the differing nature of specific risks, which are applied to individual activities.

We are monitoring developments with the proposed new ISO 31000 international risk management standard to ensure we are in line with contemporary risk management practices.

The levels of business risk are reassessed by senior management and the Board on a regular basis to ensure that mitigating actions for each of the risks are current and cost-effective.

Aurora's internal audit unit performs regular audits of mitigating actions or internal controls identified.

All outstanding audit issues are monitored through to satisfactory conclusion.

The Board has received assurance in writing from the Chief Executive Officer and the Chief Financial Officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and on internal controls that are periodically tested and refined, and that the systems and controls are operating effectively in all material respects in relation to financial reporting risks.

These statements are supported by certifications made to the Chief Executive Officer and Chief Financial Officer by the financial and other managers throughout the Group. They provide a reasonable, but not absolute, level of assurance and do not imply a guarantee against adverse events or more volatile outcomes arising in the future.

A number of internal control deficiencies relating to financial reporting have been identified during the financial year, and in such cases, where deemed appropriate, additional tests of procedures or tests of resulting account balances included in the financial statements have confirmed that there has been no material impact on the financial reports. Management also has reported to the Board as to the effectiveness of the company's management of material business risks.

8. Remunerate fairly and responsibly:

The Board has established an Appointments and Remuneration Committee which is accountable for ensuring that Aurora's remuneration policies and practices are responsible and nationally competitive. Under its charter, the committee is responsible and accountable to the Board for endorsing executive management appointments, reviewing and recommending to the Board changes to executive and senior management remuneration policies, reviewing and approving employee incentive programs, approving annual remuneration

adjustments for executive management and approving market movement adjustments for senior management. The committee reviews and approves annual adjustments to the Chief Executive Officer's remuneration based on market movement and performance assessed by the Board Chair with input from the Board. The committee is responsible for monitoring succession planning for executive management positions.

In addition to the Corporate Governance Principles, a Governance Framework Guide and specific Guidelines were issued in relation to: Board Appointments; Appointing the Chief Executive Officer as a Member of the Board; Director Induction; Education and Training; Assessing Board Performance; and Subsidiary Companies and Joint Ventures.

Aurora has developed action plans to address the issues and obligations raised by those guidelines.

The directors' report is on pages 88-91 of this document.