



PACIFICENERGY

**Pacific Energy Limited**

**ACN 009 191 744**

**and its controlled entities**

**2016 Corporate Governance Statement**

## 2016 Corporate Governance Statement

This statement outlines the key aspects of the Group's corporate governance framework and main corporate governance practices. Pacific Energy's corporate governance arrangements conform to the Corporate Governance Principles and Recommendations (3<sup>rd</sup> edition) issued by the ASX Corporate Governance Council ("ASX Principles"), unless otherwise stated.

### Principle 1: Lay solid foundations for management and oversight

#### Role of the board

The Board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the Board is responsible for the overall corporate governance of the Group including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for directors and senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of risk management, internal control, legal compliance and management information systems. It is also responsible for approving and monitoring financial and other reporting.

The Board has delegated responsibility for the operation and administration of the company to the Chief Executive Officer & Managing Director and executive management. Responsibilities are delineated by formal authority delegations.

#### Board appointments

Prior to appointing a person as a director, the company undertakes appropriate background and other checks including criminal record, bankruptcy and education checks and obtains character references. Such appointments are referred to shareholders at the next available opportunity for re-election in general meeting, along with all material information in the company's possession relevant to a decision on whether or not to elect or re-elect a director.

Letters of appointment for each new appointment to the Board set the key terms and conditions of the appointment, including duties, rights and responsibilities, the time commitment envisaged and the Board's expectations regarding their involvement with committee work.

The Chairman and Chief Executive Officer with assistance from the Company Secretary, provide an induction for new directors appointed to the Board. These induction programs include:

- An overview of the culture and values of the company;
- Board meeting arrangements; and
- Director interaction with each other, senior management and other stakeholders.

Directors also have the opportunity to visit Group facilities and meet with management to gain a better understanding of business operations. Directors are given access to continuing education opportunities to update and enhance their skills and knowledge.

The Group also has a formal process to educate new senior executives upon taking such positions. The induction program includes reviewing the Group's structure, strategy, operations, financial position and risk management policies. It also familiarises the individual with the respective rights, duties, responsibilities and roles of the individual and the Board.

The Company Secretary is accountable to the Board for facilitating the Company's corporate governance processes and the proper functioning of the Board. Each Director is entitled to access the advice and services of the Company Secretary.

#### Diversity and equal employment opportunity policy

The Board has approved a Diversity and Equal Employment Opportunity Policy which sets out the company's commitment to promoting and advancing diversity within the company. A copy of the policy can be found on the company's website.

The company is committed to fostering a corporate culture that is fair and inclusive, and embraces and promotes diversity among its employees, consultants, senior management and Board. The company will actively work to ensure equal employment opportunity in relation to age, race, disability, ethnicity, marital or family status, nationality, religion, sex, sexual orientation or any other characteristic protected by law.

The company is committed to ensuring that all employment and career-related matters are free from discriminatory practices by ensuring that selection for jobs and career progression is based on the individual applicant or employee's qualifications, experience, knowledge and skills as they relate to the particular job specification, however the Board has not established measurable objectives for achieving gender diversity due to the size of the company and the nature of its workforce. This is a departure from ASX Principles 1.5(a) and (c).

At 30 June 2016, 14% of employees, 20% of senior executives and 0% of the Board are women, where "senior executive" means the executives and executive directors listed in the Remuneration Report in the company's 2016 Annual Report.

### **Independent professional advice and access to company information**

Each director has the right of access to all relevant company information and to the company's executives and, subject to prior consultation with the Chairman, may seek independent professional advice from a suitably qualified adviser at the Group's expense. The director must consult with an advisor suitably qualified in the relevant field, and obtain the Chairman's approval of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the director and prepared at the Group's expense is made available to all other members of the Board.

### **Board performance evaluation**

The assessment of the Board's overall performance and its succession plan is conducted by the Chairman and directors on an informal basis and includes an assessment of the composition and skill mix of the directors of the company.

During the reporting period, performance evaluations for the Board, its committee and the individual directors were undertaken in accordance with the process disclosed in this report.

### **Executive performance evaluation**

The Managing Director reviews the performance of the senior executives annually with the assistance of the Board. These evaluations take into account criteria such as the achievement toward the Company's performance benchmarks and the achievement of individual performance objectives. Performance evaluations of senior executives have taken place during the reporting period in accordance with the process disclosed above.

## **Principle 2: Structure the Board to add value**

### **Composition of the Board**

The Board is of the opinion that the Group is not of a sufficient size to warrant a Nomination and Remuneration Committee. This is a departure from ASX Principle 2.1, however the full Board performs the duties of this committee.

The composition of the Board is determined using the following principles:

- The Board shall comprise directors with a range of expertise encompassing the current and proposed activities of the company, and those which do not, have extensive expertise in significant aspects of auditing and financial reporting, or risk management of large companies.
- An appropriate number of independent non-executive directors.
- A non-executive independent director as Chairman.
- Where a vacancy is considered to exist, the Board selects an appropriate candidate through consultation with external parties, consideration of the needs of the shareholder base and consideration of the needs of the company

Such appointments are referred to shareholders at the next available opportunity for re-election in general meeting.

The Board currently comprises five directors. Two members of the Board are independent non-executive directors, one is a non-independent non-executive director and two are executive directors. This is a departure from ASX Principle 2.4, which requires a majority of the Board comprise independent directors, however the Board believes that the qualifications, experience and expertise of the non-independent directors bring considerable benefit to the company and is appropriate to adequately represent the majority shareholders of the company.

The Pacific Energy Board of directors is comprised as follows (refer pages 6-7 of Pacific Energy's 2016 Financial Report):

Director	Executive or Non-Executive	Independent	Date Appointed
Mark Clifford Lawrenson (Chairman)	Non-Executive	Yes	2010
James Donald De Barran Cullen (CEO & Managing Director)	Executive	No	2015
Alan Stuart Foster	Non-Executive	Yes	1998
Louis Ivan Rozman	Non-Executive	No	2009
Kenneth Joseph Hall	Executive	No	2009
Greg Andrew Dick (Alternate Director)	Non-Executive	No	2011

The Board has adopted a definition of independence which is derived from the definition set out in the ASX Principles and materiality is assessed on a case-by-case basis with reference to each director's individual circumstances rather than by applying general materiality thresholds. The Board considers that Mr Foster, notwithstanding his period of service on the company's Board, retains his independence of character and judgement and continues to bring invaluable experience and expertise to the Board.

### Board skills and experience

The Board's objective is to have an appropriate mix of expertise and experience on the Board and its Committees. This mix is described in the Board skills matrix below.

Skill, Expertise or Attribute	C Lawrenson	J Cullen	K Hall	S Foster	L Rozman
Risk, Governance, Financial & Audit	✓	✓	✓	✓	✓
Strategy	✓	✓	✓	✓	✓
Technology and Innovation	✓	✓	✓	✓	✓
Leadership	✓	✓	✓	✓	✓
Commercial Experience	✓	✓	✓	✓	✓
Mining , Resources, Electricity Generation	✓	✓	✓		✓
Acquisition / Joint Ventures	✓	✓		✓	✓
Capital Markets	✓	✓		✓	✓
International Exposure	✓	✓			✓

### Principle 3: Act ethically and responsibly

All directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Group.

#### Conflict of interest

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Group. The Board has developed procedures to assist directors to disclose potential conflicts of interest.

Where the Board believes that a significant conflict exists for a director on a Board matter, the director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered.

#### Code of conduct

The Board has approved a Code of Conduct which promotes ethical and responsible decision making by directors and employees.

The Code of Conduct requires directors and employees to:

- Respect the law and act in accordance with it;
- Respect confidentiality and not misuse company information, assets or facilities;

- Value and maintain professionalism;
- Avoid real or perceived conflicts of interest;
- Act in the best interests of shareholders;
- By their actions contribute to the company's reputation as a good corporate citizen which seeks the respect of the community and environment in which it operates;
- Perform their duties in ways that minimise environmental impacts and maximise workplace safety;
- Exercise fairness, courtesy, respect, consideration and sensitivity in all dealings within their workplace and with customers, suppliers and the public generally; and
- Act with honesty, integrity, decency and responsibility at all times.

The Code of Conduct also sets out the processes of reporting, monitoring and ensuring compliance with the Code of Conduct, and provides protection for those who report violations in good faith.

#### Principle 4: Safeguard integrity in corporate reporting

##### Audit committee

The Board established an Audit Committee on 20 June 2012 to assist in the discharge of its responsibilities. The charter of the Audit Committee is available on the company's website. The Audit Committee is responsible for the review and monitoring of financial reporting, audit and financial risk management strategies, systems, policies and processes implemented, and reported on, by management.

The Audit Committee meets with the external auditor at least twice a year and more frequently if required. Following each Audit Committee meeting, usually at the next Board meeting, the Board is given a verbal update by the Chair of the Committee, and minutes of Committee meetings are provided to all directors.

In addition to the Audit Committee reviewing and reporting on the financial statements, prior to the financial statements for a financial year being presented to the Board for their approval, the CEO and CFO provide the Board with a declaration that, in their opinion, the financial records of the Group have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

The current members of the Audit Committee are as follows:

Director	Independent	Date Appointed to Audit Committee
Alan Stuart Foster	Yes	2012
Greg Dick (Alternate Director)	No	2012

The qualifications and experience of the members of the Audit Committee are described in Pacific Energy's 2016 Annual Report in the Directors' Report on page 7.

The composition of the Audit Committee is at variance to ASX Principle 4.1 which requires a minimum of three members, and a majority of independent directors. This is primarily due to the constraints imposed by the size and composition of the Board itself. The Board believes that the size and composition of the Audit Committee is appropriate.

Committee members are chosen for the skills, experience and other qualities they bring to the Committee. The executive management attends, by invitation, Audit Committee meetings. The number of audit committee meetings and the number of meetings attended by each of the members the financial year are:

Director	Audit Committee meetings 2016	
	Number of meetings held	Number attended
Mr A S Foster	2	2
Mr G A Dick (Alternate Director for Mr L Rozman)	2	2

##### Auditor independence

The auditor is required to be independent from Pacific Energy. Crowe Horwath confirms that it meets this requirement every six months. In addition, the audit partner is rotated every 5 years.

The external auditor attends the Annual General Meeting to answer questions concerning the conduct of the audit, the preparation and content of the auditor's report, accounting policies adopted by the company and the independence of the auditor in relation to the conduct of the audit.

## **Principle 5: Make timely and balanced disclosure**

The Board provides shareholders with information using a comprehensive Continuous Disclosure Policy which includes identifying matters that may have a material effect on the price of the company's securities, notifying them to the ASX, posting them on the company's website, and issuing media releases.

In summary, the Continuous Disclosure Policy operates as follows:

- The Chief Executive Officer & Managing Director is responsible for interpreting the company's policy and where necessary informing the Board. The Company Secretary is responsible for all communications with the ASX. Such matters are advised to the ASX as soon as practically possible after they are discovered.
- The full Annual Financial Report is distributed to all shareholders who have elected to receive it by mail and is made available in full on the company's website at [www.pacificenergy.com.au](http://www.pacificenergy.com.au). It includes relevant information about the operations of the Group during the year, changes in the state of affairs and details of future developments.
- The half-yearly report contains summarised financial information and a review of the operations of the Group during the period. The half-year reviewed financial report is lodged with the Australian Securities and Investments Commission and the ASX, and sent to any shareholder who requests it.
- Proposed major changes in the Group which may impact on share ownership rights are submitted to a vote of shareholders.
- All announcements made to the market, and related information (including information provided to analysts or the media during briefings) are placed on the company's website after they are released to the ASX.
- Shareholders have the option to receive communications from, and send communications to, the entity and its security registry electronically.

## **Principle 6: Respect the rights of security holders**

The Company places considerable importance on effective communications with shareholders. The Group's communication strategy requires communication with shareholders and other stakeholders in an open, regular and timely manner so that the market has sufficient information to make informed investment decisions on the operations and results of the Group.

The strategy provides for the use of systems that ensure a regular and timely release of information about the Group is provided to shareholders.

Mechanisms employed include:

- (a) Annual Report – the full Annual Financial Report is distributed to all shareholders who have elected to receive it by mail and is made available in full on the company's website at [www.pacificenergy.com.au](http://www.pacificenergy.com.au). It includes relevant information about the operations of the Group during the year, changes in the state of affairs and details of future developments.
- (b) Half Yearly Report – the half-yearly report contains summarised financial information and a review of the operations of the Group during the period. The half-year reviewed financial report is lodged with the Australian Securities and Investments Commission and the ASX, placed on the company's website and sent to any shareholder who requests it.
- (c) ASX Announcements – all announcements made to the market, and related information (including information provided to analysts or the media during briefings) are placed on the company's website after they are released to the ASX.
- (d) Annual General Meeting – proposed major changes in the Group which may have an impact on share ownership rights are submitted to a vote of shareholders.

The Board encourages full participation of shareholders at the Annual General Meeting, to ensure a high level of accountability and identification with the Group's strategy and goals. Important issues are presented to shareholders as single resolutions.

Shareholders are requested to vote on the appointment and aggregate remuneration of directors, the granting of options and shares to directors, the Remuneration report and changes to the Constitution. Copies of the Constitution are available to any shareholder on request.

## **Principle 7: Recognise and manage risk**

### **Oversight of the risk management system**

The Board oversees the establishment, implementation and monitoring of the company's risk management system. This is a departure from ASX Principle 7.1 which recommends a committee to oversee risk, however the full Board performs these duties. Management has established and implemented the risk management system for assessing, monitoring and managing all risks, including material business risks and sustainability risks, for the Group.

### **Risk profile**

Management details the risk exposure of the company to the Board on a regular basis (at least annually) outlining the material business risks to the company. Risk reporting includes detailing the status of risks through regular Board reports and delegated risk and financial authority limits to management aimed at ensuring risks are identified, assessed and appropriately allocated and managed. A comprehensive review of Pacific Energy's risk management framework was completed and implemented in June 2016.

Material business risks for the company may arise from such matters as actions by competitors, government policy changes, the impact of exchange rate movements, technical solutions installed, environment, occupational health and safety, property, financial reporting, and the purchase, development and use of information systems.

### **Risk management, compliance and control**

The Board is responsible for the overall internal control framework, but recognises that no cost-effective internal control system will preclude all errors and irregularities. The Board's policy on internal control comprises the company's internal control compliance and control systems, including:

- Operating unit controls – Operating units confirm compliance with financial controls and procedures including information systems controls.
- Investing appraisal – Guidelines of capital expenditure include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses are being acquired or divested.

Comprehensive practices have been established to ensure:

- Capital expenditure and revenue commitments above a certain size obtain prior Board approval;
- Financial exposures are controlled, including the use of derivatives. Further details of the company's policies relating to credit risk management are included in Note 24 of the company's Financial Report for the year ended 30 June 2016;
- Occupational health and safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations;
- Business transactions are properly authorised and executed;
- The quality and integrity of personnel (see below); and
- Financial reporting accuracy and compliance with the financial reporting regulatory framework (see below).

Due to its size, Pacific Energy does not have its own internal audit function. The Group's Risk Management Policy discloses the processes employed for evaluating and improving the effectiveness of risk management and internal control and regular reports on business risk management are provided to the Audit Committee and Board by senior management.

### **Quality and integrity of personnel**

Formal appraisals are conducted at least annually for all employees. Training and development and appropriate remuneration and incentives with regular performance reviews create an environment of cooperation and constructive dialogue with employees and senior management.

### **Financial reporting**

The Chief Executive Officer & Managing Director and Chief Financial Officer have provided assurance in writing to the Board that the company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

Bi-monthly actual results are reported against budgets approved by the directors and revised forecasts for the year are prepared regularly.

## Environmental regulation

The Group's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. However, the Board believes that the Group has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Group.

## Principle 8: Remunerate fairly and responsibly

### Principles of compensation

#### Non-Executive Director remuneration policy

The Board's policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities, having regard to the level of fees paid to non-executive directors by other companies of similar size in the industry.

The aggregate amount payable to all non-executive directors must not exceed the maximum annual amount approved by the company's shareholders.

Non-executive directors do not receive performance related compensation, however to create alignment with shareholders non-executive directors are encouraged to hold equity securities in the Group and may participate in the Director and Employee Share Option Plan. Directors' fees cover all main Board activities.

#### Executive remuneration policy

Compensation levels for executives of the Group are competitively set to attract and retain appropriately qualified and experienced executives. The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders.

The compensation structures take into account:

- The capability and experience of the executive;
- The executive's ability to control the relevant segment's performance; and
- The Group's performance including:
  - The Group's earnings; and
  - The growth in share price and delivering constant returns on shareholder wealth.

Compensation packages include a mix of fixed and variable compensation, and long-term incentives. In considering the Group's performance and returns on shareholder wealth, the Board has regard to the following indicators of performance in respect of the current financial year and the previous four financial years:

	2016	2015	2014	2013
EBITDA (\$'000)	37,987	30,833	34,380	27,839
Dividend per share (cents) <sup>1</sup>	2.5	2.5	2.5	1.0
Change in share price (\$)	0.065	(0.07)	0.10	(0.09)

<sup>1</sup> Dividends include dividends declared after year end.

#### Fixed compensation

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any Fringe Benefits Tax charges related to employee benefits), as well as employer contributions to superannuation funds.

Compensation levels are reviewed annually by the Board through a process that considers individual, segment and overall performance of the Group.

#### Performance linked compensation

Performance linked compensation includes both short-term and long-term incentives, and is designed to reward key management personnel for meeting or exceeding their financial and personal objectives. The short-term incentive (STI) is an 'at risk' bonus provided in the form of cash that is paid upon the achievement of pre-determined key performance indicators set by the Board, while the long-term incentive (LTI) is provided as options over ordinary shares of the company. The objective of this form of reward is to align the behaviour of executives to maximise shareholder value.

## **Trading in general company securities by directors and employees**

The key elements of the company's policy on trading in company securities include:

- Identification of those restricted from trading;
- Directors and senior executives may acquire shares in the company, but are prohibited from dealing in company securities:
  - between the end of the interim reporting period and the release of interim results, and the end of the full year reporting period and the release of full year results; and
  - at any time whilst in possession of price sensitive information not yet released to the market.
- Recommended time frames for employees to deal in the company's shares, being the one month period after the release of the company's half year and annual results, the Annual General Meeting or any major ASX announcement;
- To raise the awareness of legal prohibitions including transactions with colleagues and external advisers;
- To raise awareness that the company prohibits entering into transactions that limit economic risks related to unvested share-based payments and that the company requires declarations of compliance with this particular policy;
- To raise awareness that the company prohibits those restricted from trading in company shares as described above from entering into transactions such as margin loans that could trigger a trade during a prohibited period;
- To require details to be provided of intended trading in the company's shares;
- To require details to be provided of the subsequent confirmation of the trade; and
- The identification of processes for unusual circumstances where discretion may be exercised in cases such as financial hardship.

The policy also details the insider trading provisions of the Corporations Act 2001.