

## Corporate Governance Statement

August 2015

Ethane Pipeline Income Fund comprises two registered investment schemes, Ethane Pipeline Income Trust and Ethane Pipeline Income Financing Trust (together the **Fund**) the securities in which are “stapled” together, and their controlled entities.

APA Ethane Limited (**Responsible Entity**) was appointed the responsible entity of those trusts with effect from 23 December 2008, and this Corporate Governance Statement (**statement**) outlines the Responsible Entity’s main corporate governance practices in relation to the Fund.

The ASX Corporate Governance Council’s Corporate Governance Principles and Recommendations (**ASX Principles**) articulate eight core principles of good corporate governance and, for each of those principles, recommendations as to their implementation. Adoption of the Council’s recommendations is not compulsory. However, under the Listing Rules of ASX Limited (**ASX**) a listed entity is required to provide a statement in its annual report or on its website disclosing the extent to which it has adopted the recommendations in the reporting period and, if it has not adopted any of the recommendations, to explain why.

Where applicable, each of the principles of good corporate governance has been responded to in turn in this statement and explanations for any departure from the recommendations are provided in this statement. Some of the ASX Principles do not apply to externally managed listed entities such as the Fund. This statement notes those ASX Principles that do not apply to the Fund.

Various references are made below to the Fund’s website as a source of information on corporate governance practices and documentation. The home page for that website is [www.ethanepipeline.com.au](http://www.ethanepipeline.com.au), and the tab entitled “About the Fund” leads to the corporate governance material. If you do not have internet access but wish to read that material, please telephone 1300 780 445 (or, +61 1300 780 445 if calling from outside Australia) and we will send you a copy of the relevant material.

In this statement the term **Reporting Period** means the period of 12 months to 30 June 2015.

This statement reports against the 3rd Edition of the ASX Principles and the practices detailed in this statement are current as at 30 June 2015. The statement was approved by the Board of Directors of the Responsible Entity (**Board**) on 20 August 2015.

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

Principle 1 is not applicable to the Fund as an externally managed entity, however the Board has decided to disclose partly against this Principle given its importance in the context of the management of the Fund. In addition, there is an alternative recommendation for externally managed entities which is included.

## ***Board and its role***

The Board is accountable to securityholders for the operation of the Fund.

The role of the Board includes:

- approving the strategic direction of the Fund and monitoring management of the implementation of that strategy;
- approving acquisitions, disposals and expenditures in excess of designated limits;
- ensuring there are adequate resources available to meet Fund objectives;
- monitoring the performance of the Fund Manager referred to below;
- approving and monitoring financial reporting and capital management;
- reviewing and monitoring systems of risk management and internal control, corporate governance structures and legal compliance, and determining key policies and procedures governing the operations of the Fund;
- ensuring the Board is and remains appropriately skilled to meet the changing needs of the Fund and reviewing Board succession planning; and
- ratifying the appointment of the Company Secretary.

The Board normally meets four times each year, with additional meetings held as required. The number of times it met during the Reporting Period and directors' attendance at those meetings are set out in the directors' report for that period.

## ***Fund Manager's role***

Pursuant to a Management Services Agreement, APT (MIT) Services Pty Limited, a member of APA Group (**Fund Manager**), provides the Fund with fund management and administration services, and other services.

With the Fund Manager providing such services, neither the Fund nor the Responsible Entity currently employs executives or other employees.

## ***Company Secretary***

The Company Secretary is provided by the Fund Manager under the Management Services Agreement. All directors have direct access to the Company Secretary who is responsible to the Board through the Chairman on all matters relating to the conduct and functions of the Board and the Audit Committee.

## ***Diversity***

The Responsible Entity recognises that embracing individual diversity encourages diversity of thought, which is conducive to better decision-making and opportunity for innovation. It is also about taking advantage of all available talent for the benefit of

the organisation. Diversity in this context refers to all characteristics that distinguish individuals from each other, and includes ethnicity, religion, gender and age.

With respect to the Board, it is the Responsible Entity's policy, when looking to fill a Board position, to always have at least one qualified female candidate on the short-list of candidates, and it is noted that one of the three current directors is female.

As neither the Responsible Entity nor the Fund currently employs personnel, the Responsible Entity does not propose to develop a diversity policy, other than the policy with respect to the Board referred to above, nor measurable objectives for achieving gender diversity.

### ***Annual review of performance of Board, Audit Committee and directors***

The Board conducts an annual review process to assess the performance of the Board, its Audit Committee and individual directors. Such performance was most recently reviewed by a discussion conducted amongst directors at the June 2015 Board meeting.

### ***Evaluation of performance***

The ASX Corporate Governance Council recommends listed entities disclose the process for evaluating the performance of senior executives and whether such an evaluation has taken place in the reporting period. As noted, neither the Fund nor the Responsible Entity currently employs executives or other employees, and so senior executive performance reviews are not conducted.

The Board receives reports from the Fund Manager at Board meetings and through that process monitors the performance of the Fund Manager.

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

Most of Principle 2 is not applicable to the Fund as an externally managed entity. Recommendation 2.3 concerning Board membership and independence does apply. The Board has decided to disclose partly against this Principle given its importance in the context of the management of the Fund.

### ***Board membership***

The Board consists of three non-executive directors, Robert Wright, Rick Coles and Nancy Fox, whose experience and respective terms of office as directors are set out in the directors' report for the Reporting Period.

The constitution of the Responsible Entity requires there to be not less than, nor more than, three directors. The Responsible Entity may, by special resolution, increase or reduce the minimum or maximum number of directors, to the extent permitted by law.

Pursuant to the constitution of the Responsible Entity, APT Pipelines Limited, a member of APA Group, is entitled to appoint one director for so long as it or any of its related bodies corporate owns not less than 49% of the issued capital in the

Responsible Entity<sup>1</sup>, and any director so appointed serves as Chairman of the Board and may only be removed from office by APT Pipelines Limited. Robert Wright has been appointed by APT Pipelines Limited and is the current Chairman. He is also a director of Australian Pipeline Limited, the responsible entity of the registered investment schemes that comprise APA Group.

The ASX Corporate Governance Council's recommendation that the roles of Chairman and Chief Executive Officer should not be exercised by the same person is satisfied in the case of the Responsible Entity in that fund management and other services are provided by the Fund Manager and there is no Chief Executive Officer of the Responsible Entity or the Fund.<sup>2</sup>

### ***Independence of directors***

A majority of the Board are independent directors.

The Board assesses the independence of directors on appointment and annually having regard to the independence of directors policy, which is published on the Fund's website. This year the Board confirmed that Rick Coles and Nancy Fox are independent. Robert Wright is not considered to be an independent director due to his directorship of APA Group, a substantial securityholder and service provider of the Fund.

The ASX Corporate Governance Council recommends chairs of boards be independent directors. With Robert Wright not being considered independent, that recommendation has not been adopted by the Responsible Entity. The Board notes that APT Pipelines Limited has the right, as expressed above, to appoint a director to be the Chairman of the Board and considers the other two directors, Rick Coles and Nancy Fox, who together form a majority, to be independent. The Board also values Robert Wright's experience as a chairman and believes him to be the most appropriate person to perform that role. The Board has procedures in place should Robert Wright's role at APA Group give rise to a conflict of interest.

The Directors' Report for the Reporting Period (which is contained in the 2015 Annual Report) provides further detail on each director, including length of service.

### ***Selection and appointment of directors***

The ASX Corporate Governance Council also recommends boards have nomination committees to provide a mechanism for the selection and appointment of directors (although it is noted this recommendation does not apply to the Fund as an externally managed entity). However, the Board comprises only three directors who have determined a separate nomination committee to be unnecessary. The functions with respect to selection and appointment of new directors, Board succession and related matters are handled by the Board. Ultimate responsibility for such matters rests with

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<sup>1</sup> The Responsible Entity is owned as to 49.5% by APT Pipelines Limited (a member of APA Group) and as to the remaining 50.5% by two of the Responsible Entity's directors from time to time (presently, Rick Coles and Nancy Fox), on trust for APA Group securityholders.

<sup>2</sup> Refer to the section of this statement entitled "Principle 1: Lay solid foundations for management and oversight" for a description of the Fund Manager's role.

the full Board, and the Board considers the efficient handling of those matters is not diminished by the absence of a nomination committee.

The Board considers that a diverse range of skills, experience and backgrounds is required on the Board to effectively govern the business. It determines and reviews from time to time the mix of skills and diversity that it looks to achieve in its membership. Having regard to the nature of the Fund's business, that mix includes financial, strategic, operational, legal and general commercial expertise.

When looking to appoint a new director, the Board determines the skills and experience required of candidates for the role to ensure that the required mix of skills and experience will be represented on the Board and, based on that work, identifies a list of potential candidates believed to satisfy those requirements.

If the Board is not satisfied with the quality or diversity of the candidates identified in that process, it may consider it appropriate to instruct a search firm to identify additional suitable candidates. The Board recognises that an experienced search firm with a clear brief from the Board as to the required characteristics of candidates can assist in identifying potentially suitable candidates from diverse backgrounds.

The Chairman conducts an initial interview of the short-listed candidates and, subject to them being available for and interested in the position, they are then interviewed by the other directors. The Board assesses potential candidates against the predefined requirements and also considers their qualifications, backgrounds and personal qualities, and appropriate background checks are undertaken in respect to a candidate before they are appointed as a director.

In the interest of gender diversity, the Board has determined that the short-listed candidates for an available Board position must include at least one qualified female candidate and, where a search firm is engaged, the Board will instruct them accordingly.

***Directors' access to records and information, Company Secretary, Fund Manager and professional advice***

Subject to normal privacy requirements, directors have access to the Responsible Entity's and the Fund's records and information, and to the Company Secretary and the Fund Manager.

The Board receives regular detailed reports on financial, commercial and operational aspects of the Fund's business and may request elaboration or explanation of those reports at any time. At the annual Board strategy review, directors are updated on industry developments, regulatory changes and other background information relevant to the Board's review of strategy.

The Board collectively and each director individually may seek independent professional advice at the Fund's expense to help them carry out their responsibilities. Prior approval of the Chairman is required, but this may not be unreasonably withheld.

## **Principle 3: Promote ethical and responsible decision-making**

### ***Code of conduct***

The Responsible Entity has adopted a code of conduct that applies to all directors, executives and other employees (although neither the Responsible Entity nor the Fund currently employs personnel), as well as contractors and consultants (including the Fund Manager). The code recognises that commitment to and a reputation for honesty, integrity and trust are essential elements of success and longevity in the business of the Fund. It deals with personal conduct; use and protection of Fund assets; confidential information and its protection; insider trading; customer service; conflicts of interest; gifts and entertainment, fraud, corruption and improper transactions; and the work environment. The code of conduct is published on the Fund's website and is supplemented by other policies, such as the securities trading policy referred to below.

### ***Securities trading policy***

The Fund's securities trading policy, published on its website, provides that directors and designated management personnel may buy or sell Fund securities during:

- the periods, each of one calendar month, starting on the second business day after each of three events, namely the release to ASX of the half year and full year results and the Fund's annual meeting of securityholders, if such a meeting is held; and
- such other times as the Board permits,

unless exceptional circumstances apply. Directors are precluded from buying or selling securities at any time if they are aware of any price-sensitive information which has not been made public.

## **Principle 4: Safeguard integrity in financial reporting**

### ***Audit Committee***

The Fund is a member of the S&P/ASX All Ordinaries Index and is therefore required by ASX Listing Rule 12.7 to have an Audit Committee.

The composition of the Audit Committee is determined in accordance with the following principles:

- the Committee will have at least three members;
- all members of the Committee will be non-executive directors and a majority of them will be independent; and
- the Committee Chairman cannot also be the Chairman of the Board.

As the Board comprises only three directors, all are members of the Audit Committee. Nancy Fox is the Chair of the Committee. The qualifications and experience of the Committee members can be found in the Directors' Report for the Reporting Period which is contained in the 2015 Annual Report.



The roles and responsibilities delegated to the Audit Committee are set out in the Committee's charter which is published on the Fund's website.

The Audit Committee is required by its charter to meet at least twice each year, to receive and consider the half-year and full year financial reports. The number of times it met during the Reporting Period, and the Committee members' attendance at those meetings, are set out in the directors' report for that period.

The external auditor and representatives of the Fund Manager attend Committee meetings at the discretion of the Committee. The Committee may also meet with the external auditor without representatives of the Fund Manager being present.

As the Committee comprises all three directors, there is normally no need for the Committee to report to the Board on the Committee's activities. An exception would arise if a meeting of the Committee was held by only two Committee members (which is the quorum for meetings required by the Committee's charter).

#### *Chief Executive Officer and Chief Financial Officer declaration*

In the course of approving the financial statements for the Reporting Period and the half year reporting period, the Board considers a written statement from the APA Group General Manager Corporate Development and APA Group General Manager Finance, who perform the chief executive function and the chief financial officer function respectively for the Fund, addressing Recommendation 4.2, to the effect that, to the best of their knowledge and belief, their declaration pursuant to section 295A of the Corporations Act 2001 (section 305 for the half year) (broadly, that the financial statements give a true and fair view in all material respects of the Fund's financial position and comply in all material respects with relevant accounting standards) is founded on a sound system of risk management and internal control which is operating effectively, based on the management framework adopted by the Responsible Entity.

For the financial year ended 30 June 2015, a declaration was made in accordance with section 295A of the Corporations Act 2001. An equivalent declaration was made for the half year ended 31 December 2014.

#### ***External auditor and their independence***

Apart from reviewing the integrity of the Fund's financial reporting, the Audit Committee receives reports from the external auditor, monitors their effectiveness and independence and makes recommendations to the Board on the appointment or replacement (subject to securityholders' approval, if applicable) of the auditor.

The external auditor appointment and independence policy (published on the Fund's website) documents the process for appointment of the auditor and for monitoring the auditor's independence. Pursuant to that policy, the lead partner and the review or concurring partner of the external auditor must be rotated at least every five years, followed by a two year minimum time out period during which they may not take part in the audit.

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

The Responsible Entity has adopted a continuous disclosure policy aimed at ensuring that information that a person could reasonably expect to have a material effect on the Fund's security price, whether the information is positive or negative, is announced to the market by release to ASX in accordance with the ASX Listing Rules and the *Corporations Act 2001*.

All ASX announcements are posted on the Fund's website as soon as reasonably possible after notification to ASX.

The continuous disclosure policy also addresses dealings with media, brokers and analysts, and the policy is published on the Fund's website.

## **Principle 6: Respect the rights of securityholders**

### ***Communications with securityholders***

The Responsible Entity aims to ensure the Fund's securityholders are informed of all significant developments affecting the Fund's state of affairs and business. Information is communicated to securityholders by a number of means, including the following:

- the interim (half yearly) report, the directors' commentary on that report and the annual report;
- announcements to ASX and media releases;
- the Fund's website which contains information about the Fund's business and copies of the reports, ASX and media releases, presentations and other communications referred to above;
- an annual information meeting for securityholders; and
- meetings with investors, brokers and analysts after release of the half year and annual results.

Securityholders may ask questions through the email link provided on the website, or directly to the Fund Manager by email, telephone or at meetings. Securityholders may also elect to receive the Fund's communications (including the annual report, distribution and annual tax statements and tax guides) electronically and can send communications to the Fund electronically.

### ***Investor relations program***

As the Fund comprises of two registered investment schemes, the Responsible Entity is not obliged to convene annual meetings of the Fund's securityholders. However, since its appointment in December 2008, the Responsible Entity has ensured an effective investor relations program through holding an annual information meeting for securityholders as well as investor briefings following the release of half year and full year results. The Responsible Entity intends to convene the next securityholder meeting in November 2015. Details of the meeting will be



provided to securityholders in September, and will be published on the Fund's website.

At the annual information meeting, the Chairman encourages questions from securityholders and seeks to ensure the meeting is managed to give securityholders an opportunity to participate. Securityholders are also encouraged to submit questions ahead of the meeting and the Responsible Entity endeavours to address as many of the frequently raised topics as is reasonably possible at the meeting.

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

### *Overseeing the risk management framework*

The Board is responsible for adopting and reviewing the Fund's approach to the identification, evaluation and management of risks that are material to the fulfilment of the Fund's business objectives and for approving and overseeing the risk management system. With the Board comprising only three directors, it has not delegated those matters to a Board risk committee and considers the efficient handling of those matters is not diminished by the absence of such a committee.

### *Risk management policy and framework*

The Board has adopted APA Group's risk management policy and framework and has delegated to the Fund Manager accountability for ensuring that a risk management system is established, implemented and maintained accordingly and, in consultation with APA Group's risk management personnel and relevant operational and other personnel, for:

- reviewing the measures of risk impact severity that underlies the identification of material risks, to ensure the measures remain current to the Fund's context;
- identifying material risks that may impact on the Fund's business plans and objectives and the development, implementation, performance and review of risk management plans. In doing so, consideration is given to both financial risk and non-financial risk, including operational, environmental, strategic, market-related, compliance and reputation risk;
- confirming the effectiveness of controls in management of risks within the defined appetite for retention of risk;
- collecting operational risk data and monitoring external factors, to facilitate monitoring of the Fund's risk profile; and
- reporting regularly to the Board on the risk profile and the implementation and effectiveness of risk management plans.

At least annually, the Fund Manager, in consultation with relevant operational and other personnel, reviews the Fund's risk register and the effectiveness of the internal controls used to manage or mitigate the identified risks, and subsequently reports to the Board on those matters. Management has reported to the Board during the Reporting Period on its assessment of the effectiveness of management of the Fund's material risks.

## *Internal Audit*

The Fund itself does not have an internal audit function, however the Fund Manager does have an independent internal audit function which it has outsourced.

The Board has determined that the Fund Manager's rolling, three-year internal audit plan provides independent appraisals of the adequacy and effectiveness of the Fund Manager's internal control systems that are used to support the Fund. In addition, for the processes and systems used by the Fund Manager to support the Fund, a management representation is provided to the Board for each six month period that advises:

- no material, adverse findings have been identified by audits conducted during the period of internal controls relevant to the integrity of the Fund's financial reporting;
- there are no material weaknesses or significant deficiencies in the design or implementation of internal controls over financial reporting which are reasonably likely to adversely affect the Fund's ability to record, process, summarise and report financial information;
- there were no changes in internal controls over financial reporting that occurred during the Financial Period that have materially affected, or are reasonably likely to materially affect, our financial reporting for the Fund;
- there is no fraud or alleged fraud involving the Fund, whether or not material, including, but not limited to (a) any fraud that involves management or other employees who have a significant role in the Fund's internal control over financial reporting or (b) any fraud involving employees, that could have an effect on the Financial Reports; and
- accounting procedures and practices have existed within the business during the Financial Period to ensure that, inter alia, all transactions have been captured, recorded, valued, authorised and reported correctly and accurately, and in a timely manner.

There have been no adverse issues reported under this management representation for the Reporting Period.

## *Economic, environmental and social sustainability risks.*

The Board assesses the potential economic, environmental and sustainability risks using the risk management policy and framework referred to above. The Directors' Report for the Reporting Period, which is contained in the 2015 Annual Report, provides details of key risks facing the Fund and how these are managed, including:

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|----------------|---|
| Economic risks | <ul style="list-style-type: none"><li>• Single asset</li><li>• Single revenue stream</li><li>• Volume risk</li><li>• Risks to ethane supply</li><li>• Single customer</li><li>• Ethane demand</li></ul> |
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Environmental risks	Compliance with environmental regulations – environmental management plans in place
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Social sustainability	No material exposure
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Please refer to the 2015 Annual Report for further details on the management of these risks.

## Principle 8: Remunerate fairly and responsibly

Principle 8 is not applicable to the Fund as an externally managed entity, however an alternative recommendation is provided for externally managed entities and the Board has disclosed against this.

### **Remuneration of key management personnel**

The Responsible Entity's directors are "key management personnel" for the purpose of Note 19 to the financial report for the Reporting Period and their directors' entitlements, comprising board fees and superannuation contributions, are shown in that note. The Responsible Entity pays the directors those amounts and is then reimbursed by the Fund, in accordance with the Trust's constitutions.

With APA Group providing fund management and administration services and other services as outlined in the section on Principle 1 in this statement, neither the Responsible Entity nor the Fund currently employs executives or other employees and no personnel, other than the directors of the Responsible Entity, are identified as “key management personnel” in the financial report for the Reporting Period.

The ASX Corporate Governance Council recommends companies clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives, but that recommendation is inapplicable in the circumstances described above.

## Remuneration Committees

The ASX Corporate Governance Council also recommends boards establish Remuneration Committees (noting this recommendation does not apply to externally managed entities). However, with the Board comprising only three directors, and with neither the Responsible Entity nor the Fund currently employing any personnel, the Board has determined a Remuneration Committee to be unnecessary.

### **No retirement benefits for directors**

There are no schemes or arrangements for payment of retirement benefits (other than superannuation contributions) to the directors of the Responsible Entity, nor equity-based remuneration schemes.

### **Fund Manager's fees**

The Fund Manager is entitled to certain fees for the provision of services to the Fund (as well as the reimbursement of costs) in accordance with the terms of the Management Services Agreement. Under that agreement, the Fund Manager is

entitled to a base fee of 0.5% per annum of the “Net Investment Value” of the Fund, calculated and paid monthly.

The “Net Investment Value” as at the end of a calendar month is the volume weighted average market capitalisation of the Fund on ASX over the calendar month:

- plus the total indebtedness of the Fund and any entities it owns directly or indirectly (excluding indebtedness as between the Fund and Fund-owned entities) at the end of the calendar month;
- plus total firm commitments as at the end of the calendar month to future investment by the Fund and any entities it owns directly or indirectly;
- less total uncommitted cash balances as at the end of the calendar month of the Fund and any entities it owns directly or indirectly, but excluding cash balances of operating or project vehicles owned by the Fund constituting normal working capital; and
- less the book value at the end of the calendar month of any assets of the Fund (and any entities it owns directly or indirectly) which are managed by third parties (excluding infrastructure operations and maintenance arrangements).

For the Reporting Period, the base fee was \$533,104.

Details about the services and the nature of fees under the Management Services Agreement were set out in the Fund’s 2006 Product Disclosure Statement, a copy of which is accessible from the Fund’s website.

### ***Responsible Entity’s fees and other matters***

Under the Trusts’ constitutions, the Responsible Entity is entitled to be paid a fee of 2% per annum of the value of the assets of the Fund without deducting liabilities, calculated monthly. The Responsible Entity is also entitled to reimbursement from the assets of the Fund for expenses incurred in the proper performance of its duties as responsible entity of the Fund.

Under a Fee Sharing Deed with the Fund Manager however, the Responsible Entity has agreed to waive all of its fees other than an aggregate sum of \$200,000 per year (adjusted for GST and input tax credits) provided the Fund Manager receives the fees it is due under the Management Services Agreement. For the year ended 30 June 2015, the total amount of such fees was \$200,000.

Pursuant to each Trust’s constitution:

- the Responsible Entity is not liable in contract, tort or otherwise to members for any loss suffered in any way relating to the Trust except to the extent that the *Corporations Act* imposes such liability;
- subject to the *Corporations Act*, the liability of the Responsible Entity to any person other than a member in respect of the Fund including any contracts entered into as trustee of the Trust or in relation to any assets of the Fund is

limited to the Responsible Entity's ability to be indemnified from the Fund's assets; and

the Responsible Entity is entitled to be indemnified out of the Fund's assets for any liability incurred by it in properly performing or exercising any of its powers or duties in relation to the Fund.