



AGL Concise Sustainability
Report 2008



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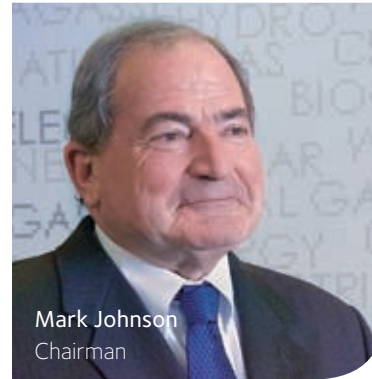
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This document is a printed summary of the complete AGL Sustainability Report. The full report is available on-line at: www.aglsustainability.com.au

AGL Energy Limited ABN 74 115 061 375

Our challenges

Message from the Chairman and Managing Director



Mark Johnson
Chairman

This 2007/08 Sustainability Report details AGL's performance over the last 12 months in managing our responsibilities to the environment, our customers, the community, and our employees. It also provides an overview of our economic performance during the year and the measurement and management of our greenhouse footprint. A key aspect of this report is the disclosure of our greenhouse footprint and the complex array of factors that contribute to it. Our greenhouse footprint is detailed on page 4 of this report.

We would like to take this opportunity to discuss some of the challenges that our organisation will continue to face.

Climate change initiatives

The Federal Government has released its Green Paper on the proposed emissions trading scheme, to be known as the Carbon Pollution Reduction Scheme (CPRS). Draft



Michael Fraser
Managing Director and CEO

legislation for the CPRS is expected by the end of 2008. The CPRS will have implications across the whole economy and is one of the most significant economic policies that Australia has seen.

Over the past five years we have been analysing our own greenhouse footprint, and assessing the likely impact on the company from relevant international and domestic policies relating to emissions trading and renewable energy development.

AGL has worked with both Federal and State governments in the shaping of Australia's policies on climate change. AGL supports the introduction of the CPRS and we will continue to assist the Federal Government in designing features of the CPRS ahead of its formal implementation in 2010.

Managing business risks and opportunities within the carbon

constrained economy of the future is one of the major challenges faced by industry, and the whole community. One of the immediate challenges for industry is to determine the cost of carbon permits under the CPRS. AGL has taken a leading role in establishing a market for carbon permits by entering into Australia's first carbon trade in May 2008, more than two years ahead of the planned commencement of the CPRS. We are directing resources to consolidate our existing carbon trading activities to capture the value in our zero and low emission generation assets.

AGL currently manages the largest privately-owned and operated portfolio of renewable generation facilities in Australia. AGL's owned, operated and controlled renewable energy generation assets currently comprise around 27% of our generation portfolio (by installed capacity), and we continue to invest in renewable energy and low-emission generation projects in preparation for a carbon constrained future. These projects will enable us to benefit under the Federal Government's proposed expanded Renewable Energy Target (RET). The expanded RET proposes that, by 2020, 20% of Australia's electricity be supplied from renewable energy sources.

We will continue to manage changes in our greenhouse footprint as we

develop electricity generation assets and upstream gas supply projects to meet Australia's energy needs. Our total greenhouse footprint has increased sixfold this year due to the inclusion of the gas-fired Torrens Island Power Station, which we acquired in July 2007.

Although our total greenhouse footprint has increased, it is also important to consider the greenhouse intensity of assets managed and invested in by the company. The greenhouse intensity of assets is a measure of the level of emissions of greenhouse gases for each MWh of electricity generated by the assets. We have continued to lower the greenhouse intensity of our electricity output with increased investment in low-emission and renewable energy generation capacity.

This year, the greenhouse intensity of AGL's owned, operated or controlled generation (including our equity share from Loy Yang Power) has decreased by 14% from 0.99 tCO₂e/MWh in 2006/07 to 0.85 tCO₂e/MWh.

Developing world class customer service

AGL is Australia's largest energy retailer with more than 3.2 million customer accounts. We are continuing to build our competitive capability through the ongoing roll-out of the Phoenix change program. This four

year business transformation program commenced in 2006 and involves the standardisation and simplification of our systems and processes to provide our employees with the tools they require to meet our customers' needs. Phoenix will see the full replacement of multiple billing and customer management systems with a single billing and customer management system using a SAP platform.

More than 1.6 million customer accounts were transferred to the new SAP platform this year, and the final transfer will take place by 31 December 2008.

AGL's Retail Energy teams have been reorganised as part of the Phoenix program to provide enhanced service to our residential and small business customers.

Project Phoenix is on track and delivering early benefits. However, maintaining high customer service standards during this transition period was challenging. We experienced an increase in customer complaints in the first few weeks following the first transfer of customers on to the new SAP platform and worked hard to rectify these issues quickly.

As a result of Project Phoenix, our customers should experience

improved standards of service at a lower cost to the company.

The safety of our employees

The safety and wellbeing of our employees is a paramount concern for AGL management and the AGL Board, particularly as we increase our interests in the construction and operation of electricity generation assets and upstream gas activities.

Our Lost Time Injury Frequency Rate (LTIFR) decreased from 5.0 to 3.6 this year, an indication of a reduction in the overall number of work related injuries. However, the medical treatment injury frequency rate and average duration of lost time injuries both increased during the period. Contributing to this were stress-related injuries in our retail business, the result of significant activity around new process and systems roll outs.

During the year, the Torrens Island Power Station celebrated its eighth year without a lost time injury. This is an achievement that all employees at Torrens Island should be proud of.

The AGL Board has also established a separate Board Committee – the Safety, Sustainability and Corporate Responsibility Committee – to provide additional Board oversight of a number of matters including the company's occupational health and safety management framework.

Engaging our employees

We believe that there is a direct correlation between the level of engagement of our employees and achievement of the company's operational, customer service, and financial objectives. AGL regularly surveys its employees to measure levels of employee engagement.

During 2007/08, our employee engagement rating improved and, although encouraging, there remains opportunity for further improvement. During 2008/09 we will continue to develop our programs to further increase employee engagement.

Engaging with the local community

Our engagement with the local communities in which we operate has always been a priority for AGL and has become even more important as we increase our electricity generation assets and upstream gas supply activities. We have a responsibility to work with the community to develop mutually beneficial outcomes and to manage sensitively the environmental aspects of our projects.

During 2007/08, AGL engaged with local communities regarding major developments in a number of areas including the Hallett and Burra regions in South Australia and the Mount Beauty/Bogong area of Victoria. In November 2007, the Victorian Premier, Hon John Brumby MP, and

the Minister for Energy, Hon Peter Batchelor MP, visited the Bogong site and hosted media and local community representatives on a tour of the site. In June 2008, the South Australian Premier, Hon Mike Rann MP, officially opened the Hallett Wind Farm in South Australia. Local community representatives attended both of these events.

This report documents how we have met the various challenges we faced during 2007/08. We welcome your views on this report and on our performance through the feedback mechanisms listed inside the back cover of this report.

Mark Johnson
Chairman

Michael Fraser
Managing Director and CEO

About AGL

AGL is Australia's largest integrated renewable energy company and is taking action toward creating a sustainable energy future for our investors, our customers and the community. Drawing on over 170 years of experience, AGL operates retail and merchant energy businesses, power generation assets and an upstream gas portfolio. AGL has Australia's largest retail energy and dual fuel customer base.

AGL has a diverse power generation portfolio, and is Australia's largest private owner and operator of

renewable energy assets. We are looking to further expand this position by exploring a suite of low emission and renewable energy generation development opportunities.

AGL Retail Energy

AGL sells electricity and natural gas to approximately 3.22 million residential, small business and commercial customer accounts in Queensland, New South Wales, Victoria and South Australia.

AGL Merchant Energy

Merchant Energy is responsible for

the management of AGL's power generation assets as well as our wholesale gas and electricity trading portfolios. Merchant Energy manages energy sales to our major customers and other retailers, and provides energy efficiency and carbon management services.

AGL's power generation portfolio includes base, peaking and intermediate generation plants spread across traditional thermal (gas and coal) as well as renewable sources (including hydro, wind, landfill gas and biogas). AGL's owned, operated or controlled renewable energy

generation assets comprise around 27% of our generation portfolio (by installed capacity).

AGL Gas and Power Development

Gas and Power Development is responsible for growing AGL's upstream gas and electricity generation portfolios to ensure long-term, sustainable and market competitive energy supplies for our customers.

Projects under construction in 2007/08 included two wind farms near Hallett in South Australia, the Bogong (hydro) Power Development Project in Victoria and the Berwyndale to Wallumbilla Pipeline in Queensland.

The investments that make up AGL's upstream gas portfolio include joint ventures with Sydney Gas in the Camden Gas Project (50%) and the Hunter Gas Project (50%), joint ventures with Arrow Energy in the Moranbah Gas Project (50%) and the Moranbah Exploration Project (50%), and equity stakes in the Queensland Gas Company (24.9%) and CSM Energy (35%). Of these, only the Camden Gas Project is operated by AGL.

Since the end of this reporting period, AGL acquired a 9.99% cornerstone investment in Torrens Energy Limited to commercialise base load geothermal projects. In July 2008, the company also announced a



In 2008 AGL officially launched Stage 1 of the Hallett wind farm in South Australia

\$37 million investment in a coal seam gas production pilot as well as an exploration and appraisal program with Galilee Energy Limited in Queensland's Galilee Basin.

Energy Investments

AGL has maintained a diversified range of energy investments in generation, retail and energy related businesses. At 30 June 2008 these businesses comprised ActewAGL (50%), Elgas (50%), HC Extractions (100%) and Loy Yang Power (32.5%). Additionally, AGL has joint venture interests in two oil field production development licences (7.9% and 37.9%) in Papua New Guinea (currently undergoing sale process). In May 2008, AGL sold its GasValpo interest in Chile, and in June 2008 announced the sale of its interest in the North Queensland Gas Pipeline. AGL sold its interest in AlintaAGL in December 2007, and subsequent to 30 June 2008, AGL also sold its interest in Elgas and Queensland Gas Company Limited.

Our business strategy and sustainability

Our vision is to be a world-class, customer focused energy company. To achieve this vision we focus on:

- > Developing market leadership in renewable energy to deliver benefits

under a carbon constrained future;

- > Growing our power and gas generation portfolios;
- > Leveraging our leading retail position to capture value and growth opportunities;
- > Driving retail economies of scale while enhancing our customer service capability; and
- > Leading change that delivers outstanding results through our people.

At AGL, sustainability is the proactive management of environmental, social and economic challenges and opportunities to enhance the long-term value of our business.

In 2007/08, we worked toward delivering our sustainability strategy by concentrating on four strategic bodies of work:

- > Managing the environmental impacts of supplying energy to our customers and structuring our portfolio for a carbon constrained future;
- > Delivering improved service and value to our customers, and ensuring equitable access to energy for vulnerable customers;

- > Developing the skills and talents of our employees; and
- > Engaging with the communities in which we work and operate.

About this report

We publish an annual Sustainability Report so that our stakeholders – our customers, investors, employees and the community – can gain the best possible understanding of the key social, environmental and economic challenges and opportunities we face, and the steps we are taking to address these.

This document is a printed summary of the 2007/08 AGL Sustainability Report (the report). The full report is available on-line at www.aglsustainability.com.au.

The report covers the performance of AGL Energy Limited (the parent company, and its wholly owned Australian subsidiaries) and the activities and facilities over which AGL had operational control for all, or part, of the year ended 30 June 2008. Together, the Sustainability Report and the 2007/08 Annual Report provide the full account of AGL's performance for the period.

In preparing this report, we were guided by the Global Reporting Initiative's (GRI)

'G3' Sustainability Reporting Guidelines, as well as the GRI Electric Utility Sector Supplement (Pilot). We also sought specific comment on the scope and content of this report from the AGL Customer Council.

NetBalance Management Group provided independent assurance over the materiality, completeness and responsiveness of data and statements in the full on-line report using the AA1000 Assurance Standard, and ERM Australia Pty Limited (ERM) conducted a limited assurance engagement over selected greenhouse emission data.

3.22m

Customer accounts

27%

Renewable generation

14,640 GWh

electricity

1,945

Employees

79%

Renewable and low intensity generation

61.4 PJ gas

Energy sold (mass market)

21,913 GWh

electricity

3,517 MW

Installed generation capacity

38.6 PJ gas

Gas sold (wholesale)

94.7 PJ gas

Energy sold (C+I)

799 PJ gas

equity ownership
Upstream gas

37.3 PJ gas

Gas utilised internally for generation

For more information about AGL's operations and this report visit www.aglsustainability.com.au/aboutAGL

Greenhouse

AGL uses three different approaches to explain our greenhouse footprint

AGL aims to provide leadership in greenhouse gas reduction by reducing the greenhouse gas intensity of energy across the supply chain throughout the economy.

As Australia's largest energy retailer, we have continually advocated policies that deliver increased clean energy production and lower greenhouse gas emissions.

We are committed to:

- > Incorporating a forecast of future carbon pricing into all major business decisions;
- > Publishing information about AGL's greenhouse gas impacts;
- > Benchmarking our performance (both using our supply chain intensity and our own generation intensity) against the overall

industry; and

- > Working with our stakeholders to better understand our options for reducing greenhouse gas emissions.

2007/08 was a year where we further underlined our position in the market as Australia's largest private owner and operator of renewable energy assets. By the end of the period, 79% of AGL's generating capacity¹ was low² or zero emission.

Emissions trading

In May 2008, AGL entered into the

first forward trade of an Australian Emissions Unit (AEU), the currency of the proposed Carbon Pollution Reduction Scheme. AGL is facilitating market liquidity (ahead of the formal introduction of the scheme in 2010), by buying and selling forward vintages of AEU's. In parallel, AGL continues to participate in the NSW Greenhouse Gas Abatement Scheme, the Queensland 13% Gas Scheme, the Renewable Energy Target, GreenPower™, emerging energy efficiency trading schemes, as well as the international Chicago Climate Change (CCX)^{®3}.

Greenhouse footprint

In accordance with global industry best practice, AGL uses three

approaches to measure and explain the annual greenhouse gas impact of our business; our Operational Footprint, our Equity Footprint and our Energy Supply Footprint.

Operational Footprint: Greenhouse emissions resulting from AGL operations increased significantly during 2007/08⁴, largely due to the acquisition of the Torrens Island Power Station. We will continue to manage changes in our greenhouse footprint as we develop new low-emission electricity generation assets and upstream gas supply projects to meet Australia's energy needs.

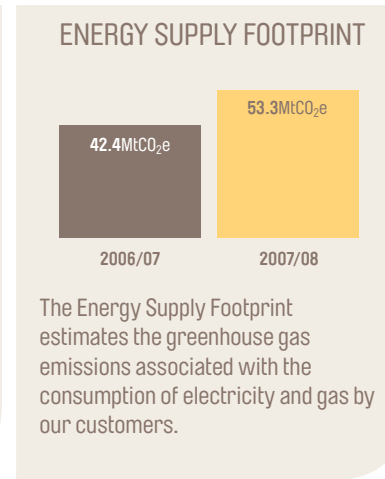
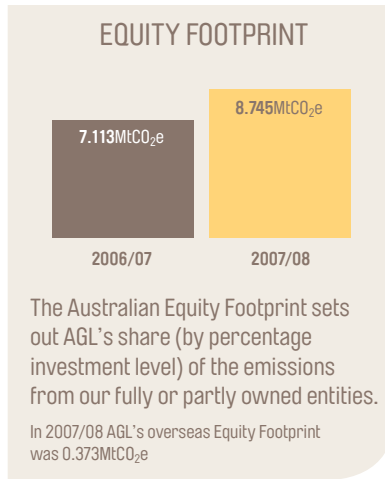
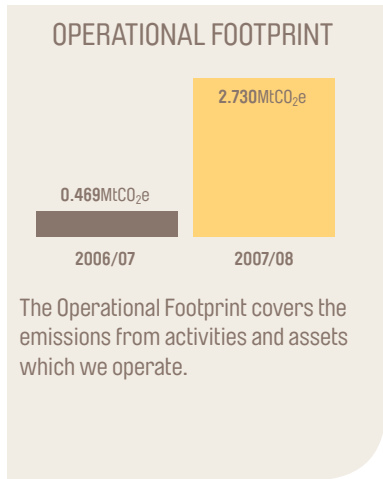
Equity Footprint: Greenhouse gas emissions from AGL's Australian equity interests increased to 8.745 Mt CO₂e, the result of including Torrens Island Power Station in the Equity Footprint.

Energy Supply Footprint: Emissions from AGL's supply of gas and electricity to our customers were higher than in 2006/07 due to greater gas and electricity sales. The estimated greenhouse intensity of electricity sold was lower than for 2006/07, partly due to an increase in gas-fired generation from Torrens Island, Oakey and Yabulu power stations.

Generation intensity

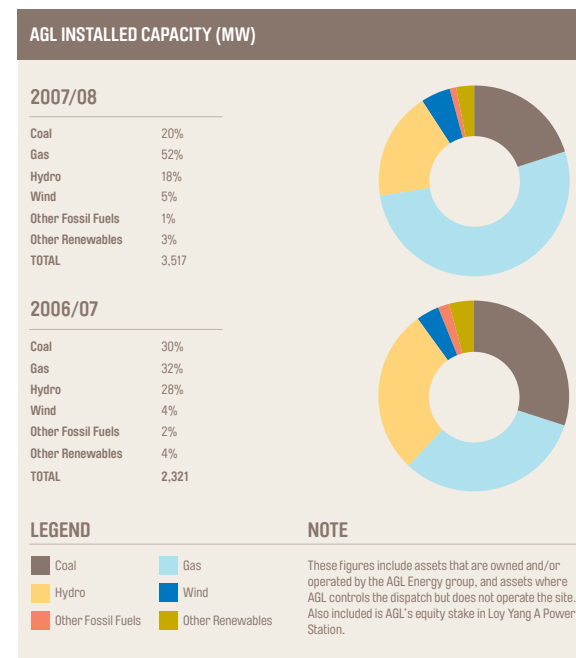
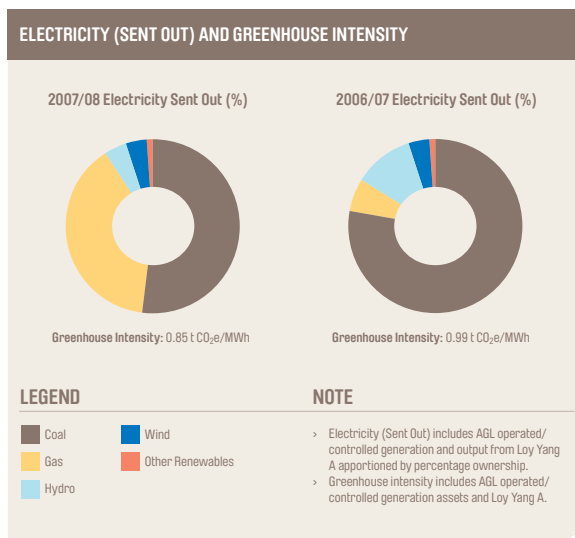
We also measure the greenhouse

performance of electricity generation assets where the company owns, partly owns or controls the electricity dispatch using a measure of greenhouse intensity per unit of output. This decreased by 14% from 2006/07, from the addition of the Torrens Island, Oakey and Yabulu gas-fired power stations to our generation portfolio. As we add more low or zero emission generation capacity, the overall greenhouse intensity of our portfolio will decrease.



HIGHLIGHTS OF 2007/08

- > Continuing to expand Australia's largest privately owned and operated renewable energy generation portfolio.
- > Completing and commissioning the 94.5 MW Hallett (Stage 1) Wind Farm, and continuing to construct the Bogong 140 MW hydro expansion and the Hallett (Stage 2) 71 MW wind farm.
- > Entering into the first trade of an Australian Emissions Unit (AEU) under the proposed Carbon Pollution Reduction Scheme (CPRS), setting a price for carbon for the Australian market.
- > Continuing to trade carbon internationally through the Chicago Climate Exchange.
- > Being the first Australian company to publicly disclose the potential financial impacts on our business associated with a future Australian emissions trading scheme.
- > Assisting with an engineering study at the Loy Yang A power station considering deployment of carbon capture and storage technology.



¹These figures include assets that are owned and/or operated by the AGL Energy Group, and assets where AGL controls the dispatch but does not operate the site, namely Oakey and Yabulu gas fired power stations and the Angaston diesel generator. Also included is AGL's equity stake in the Loy Yang A power station.

²Low emission includes gas-fired and renewable generation.

³CCX is a trade mark of Chicago Climate Exchange, Inc.

⁴Operational Footprint, Equity Footprint and Supply Footprint emissions for 2006/07 have been recalculated in line with the reporting boundary described in the full report.

For more information about AGL's greenhouse performance, visit www.aglsustainability.com.au/greenhouse

Environmental management

AGL aims to achieve excellence in environmental management and performance.

AGL is acutely aware that its operations can impact the environment in a variety of ways. We assess the direct impact of our business on the environment in two main areas: the renewable and non-renewable resources that are inputs to our business; and the products, wastes and emissions (including greenhouse gas emissions) that are its outputs. AGL aims to minimise our impact on the environment from both inputs and outputs, while maintaining sustainable growth for our business.

AGL has established a set of overarching principles which define how we manage and measure our impact on the environment.

We have three strategies designed to meet these principles:

- > Strengthen and maintain the environmental aspects of our HSE management system;
- > Improve our people's capabilities in environmental management; and

- > Monitor and manage our impact on land, air and water.

HSE management system

Life Guard is AGL's health, safety and environmental (HSE) management system and incorporates all elements of the international standard for environmental management systems, ISO14001. It comprises a framework of policies, guidelines and management practices for continuous improvement in health, safety and environmental performance.

During the year we acquired two

significant assets, the Torrens Island Power Station and the North Queensland Gas Pipeline. Both of these operations were audited against the requirements of Life Guard for integration purposes. The newly acquired Torrens Island Power Station is certified to international environmental management system standard ISO14001.


Environmental management training

In 2007/08 we refocused on our HSE management training program. Training time increased from 1,160 hours to 4,265 hours, with the average time spent in environmental training per person increasing from 0.7 training hours per person in 2006/07 to 2.2 hours per person in 2007/08.

AGL's impact on land, air and water

Monitoring and managing the environmental impacts of all our activities is ongoing. Detailed environmental performance data (including water consumption, air emissions, and licence compliance details) for the facilities that we operate is available in our full on-line report.

AGL had a total of 16 environmental incidents recorded in our corporate incident reporting system during 2007/08. The majority of the



Construction of the Bogong Hydro development continues and is scheduled for completion in the second half of 2009

incidents comprised minor oil spills. None of the incidents resulted in any penalty infringement notice or fine.

The most significant incident occurred in February 2008 at the Eildon Regulating Pondage in Victoria, when a control system fault allowed one of the discharge gates to open, resulting in an uncontrolled discharge into the Goulburn River. The river height increased immediately downstream, causing flooding and some damage to low lying properties immediately adjacent to the river. AGL is compensating property owners for damage caused by the flooding.

A full assessment of the area by the Broken-Goulburn Catchment Management Authority was undertaken. To prevent a recurrence, the gate control system is currently being controlled manually until a new control system is installed (expected to be completed by the end of 2008).

AGL ENVIRONMENTAL PRINCIPLES

- > AGL will meet or better statutory obligations and relevant codes of conduct;

- > AGL's environmental performance reporting will be consistent with recognised standards established by independent performance rating agencies;

- > AGL will provide leadership and actively participate in policy debates on energy and environmental matters. We will engage with government, within the industry and with the community, our people and other stakeholders about how to achieve sustainable development in the energy sector;

- > AGL will reduce risk and minimise our environmental impact, by integrating considerations of environmental sustainability in all activities;

- > Consistent with business objectives, AGL will work in consultation with its external stakeholders to improve greenhouse gas emission outcomes;

- > AGL will provide customers with products and services that deliver environmentally sustainable solutions;

- > AGL will require all its businesses to promote and demonstrate the efficient use of energy, minimisation of waste and recycling of materials;

- > Contractors and supply chains are expected to demonstrate consistency with AGL's approach by fulfilling their environmental responsibilities;

- > AGL's employees are encouraged to contribute to improving the Company's environmental performance;

- > AGL will consult with its stakeholders about how best to achieve its environmental objectives; and

- > AGL will assess the potential environmental impacts of all its acquisitions.

HIGHLIGHTS OF 2007/08

- > Offsetting the greenhouse emissions associated with our office electricity use and vehicle fleet. We purchased AGL Green Energy™ (100% accredited GreenPower), AGL Green Balance™ (certified Greenhouse Friendly) and Greenhouse Friendly certified abatement.
- > Using GreenTomato cars for our executive work trips within Sydney. GreenTomato cars use a fleet made up exclusively of the Toyota Prius, one of the most viable environmentally friendly cars on the market.



Sydney's Serendipity Ice Cream is one of AGL's 100% GreenPower™ customers

Customers

Operational Excellence is the operating strategy adopted by AGL to enable us to deliver better, more responsive service to our customers.

For AGL, Operational Excellence is the standardisation and simplification of both our systems and processes to enable our employees to better service our customers.

Over the past two years, we have been conducting a wide-ranging overhaul of our business processes which will allow us to streamline customer transactions. The centrepiece of this work has been the Project Phoenix program which involves the full replacement of the multiple legacy IT systems used to manage and service our retail customers through the development of a single customer management and billing system.

During 2007/08, we have transferred more than 1.6 million customers to our new system, with the balance of our customers expected to be transferred over the next 12 months. There were some negative impacts on customer service for a short period immediately following the transfers of customers on to the new system, including billing problems and delayed invoicing.

Customer service

During the year there was an increase in the overall number of Ombudsmen cases. This was due to the addition of the Queensland Ombudsman scheme into our overall statistics from July

2007, and problems with managing the volume of calls in our Victorian contact centre following the transfer of our Victorian customers to our new system. To assist in handling increased customer call volumes, we have doubled contact centre staffing levels during customer transfer periods and implemented improved training programs for our frontline employees.

AGL has partnered with benchmarking company Global Reviews to evaluate our call centres against a best practice model for service delivery. The company also increased the average contact centre service level so that 78% of all calls were answered within 30 seconds, up from 72% in the previous year.

Helping customers make choices for their home and environment.

AGL has three accredited GreenPower™¹ products available to residential customers. For a renewable energy product to gain endorsement from the GreenPower program it must be generated from a new renewable energy facility that was built since January 1997. AGL's products enable customers to choose the proportion of accredited GreenPower they wish to pay for: 10%, 20% or 100%. We then supply the electricity grid with energy generated from GreenPower approved renewable sources.

For our major industrial and commercial customers, we also offer AGL Green Balance™, certified by the Department of Climate Change under the Greenhouse Friendly™² initiative. Customers who purchase AGL Green Balance™ have their emissions from electricity consumption "offset" through landfill gas flaring activities financed by AGL.

During 2007/08 we launched a carbon calculator to help customers calculate their greenhouse emissions and take steps to reduce these emissions. We also developed the AGL Energy Challenger, an on-line energy efficiency tool that is available to all AGL business customers.

Responsible sales and marketing

The reputation of energy retailers has been affected by tactics

deployed by some telesalespeople and doorknockers encouraging customers to switch energy providers. AGL insists on stringent training and testing procedures being incorporated into arrangements with our third party sales providers. We also use a separate validation team for door to door selling, who speak to the customer to confirm that they have received and understood the necessary information about the contract.

We continue to participate in the Retailer Round Table Forum – a voluntary group of industry representatives formed to address the increase in misleading and deceptive sales practices within the Australian energy market. The forum has helped to reduce the time and cost of responding to reported instances of misleading and deceptive sales conduct, by introducing effective resolution processes. AGL has endorsed a voluntary code of conduct that provides standards for ethical sales and marketing behaviour in our industry.

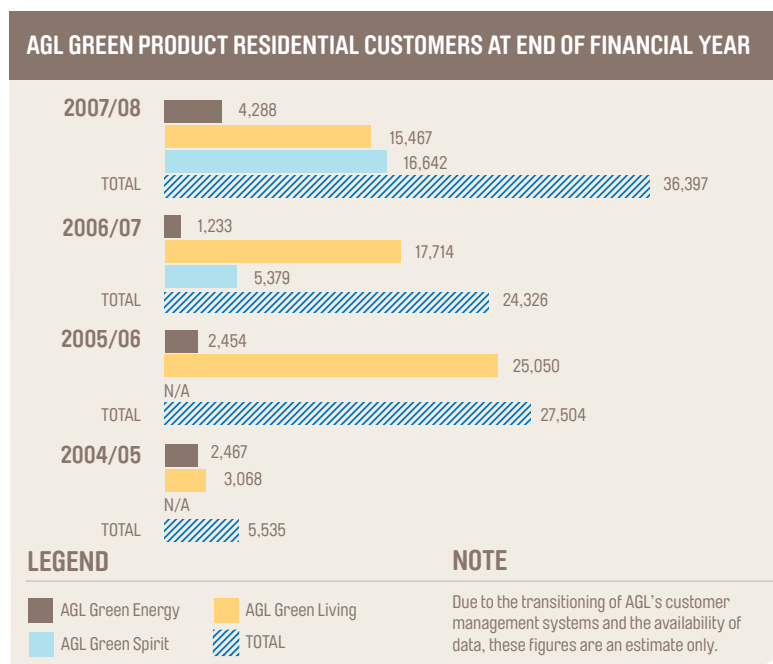
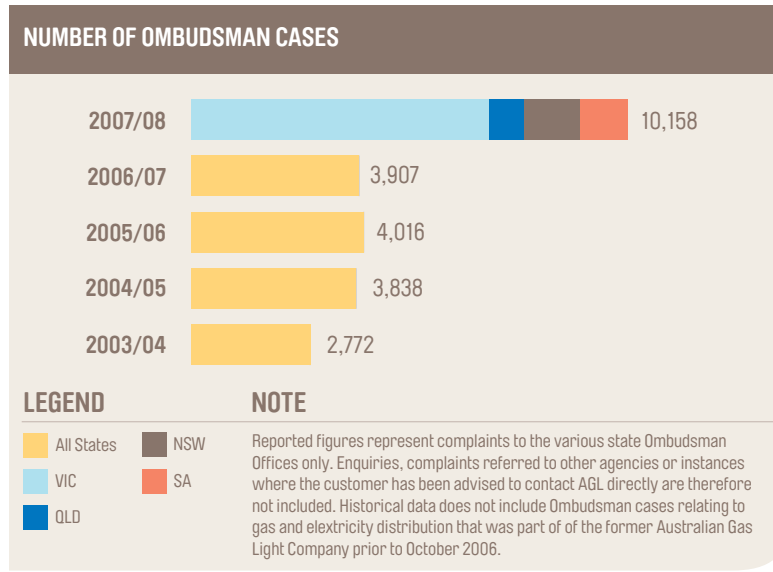
Staying Connected

Ensuring access to essential services for vulnerable customers is a critical issue for all energy retailers. Staying Connected, AGL's national hardship program, is our commitment to assist customers who may be experiencing short or long-term financial difficulty. AGL ensures access to energy, tailors payment plans, and offers advice to help manage energy use.

AGL trains contact centre employees to identify customers who are experiencing difficulty with their energy bills before the bills become unmanageable. In partnership with Kildonan Uniting Care, we are participating in community information sessions for support workers and community groups. Through Kildonan, customers are able to participate in home energy audits. We provide these customers with energy efficient light globes, draught stoppers and water saving showerheads, and have assisted a number of customers by donating new appliances to replace inefficient or defective ones.

¹GreenPower is a trade mark of the State of New South Wales Department of Water and Energy.

²Greenhouse Friendly is a trade mark of the Commonwealth of Australia, as represented by the Department of Climate Change.



HIGHLIGHTS OF 2007/08

- > Increasing the average service level for our contact centre, with 78% of all calls answered within 30 seconds.
- > Rolling out customer service benchmarking to evaluate our call centres against a best practice model for service delivery.
- > Remaining a participant in the Retailer Round Table Forum – a voluntary group of industry representatives formed to address the increase in misleading and deceptive sales practices within the Australian energy market.
- > Increasing the number of Staying Connected customers by 18% as part of our hardship program, and making donations of approximately \$42,000 for energy saving devices and materials.
- > Increasing our residential sales of GreenPower accredited products by nearly 50%, and launching an online carbon calculator to help our residential customers calculate their greenhouse emissions.

For more information about AGL and our customers, visit www.aglsustainability.com.au/customers

Employees

AGL aims to engage employees to grow their skills and develop their careers in ways that support the business and deliver outstanding business results.

Delivering a safe, fair and equitable working environment

Keeping our employees safe

Providing a safe and injury free workplace is a fundamental priority. Our Lost Time Injury Frequency Rate (LTIFR) decreased from 5.0 to 3.6 this year, an indication of a reduction in the overall number of work related injuries.

The medical treatment injury frequency rate and duration rate both increased during the period. Contributing to

this were stress-related injuries in our retail business, the result of significant activity around new process and systems roll-outs.

Fair treatment for all employees

AGL complies with all legislation regarding human rights in areas including diversity, discrimination, freedom of association, child labour, layoffs and health, safety and environment. We support, in principle, the United Nations Global Compact on human rights for businesses.

The AGL Code of Conduct provides the foundation for our expectations of the behaviour of everyone at AGL, from Board Director to newest employee.

AGL's Fair Treatment policy recognises the right of all employees to have equitable access to opportunities and benefits, irrespective of age, gender, background, culture, religious beliefs or sexual orientation. This year we continued the delivery of Fair Treatment workshops to every AGL leader.

The Diversity Support Line, an independently operated support service, offers confidential access to

employees experiencing or wishing to raise incidents of bullying, harassment or discrimination. Twelve issues were raised through the Diversity Support Line during the year. Of these, eight required further action to resolve the issues raised.

We maintain professional working relationships with unions, understanding that these relationships are fundamental to the achievement of our business goals, as well as a right for employees. During 2007/08 no work time was lost due to industrial disputes.

Achieving a high performance culture across AGL

Employee engagement

We invited all employees to respond to the Hewitt Engagement Survey* in May 2007, and then again in June 2008. The results of the 2007 survey indicated that there were several areas in which our people were seeking a better employment experience, including improved tools and systems to do their jobs, and a better understanding of career development at AGL.

As a result of this feedback, we have clearly defined AGL's corporate goals and communicated them to every employee. We are working to improve our support structures and business tools to provide a fulfilling work environment for each employee. Central to this are programs for rewarding great performance and acknowledging contributions.



On the 30 May 2008, Torrens Island Power Station celebrated 3000 days since a Lost Time Injury was recorded

The overall score of our 2008 Engagement survey showed a 31.5% increase in employee engagement over the previous year, which we have interpreted as a strong endorsement of our approach. The result still falls short of “best employers” as defined by Hewitt and we will continue our focus on developing our employee engagement programs.

“The Hewitt Engagement Survey is an independent human resources tool used to measure the degree to which employees are willing to take measures to improve the business results, focusing on the individual’s behaviours.

Leaders at AGL

Leaders play a critical role in shaping and driving a high performance culture and significant focus has been given this year to redefining the links between leader behaviour and performance. In 2007/08 we launched the AGL Leadership Capabilities Framework, a program to develop our leaders’ skills, and commenced 360° performance reviews for senior leaders. Additionally, we have piloted a Leadership Foundations workshop for inducting new leaders and partnered with Deloitte to launch the Deloitte Leadership Academy on-line tool for senior leaders.

Attracting and retaining skilled employees

Attracting and retaining the right people for our business depends on us being

creative and innovative in how we recruit, and providing workplace conditions and benefits which engage our employees.

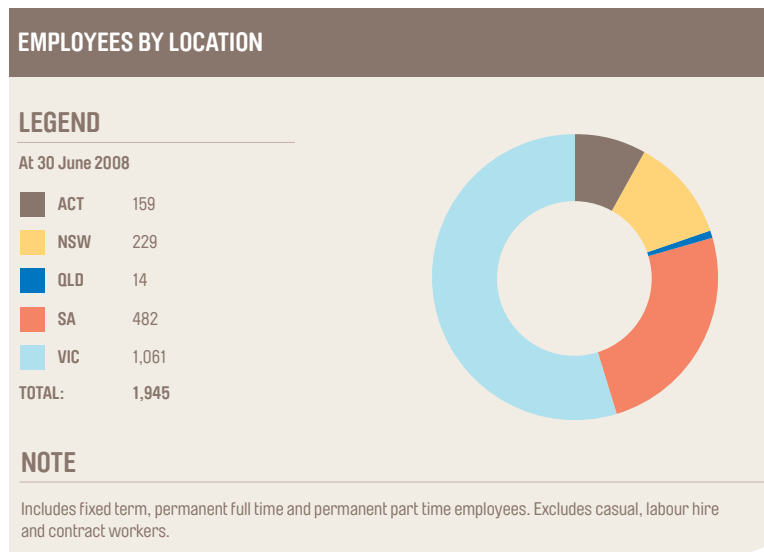
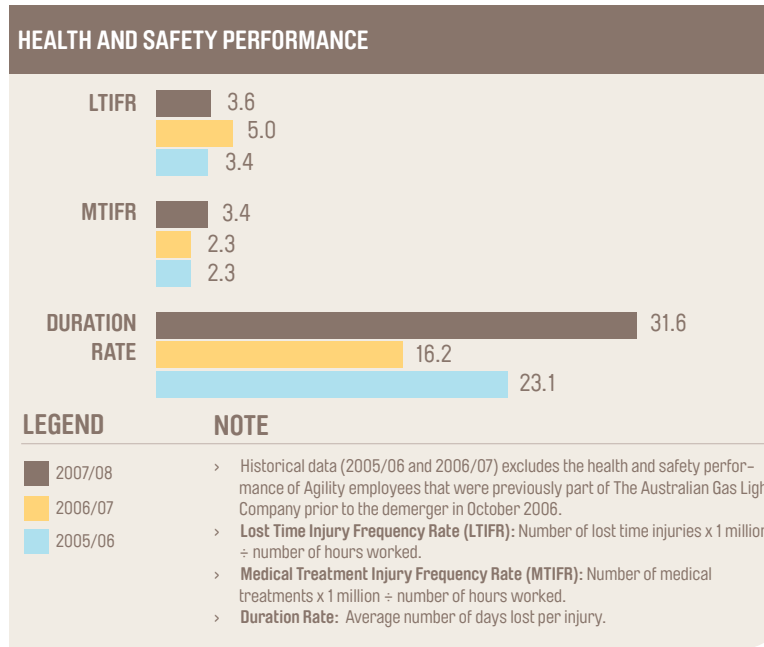
Benefits offered to our employees include up to two years salary continuance income protection, 12 weeks paid maternity leave and five days paid paternity leave, discounted health insurance, an education assistance program and a 25% discount on AGL gas and electricity.

Voluntary turnover for the year was 19%, driven largely by our contact centres where we have a large employee base.

AGL’s current levels of representation of women in leadership roles does not reflect our overall workforce profile. In the coming year, we plan to reintroduce our Women in Leadership program to increase the number of women promoted to leadership positions within the Company.

Remuneration

Defining business expectations and recognising and rewarding performance and contribution is critical to achieving the goals and targets we set. During the year, we developed a streamlined on-line remuneration review process, and delivered workshops to leaders on our remuneration strategy and performance assessment processes. We also completed a review of the amount and structure of remuneration paid to employees in key positions to ensure they were in line with market rates.




HIGHLIGHTS OF 2007/08

- > Reintroducing “Look Think Act” – a simple three step safety tool to help employees take personal ownership for their own safety.
- > Designing a new streamlined and standardised Performance and Development Review system to manage and improve the performance of all employees.
- > Delivering Life Guard, Fair Treatment and Emotional Wellbeing training workshops for all leaders.
- > Launching the AGL Leadership Capabilities Framework, Deloitte Leadership Academy and pilot 360° feedback program to develop senior leaders, and introducing a “Leadership Foundations” workshop to induct new AGL leaders.

For more information about AGL and our employees, visit www.aglsustainability.com.au/employees

Community



AGL is supporting a wildlife rehabilitation facility at Torrens Island Power Station

AGL aims to connect its business and employees with the community in ways which make a genuine contribution, engage our people and strengthen our business.

AGL Energy for Life

For nearly five years, AGL's community program, AGL Energy for Life, has reflected a commitment to make a difference in the communities in which we live and work. It seeks to utilise our employees' skills, expertise and energy. Our Energy for Life program assists homeless and vulnerable Australians through the implementation of four initiatives – Warmth in Winter, Energy Matters, Volunteering and Employee Giving.

Warmth in Winter: Warmth in Winter supports services that provide emergency and short-term shelter for homeless Australians, by funding

a proportion of their winter energy bill. Our support for these agencies frees up valuable funds that can be redirected to services to directly assist their clients. This year we contributed to the energy bill of more than 250 services, funding the equivalent of 145,553 warm winter nights for homeless Australians.

Employee Giving: AGL's Employee Giving Program supports 18 charities, each one representing a cause chosen by employees. Employee donations are matched dollar for dollar by AGL (up to an annual maximum of \$200,000). During 2007/08, AGL and

its employees donated over \$93,000 to our Employee Giving charities.

Volunteering: AGL's volunteering program makes paid volunteering leave available to employees to volunteer for a cause of their choice. During 2007/08, AGL employees have provided more than 680 hours of volunteering services, conservatively valued at over \$23,000. Employees are encouraged to find ways to match their professional skills and experiences with causes that need assistance, like the team at Torrens Island Power Station, who used their skills as electricians to install power

and lighting for SA Seabird Rescue in South Australia.

Energy Matters: As part of our goal to pursue initiatives that deliver sustainable change, this year we partnered with CarbonetIX to provide energy assessments for 12 emergency accommodation services in metropolitan Melbourne. As a result, the services were able to make sustainable changes to their operating environment to help them reduce their emissions and use energy more efficiently.

Strategic partnerships: In 2006/07 we established a significant corporate partnership with Mission Australia with a \$750,000 donation from the AGL Foundation to fund various initiatives, including a major program in South Australia that was launched this year. The program provides energy auditing services to people experiencing short or long-term difficulty paying their energy bills, aiming to provide valuable skills to help people reduce the size of their energy bills. Since the program was launched in December 2007, more than 60 of AGL's Staying Connected clients have been referred and counselled through the service.

We have also continued to grow our partnership with WWF-Australia. This year AGL contributed another \$30,000 in funding support for a management strategy for the preservation of marine turtles in far northern Queensland whose future is threatened by the

impacts of climate change.

AGL is a founding member of the London Benchmarking Group (LBG) Australia, and the company measures the value of its Energy for Life program to the community using the LBG model.

Community consultation

Community liaison and consultation is vital to engaging the community on new developments, expansions of existing infrastructure and ongoing operations. By engaging communities during the project development process, with regular communication and feedback, we are able to deliver and operate our projects while satisfying community concerns about the impact of those projects.

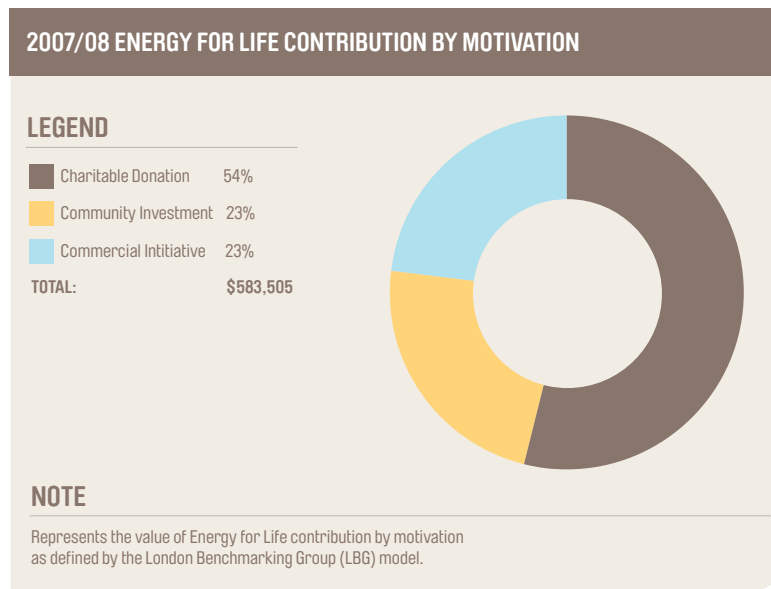
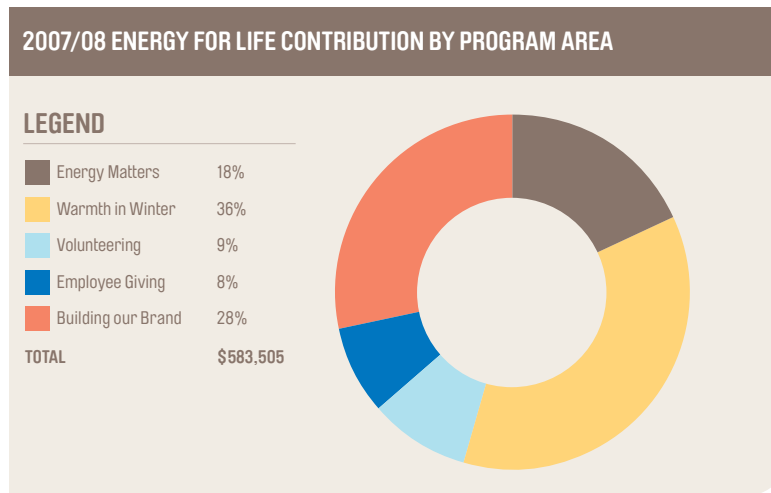
Across our business we are committed to:

- > Consultation with community stakeholders (including government groups, asset owners, local community groups, businesses, residents and local media) in project planning;
- > Establishing constructive working relationships and communication channels with key stakeholders and interest groups;
- > Recognising and incorporating indigenous Australian cultural heritage issues in our consultation process;

- > Providing accessible avenues for capturing community feedback and concerns; and
- > Providing regular feedback on the progress of projects to interested communities.

Details of the community consultation undertaken for our major projects during 2007/08 are available in the on-line report.

In Hallett, South Australia, where we are developing a number of wind farms, we have established the Hallett Wind Farm Community Fund to support volunteer-based organisations operating within the region. This year we donated more than \$24,000 to a range of community projects, and confirmed our intention to continue to provide annual funding for local community-based projects and groups for the next 25 years.



HIGHLIGHTS OF 2007/08

- > Progressing our partnership with Mission Australia SA to deliver energy audits and other support services to more than 60 South Australian families experiencing financial hardship.
- > Continuing our strategic relationship with WWF-Australia, supporting their efforts to rescue the marine turtle, whose future is threatened by climate change.
- > Contributing to the winter energy bills of over 250 emergency accommodation services, funding the equivalent of 145,553 warm winter nights for homeless Australians.
- > Donating more than \$93,000 to our Employee Giving charity partners.
- > Providing more than 680 hours of volunteering services, conservatively valued at over \$23,000.
- > Providing more than \$24,000 support for local community group projects in Hallett South Australia, as part of our 25-year commitment to provide ongoing support.

For more information about AGL and the community, visit www.aglsustainability.com.au/community

Economic performance

AGL aims to deliver growth in total shareholder returns and enhance the quality of earnings through sound risk management and diversification of earnings streams.

This section provides a summary of how the company manages its economic risks to deliver on its integrated energy company strategy. Detailed financial information is available in the AGL Annual Report.

During 2007/08 we have worked to:

- > Continue to implement AGL's integrated business strategy;
- > Reduce operating costs while

improving service quality and appropriately manage business risks;

- > Maintain Australia's largest private portfolio of renewable generation assets to deliver sustainable benefits in a carbon constrained environment and to meet an expanded Renewable Energy Target; and

- > Apply a disciplined approach to growth strategies that add to AGL's integrated strategy and provide sustainable cash flows.

During 2007/08, AGL substantially increased its portfolio of renewable and thermal generation assets by acquiring the 1,280 MW Torrens Island Power Station; completing the construction and commissioning of the 94.5 MW Hallett (Stage 1) Wind Farm; and acquiring the rights to control the dispatch of electricity from the 282 MW Oakey and the 242 MW Yabulu gas-fired power stations.

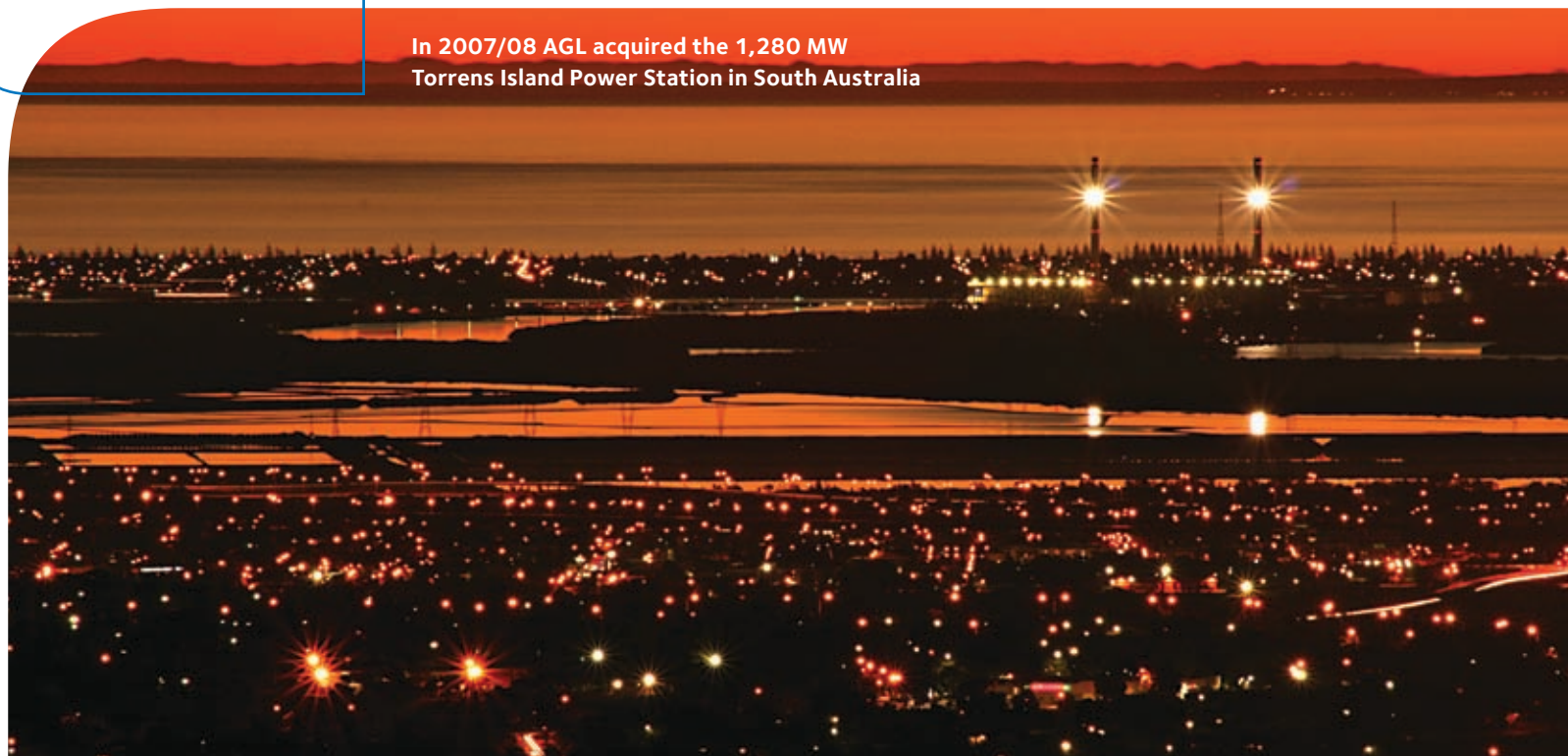
We have invested in upstream gas projects that provide additional flexibility to manage our gas supply requirements. AGL recognises the growing importance that coal seam gas will play in the Australian gas market and has responded by developing a strategy that will deliver future supply benefits. To provide access to gas markets, we have also invested in pipeline development opportunities.

AGL continues to pursue an industry leading retail cost model with a view to achieving operating economies of scale. To date we have invested more than A\$136 million in Project Phoenix, a four-year program to rebuild our retail business platform to deliver world-class service capability at the industry's lowest cost to serve.

During 2007/08, AGL successfully transferred 1.6 million customer accounts onto a new SAP customer billing and relationship management system (Project Phoenix) - Victorian gas and electricity customers, South Australian gas customers and Queensland electricity customers.

The implementation of Project Phoenix has enabled us to make cost savings of A\$25 million per annum, to date. Benefits are derived from savings in back office and debt management, and increased efficiencies in customer service,

In 2007/08 AGL acquired the 1,280 MW Torrens Island Power Station in South Australia



sales and marketing and IT/support operations. Further cost reductions are expected once Project Phoenix is finalised.

AGL has invested significantly to prepare for a carbon-constrained future and has undertaken a range of modelling scenarios on the impacts of emissions trading on our power generation assets. The results demonstrate that under a range of potential emission reduction scenarios, the renewable generation assets in the AGL portfolio are expected to increase in value.

AGL continues to pursue a capital management program that focuses on investments in core assets that generate positive cash flows. Over the past twelve months we have undertaken a number of divestments and disposed of assets that do not fully align with our integrated strategy, including the sale of our interests in AlintaAGL and Gas Valpo (Chile).

We strengthened our balance sheet, reducing debt by \$697 million from its peak in 2007/08 and have no further re-financing requirements until October 2009. Ongoing non-core asset sales will add further balance sheet strength. The company anticipates it will retain a BBB stable credit rating with Standard and Poor's.

¹AGL Energy Limited was listed in October 2006 following the demerger from The Australian Gas Light Company. Accordingly pro forma numbers are reported for the financial period ended 30 June 2007.

²Excluding significant items and fair value movements of financial instruments.

³In the 2006/07 Sustainability Report, dividends were reported as 26.0 cents per share. This represented the final dividend and did not include the interim dividend of 9.5 cents per share. The total dividend for the financial period was therefore 35.5 cents per share.

⁴Includes derivative financial instrument contracts at fair value.

⁵Equity excludes financial instrument hedging reserve.

Financial Summary	2007/08	2006/07
Revenue	\$5.7b	\$4.8b ¹
Operating Earnings Before Interest & Tax	\$703.2m ²	\$574.7m ^{1,2}
Net Finance Costs	\$175.9m	\$98.7m ¹
Underlying Net Profit After Tax	\$355.5m ²	\$330.4m ^{1,2}
Underlying Basic Earnings Per Share	81.6 cps	78.4 cps ¹
Total Annual Dividend (fully franked)	53.0 cps	35.5 cps ³
Total Assets	\$9.5b ⁴	\$14.1b ⁴
Shareholders' Equity	\$5.0b	\$6.5b
Operating Cash Flow	\$461.5m	n/a
Total Capital Expenditure	\$324.6m	\$357.8m
Gearing (Net Debt / Net Debt + Equity)	31.3% ⁵	33.1% ⁵
EBIT to Average Funds Employed return	10.7%	10.7%

Distribution of Revenue	2007/08	2006/07
Suppliers	83%	83%
Employees	4%	5%
Funding Equity	4%	1%
Funding Debt	2%	2%
Australian Taxes	1%	1%
Residual	6%	7%

HIGHLIGHTS OF 2007/08

- > Delivering to the upper end of our revised guidance with an underlying Net Profit After Tax of \$355.5M, up 7.6% on the previous year.
- > Paying fully franked dividends totalling 53 cents per share to our shareholders for the full year 2007/08.
- > Growing our portfolio of renewable and conventional generation assets through the acquisition of the Torrens Island gas fired power station, the completion of the Hallett (Stage 1) Wind Farm and acquiring the rights to control dispatch from the Oakey and Yabulu gas fired power stations.
- > Expanding our interests in coal seam gas exploration and production activities.
- > Successfully transferring 1.6 million customer accounts to our new retail business platform, already realising cost savings of A\$25 million per annum.
- > Being the first Australian company to provide a two-way market in future Australian Emissions Units.
- > Divesting non-core businesses in order to strengthen the balance sheet.

For more information about AGL's economic performance, visit www.aglsustainability.com.au/economic

Awards, ratings and memberships

Our share price is included in the following indexes:

- > AuSSI: The Australian SAM Sustainability Index (AuSSI) tracks the performance of Australian companies that lead their industry in terms of corporate sustainability. AGL was listed as the 'Cluster Leader' in the utilities sector for 2007/08.



- > FTSE4Good: FTSE Group confirms that AGL Energy has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series. Created by the global index company FTSE Group, FTSE4Good is an equity index series that is designed to facilitate investment in companies that meet globally recognised corporate responsibility standards. Companies in the FTSE4Good Index Series have met stringent social, ethical and environmental criteria, and are positioned to capitalise on the benefits of responsible business practice.



Recognition and awards:

- > CDP: AGL was listed in the 'climate leadership index' in the 2006, 2007 and 2008 Carbon Disclosure Project reports for the ASX100/NZ50. AGL's responses to the Carbon Disclosure Project are publicly available at www.cdproject.net
- > Greenhouse Challenge Plus: AGL was listed as a finalist for the 2007 Greenhouse Challenge Plus Awards in the category of Business Leadership, in recognition of the initiatives it has undertaken to reduce greenhouse gas emissions across the supply chain and to help customers reduce their emissions.
- > Trader of the Year: Senior electricity trader Jaime Brown was voted Spot Trader of the Year in an annual poll conducted by Energy Bank Link (an on-line specialist industry forum on energy trading), with results announced in December 2007. Contributors from more than 50 companies participated in the poll.
- > Banksia: AGL, in partnership with South East Water, AMPY Email metering and Alinta, was a finalist in the Eco Innovation Category in the 2007 Banksia Environmental Awards announced in July 2007.

We support:

- > LBG: AGL is a founding member of the London Benchmarking Group, Australia/ New Zealand.



- > Greenhouse Challenge Plus: AGL has been a member of the Greenhouse Challenge Plus program since 1997.



- > Chicago Climate Exchange.



Product accreditation / Certification:

- > AGL Green Balance™ is certified under the Department of Climate Change's Greenhouse Friendly initiative.



An Australian Government Initiative

- > AGL Green Spirit, AGL Green Living™ and AGL Green Energy™ are accredited under the National GreenPower Program.



Feedback

We welcome your feedback on our sustainability performance and on any aspect of our report. Please contact:

Cathlin Thurbon
Manager, Sustainability Strategy
Locked Bag 1837
St Leonards NSW 2065
Telephone: 02 9921 2999
Email: csrteam@agl.com.au

Alternatively, visit
www.aglsustainability.com.au/feedback



This document is a printed summary of the complete AGL Sustainability Report. The full report is available online at www.aglsustainability.com.au

About this report

The report is printed on Envi, Australia's first carbon-neutral paper. Envi is also the first paper stock in Australia to carry the Federal Government's Greenhouse Friendly certification, and is the stock of choice for all AGL customer communications.

All inks and varnishes used to print it have a vegetable oil base (such as linseed oil and soya oil) obtained from non-genetically modified plants and trees.

It was designed by Cobe Design and printed by Finsbury Green Solutions.

All individuals who kindly appear in this report are staff and friends of AGL.