

ASX Principles of Good Corporate Governance

For maximum transparency, the Board has responded in turn to each of the eight 'Principles of Good Corporate Governance' issued by the Australian Stock Exchange (ASX)

- **Principle 1:** Lay solid foundations for management and oversight by the Board
- **Principle 2:** Structure the Board to add value
- **Principle 3:** Promote ethical and responsible decision making
- **Principle 4:** Safeguard integrity in financial reporting
- **Principle 5:** Make timely and balanced disclosure
- **Principle 6:** Respect the rights of shareholders
- **Principle 7:** Recognise and manage risk
- **Principle 8:** Remunerate fairly and responsibly

AGL's approach to Corporate Governance

This Statement explains how AGL addresses the ASX Corporate Governance Council's 'Corporate Governance Principles and Recommendations – 2nd Edition' (referred to as either ASX Principles or Recommendations) issued in August 2007.

Principle 1: Lay solid foundations for management and oversight

Recommendation 1.1 – *Companies should establish the functions reserved to the Board and those delegated to the Executive Team*

Role of the AGL Board ('the Board')

The Board is responsible for the governance of AGL. The role of the Board is to provide overall strategic guidance and effective oversight of management. The Board derives its authority to act from AGL's Constitution.

The Board's responsibilities are encompassed in a formal Charter which the Board is responsible for reviewing every two years. The Charter was most recently reviewed and amended in June 2010.

The major powers the Board has reserved to itself are:

- Reviewing and approving AGL's strategic plans and performance objectives;
- Selecting, appointing and monitoring the performance of the Chief Executive Officer (CEO) and, if appropriate, terminating the appointment of the CEO;
- Monitoring the performance of, and approving the remuneration policies and procedures applying to, the Executive Team;
- Monitoring the timeliness and effectiveness of reporting to Shareholders;
- Approving and monitoring policies governing AGL's relationship with other stakeholders and the broader community, including policies in relation to environmental management and occupational health and safety (together HSE);
- Monitoring compliance with legislative and regulatory requirements (including continuous disclosure) and ethical standards, including reviewing and ratifying codes of conduct and compliance systems;
- Monitoring financial outcomes and the integrity of reporting, and in particular, approving annual budgets and longer-term strategic and business plans;
- Approving decisions affecting AGL's capital, including determining AGL's dividend policy and declaring dividends;
- Reviewing and recommending to Shareholders the appointment or, if appropriate, the termination of the appointment of the external auditor; and
- Monitoring the effectiveness of AGL's audit, risk management and compliance systems that are in place to protect AGL's assets and to minimise the possibility of AGL operating beyond acceptable risk parameters.

To assist it in carrying out its responsibilities, the Board has established three Committees. They are:

- People and Performance Committee (see Principle 2);
- Safety, Sustainability and Corporate Responsibility Committee (see Principle 3); and
- Audit and Risk Management Committee (see Principle 4).

Details of the main accomplishments of each of the Board Committees during 2009/10 are included in the commentary on Principle 2.

The timetables for Board and Committee meetings are agreed annually to allow the Board and individual Directors to dedicate sufficient and appropriate time to reviewing and overseeing AGL's business.

New Directors

New Directors receive a formal letter of appointment along with an induction pack. The contents of the appointment letter and induction pack contain sufficient information to allow the new Director to gain an understanding of:

- The rights, duties and responsibilities of Directors;

- The role of Board Committees;
- The roles and responsibilities of the Executive Team; and
- AGL's financial, strategic, operational and risk management position.

AGL believes that it is important that new Directors are able to contribute to the Board's decision making process at the earliest opportunity. To that end, new Directors undertake an induction program which comprises:

- A comprehensive information pack which includes a copy of AGL's Constitution; Board and Committee Charters; most recent Annual Report; most recent Appendix 4D or 4E and market results presentation; most recent monthly Group Performance Report; AGL strategic plan; organisational chart; Deed of Access, Insurance and Indemnity and details of AGL's Directors and Officers insurance policy; and a copy of the register of AGL's most significant risks;
- A program of meetings with members of AGL's Executive Team; and
- A program of meetings with other AGL employees responsible for areas such as HSE, upstream gas operations, and wholesale energy trading.

Delegation to the CEO and the Executive Team

The Board has delegated responsibility for implementing AGL's strategic direction and for managing AGL's day-to-day operations to the CEO and the Executive Team.

Specific limits on the authority delegated to the CEO and the Executive Team are set out in the Delegated Authorities approved by the Board. The authorities delegated to the CEO and the Executive Team cover a range of matters including sales contracts, operating expenditure, capital expenditure, employment contracts, billing adjustments and debt write-offs, and communications with media and shareholders.

Executive Team

The Executive Team comprises the CEO and eight senior managers (Executives) who report directly to the CEO.

Each Executive is employed under a Service Agreement which sets out the terms on which the Executive is employed, including details of the Executive's duties and responsibilities, rights, and remuneration entitlements. The Service Agreement also sets out the circumstances in which the employment of the Executive may be terminated by either AGL or the Executive, including details of the notice periods required to be given by either party, and the amounts payable to the Executive as a consequence of the termination by AGL of the Executive's employment.

With one exception, all the Executives are employed on an indefinitely continuing basis. AGL's Chief Information Officer is employed under a Service Agreement which stipulates that his employment with AGL will cease on 30 June 2013 unless extended by agreement between him and AGL.

Recommendation 1.2 – *Companies should disclose the process for evaluating the performance of the Executive Team*

Performance evaluation

All Executives have formal position descriptions. Key performance measures are established for each Executive at the commencement of the financial year. Some performance measures, such as overall AGL financial performance and some occupational health and safety targets, are common for all Executives. Other performance measures are specifically set in line with the individual role and responsibilities of the Executive.

The CEO has personal objectives, as well as objectives related to business units and AGL as a whole. The Chairman, together with the People and Performance Committee, assess the performance of the CEO against those objectives on an annual basis, or more frequently if required.

The Board, with the assistance of the People and Performance Committee, also monitors the performance of the Chief Financial Officer (CFO), Company Secretary and other members of the Executive Team.

Executive Team performance evaluations have been conducted for the financial year ending 30 June 2010. Details of the evaluation process and the linkages between the results of performance evaluations and remuneration are disclosed in the Remuneration Report on pages 39 to 48 of this Annual Report.

Newly appointed Executives

Although no new Executives were appointed during the financial year, an induction program is in place to enable newly appointed Executives to gain an understanding of:

- The Company's financial position, strategies, operations and risk management policies; and
- The respective rights, duties, responsibilities and roles of the Board and the Executive Team.

Principle 2: Structure the Board to add value

The Board's size and composition is subject to limits imposed by AGL's Constitution, which provides for a minimum of three Directors and a maximum of 10. The Board currently comprises seven non-executive Directors and one executive Director. The Managing Director is the executive Director and CEO of AGL.

The Directors of AGL at any time during the financial year are listed with a brief description of their qualifications, experience and special responsibilities on pages 34 to 36 of this Annual Report. During the financial year, Mr Graham Reaney retired as a Director.

The Board met 17 times during the financial year. Directors' attendances are set out on page 37 of this Annual Report.

Recommendation 2.1 – *The majority of the Board should be independent Directors*

Independent decision making

Directors have unfettered access to AGL records and information reasonably necessary to fulfil their responsibilities. Directors also have access to the Company Secretary on any matter relevant to their role as a Director. In addition, the Board has access to other relevant senior management to seek additional information concerning AGL's business.

Under AGL's Board Charter, the Board collectively, and each Director individually, has the right to seek independent professional advice at AGL's expense to help them carry out their responsibilities. During the financial year, neither the Board collectively nor any individual Director availed themselves of this right.

It is usual for the non-executive Directors to confer, without management being present, at the start of each scheduled Board meeting.

Independent Directors

AGL considers a Director to be independent if the Director is independent of management and free of any business or other relationship that could materially interfere, or be perceived as interfering, with the exercise of an unfettered and independent judgement in relation to matters concerning AGL.

In assessing independence, the Board reviews the relationship that the Director, and the Director's associates, have with AGL. In determining whether a Director is independent, the Board has considered whether the Director:

- is a substantial Shareholder of AGL or an officer of, or otherwise associated directly with, a substantial Shareholder of AGL;
- within the last three years, has been employed in an executive capacity by AGL or any of its related bodies corporate;
- within the last three years, has been a principal of a material professional adviser or a material consultant to AGL or any of AGL's related bodies corporate;
- is a material supplier to, or customer of, AGL or any of AGL's related bodies corporate, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has a material contractual relationship with AGL; or
- has any interest, or any business or other relationship, which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in AGL's best interests.

The Board regularly assesses the independence of non-executive Directors and, during the financial year, has specifically considered the independence of all non-executive Directors in accordance with the above criteria. The Board has determined that each non-executive Director is, and was throughout the entirety of the financial year, independent.

During the financial year, there was one circumstance in which two individual Directors excused themselves from consideration by the Board of specific matters because of the potential for their independence to be compromised:

- Mark Johnson and Bruce Phillips absented themselves from consideration by the Board of participation by AGL in a capital raising by Innamincka Petroleum Limited (INP). Mr Johnson is a shareholder in INP and an associate of an INP director. Mr Phillips is a director of a company INP was dealing with on a potential transaction that gave rise to the need for INP to raise additional capital.

No Director has received or become entitled to receive a benefit because of a contract between any company in the AGL Group and the Director, or a firm in which the Director is a substantial member, or an entity in which the Director has a substantial financial interest, other than:

- in the case of non-executive Directors, remuneration as disclosed in the Annual Report; and
- in the case of the CEO, a contract of employment and entitlements under AGL's Long-Term Incentive Plan.

Recommendation 2.2 – *The Chair should be an independent Director*

Under AGL's Constitution, the Board elects a Chairman from among the non-executive Directors. It is a requirement of AGL's Board Charter that the Chairman be independent.

Recommendation 2.3 – *The roles of Chair and Chief Executive Officer should not be exercised by the same individual*

The requirement in AGL's Constitution that the Chairman be appointed from among the non-executive Directors means that the roles of Chairman and CEO are not exercised by the same individual.

The Chairman presides over AGL's Board meetings and Shareholder meetings. Under AGL's Board Charter, the Chairman is also responsible for:

- leading the Board in reviewing and discussing Board matters;
- managing the efficient organisation and conduct of the Board's function;
- briefing all Directors in relation to issues arising at Board meetings;
- facilitating effective contribution by all Directors and monitoring Board performance;
- overseeing that membership of the Board is skilled and appropriate for AGL's needs;
- promoting constructive relations between Board members and between the Board and management;
- reviewing corporate governance matters with the Company Secretary and reporting on those matters to the Board; and
- overseeing the implementation of policies and systems for Board performance review and renewal.

The Chairman must ensure that general meetings are conducted efficiently, and that Shareholders have adequate opportunity to air their views and obtain answers to their queries.

Recommendation 2.4 – *The Board should establish a nomination committee*

The Board has established a People and Performance Committee (equivalent to a nomination committee) comprising three non-executive and independent Directors, Max Ould (Chairman), Mark Johnson and Sandra McPhee. The Committee has a formal Charter that is required to be reviewed at least every two years. The Charter was most recently reviewed in June 2010. A copy of the Charter is available on AGL's website.

The Committee has responsibility for:

- maintaining a Board which comprises individuals best able to discharge the responsibilities of Directors, having regard to the execution of AGL's strategy and to the highest standards of corporate governance;
- reviewing the performance and remuneration of the Board and remuneration of senior management; and
- reviewing and ratifying AGL's remuneration and employment policies, procedures and programs to:
 - meet long-term people needs;
 - achieve alignment between the needs and requirements of AGL's customers, Shareholders and other stakeholders and the values and objectives of AGL's employees;
 - promote excellent performance;
 - promote AGL as an employer of choice;
 - meet AGL's commitment to a diverse and inclusive workplace;
 - comply with relevant legislation and corporate governance principles on remuneration practices and employment policies; and
 - provide fair remuneration and other benefits to all AGL employees.

The Committee is responsible for making recommendations to the Board as follows:

Board matters

- The skills, knowledge and experience appropriate to AGL's operational, financial and strategic objectives;
- Director tenure and Board composition;
- The process for evaluating Board, Committee and individual Director performance;
- Selection criteria for the appointment of new Directors;
- The appointment and removal of Directors for the consideration of a general meeting of Shareholders;
- Succession plans for non-executive Directors; and
- Directors' remuneration.

The CEO

- Setting and reviewing performance objectives for the CEO and evaluating the contribution and effectiveness of the CEO against those objectives;
- Rewarding the CEO responsibly and fairly for his/her contribution to enhancing AGL's performance; and
- The recruitment, retention and termination policies and procedures for the CEO.

The Executive Team

- Reviewing the CEO's recommendations on terms of employment and remuneration for AGL's Executive Team, and on succession plans for key senior positions within AGL;
- Maintaining a balance of skills, knowledge and experience across the Executive Team; and
- Policies and procedures for the recruitment, retention and termination of members of the Executive Team.

Incentive plans and superannuation arrangements

- Reviewing guidelines for AGL's incentive plans; and
- Reviewing the superannuation arrangements in place for AGL's employees.

Employment policy issues

- Providing counsel and guidance to the business in relation to talent management and development, succession planning and performance management;
- Monitoring remuneration policies and practices to assist AGL to attract and retain people who create value for Shareholders and who uphold and develop the culture of AGL; and
- Providing counsel and guidance to the business in relation to the creation of a diverse and inclusive workplace.

The Committee collectively and its members individually have access to internal and external resources, including access to advice from external consultants or specialists.

The Committee met four times during the year. Details of Directors' attendances are set out on page 37 of this Annual Report.

Recommendation 2.5 – *Companies should disclose the process for evaluating the performance of the Board, its committees and individual Directors*

Evaluation of the Board

The Board regularly reviews its own performance. The most recent review commenced in August 2010 and will involve each Director and several Executives completing a questionnaire covering:

- the role of the Board;
- the composition of the Board;
- the operation of the Board;
- group behaviours and protocols; and
- Board performance.

The aggregate results of the questionnaire will be discussed at a subsequent Board meeting. The Chairman will also meet separately with each Director to discuss individual responses to the questionnaire.

Principle 3: Promote ethical and responsible decision making

AGL considers ethical decision making to be integral to the conduct of its business. The Safety, Sustainability and Corporate Responsibility Committee assists the Board in enabling AGL to operate its businesses ethically, safely, sustainably and responsibly.

The Safety, Sustainability and Corporate Responsibility Committee currently comprises four non-executive and independent Directors, Sandra McPhee (Chair), Mark Johnson, Bruce Phillips and Les Hosking. The Committee has a formal Charter that was most recently reviewed in June 2010. A copy of that Charter is available on AGL's website.

The Committee oversees and reviews:

- AGL's actions to meet its obligation to maintain the health and safety of its people;
- the social, environmental and ethical impact of AGL's policies and practices;
- initiatives to enhance AGL's sustainable business practices and reputation as a responsible corporate citizen;
- integration of safety, sustainability and corporate responsibility in the formulation of AGL's corporate strategy, risk management framework, and people and culture priorities; and
- AGL's compliance with all relevant legal obligations on the matters within its responsibilities.

The Committee endeavours to hold as many meetings as practical at AGL business unit locations. It met four times during the year, with the meetings held at Torrens Island Power Station in South Australia; AGL's call centre in Canberra; coal seam gas production operations at Camden in New South Wales; and at AGL's satellite office in Brisbane.

Recommendation 3.1 – *Companies should establish a Code of Conduct*

AGL has a Code of Conduct that applies to AGL and its Directors, employees and contractors (all of which are referred to as 'employees' in the Code).

The Code of Conduct sets out a number of overarching principles of ethical behaviour and explains:

- the obligations of AGL to put in place mechanisms to assist all employees to act in accordance with these principles; and
- how AGL employees should act consistently with these principles.

The ethical principles are set out under the following headings:

Acting honestly and with integrity

Observing the law

Valuing and maintaining professionalism

Respecting confidentiality

Managing conflicts of interest

Looking after our employees

Looking after the community

All new AGL employees are required to confirm they are aware of and have reviewed AGL's Code of Conduct.

The Code of Conduct provides a mechanism to enable employees to report actual or suspected breaches, including provision for anonymous reporting to allay any fear of retribution. An Ethics Panel oversees the application of the Code of Conduct in AGL, including investigating alleged breaches of the Code, monitoring compliance and recommending amendments to the Board. The Ethics Panel comprises the Company Secretary, Group Head of People and Culture, the Head of Legal, the Head of Group Audit, and Ms Susan Cunningham – an independent person who has expertise in managing employee grievances. The Ethics Panel met four times during the year.

AGL has a commitment to diversity and has a policy on this issue. AGL has also initiated a Diversity Support Line.

AGL's Code of Conduct is available on AGL's website.

Compliance Policy

Consistent with its Code of Conduct, AGL is committed to the highest standards of integrity, fairness and ethical conduct, including full compliance with all relevant legal requirements. There is no circumstance under which it is acceptable for AGL or a person associated with AGL to knowingly or deliberately not comply with the law or to act unethically in the course of performing or advancing AGL's business. Behaviour of this kind will lead to disciplinary measures that may include dismissal.

AGL has a Compliance Policy, which sets out responsibilities for compliance with AGL's various legislative obligations, as well as with AGL's contractual obligations. This Policy was reviewed and amended during the year. The Policy is published on AGL's website.

Recommendation 3.2 – *Companies should establish a policy concerning trading in company securities by Directors, Executive Team and employees*

AGL's Securities Dealing Policy sets out the circumstances in which AGL's Directors, Executives and other employees (collectively, 'employees') may buy or sell securities in AGL or any other listed company. An amended policy was adopted during the year.

AGL employees are prohibited from dealing in, or influencing others to deal in, securities of AGL or any other company if:

- they possess information about AGL or another company that is not generally available to the market; and
- the information, if it were generally available to the market, would be likely to influence persons who commonly acquire securities in deciding whether or not to acquire or dispose of securities in AGL or another company.

Additionally, employees are prohibited from trading in AGL securities during the periods:

- from 1 January to the close of trading on the day following the release of AGL's interim financial results; and
- from 1 July to the close of trading on the day following the release of AGL's full year financial results.

AGL's Securities Dealing Policy is available on AGL's website.

Principle 4: Safeguard integrity in financial reporting

Recommendation 4.1 – *The Board should establish an audit committee*

The Board has established an Audit and Risk Management Committee. Its primary function is to assist the Board in fulfilling its responsibilities to provide shareholders with timely and reliable financial reports and to protect the interests of shareholders, customers, employees and the broader community through the effective identification, assessment, monitoring and management of risks.

Recommendation 4.2 – *The audit committee should be appropriately structured*

Under its Charter, the Audit and Risk Management Committee must have at least three members, all of whom must be independent non-executive Directors. The Charter also requires that all members have a working familiarity with basic accounting and finance practices and that at least one member have financial expertise. The Committee must also include members with an understanding of the industry in which AGL operates.

The composition of the Audit and Risk Management Committee has changed during the financial year. John Stanhope has succeeded Graham Reaney as Chair of the Committee, following Mr Reaney's retirement as an AGL Director in October 2009. The Committee currently comprises four members – John Stanhope (Chair), Jerry Maycock, Bruce Phillips and Les Hosking. John Stanhope has financial expertise as a qualified accountant.

Bruce Phillips and Les Hosking each have long careers in the energy industry. Further details of the qualifications and experience of all Committee members are disclosed on pages 34 to 36 of this Annual Report.

The CEO, CFO, Company Secretary (who also has responsibility for AGL's Group Risk and Compliance function), Head of Group Audit and external auditor attend Committee meetings at the discretion of the Committee. The Company Secretary is the secretary to the Committee.

The Committee meets privately with the external auditor on general matters concerning the external audit and other related matters, including the half-year and full-year financial reports. The Committee also meets privately with the Head of Group Audit.

The Company Secretary distributes copies of the minutes of a meeting of the Committee to the Board for discussion at the next full Board meeting. The Chairman of the Committee reports to the Board on the Committee's conclusions and recommendations.

The Committee collectively, and its members individually, have access to internal and external resources, including access to advice from external consultants or specialists. The Committee met five times during the year. Directors' attendances are set out on page 37 of this Annual Report.

Recommendation 4.3 – *The audit committee should have a formal charter*

The Committee operates under a formal Charter published on AGL's website. The Charter is required to be reviewed by the Committee and updated at least every two years. The Charter was most recently reviewed and updated in June 2010.

The Charter sets out the roles and responsibilities, composition, structure and membership requirements of the Committee.

The Committee's primary responsibilities include:

- Monitoring the integrity of financial reporting;
- Monitoring and reviewing the external auditor's qualifications, performance and independence;
- Monitoring the effectiveness of risk management processes;
- Monitoring the effectiveness of Group Audit;
- Monitoring legislative and regulatory compliance; and
- Monitoring the adequacy and completeness of internal controls.

Monitoring auditor independence

AGL's Auditor Independence Policy contains details of the procedures for the selection and appointment of the external auditor and for reviewing the independence of the external auditor.

The external auditor is precluded from providing any services that might threaten their independence, or conflict with their assurance and compliance role.

Quarterly reports on the provision of auditing and related services are provided to the Audit and Risk Management Committee. The Directors have concluded that non-audit services provided did not compromise the external auditor's independence requirements under the Corporations Act.

AGL's Auditor Independence Policy is published on AGL's website.

Evaluation of Board Committees

The Charters for each of the Board Committees require that each Committee annually review its own performance.

Audit and Risk Management Committee

Review process

The Committee set aside time at one of its scheduled meetings to discuss its performance over the financial year in achieving the objectives set out in its Charter and to consider opportunities to improve its effectiveness.

Committee achievements

The review found that the Committee had been effective in performing its responsibilities under the Committee Charter. Its main achievements during the financial year were:

- reviewing and approving amendments to AGL's wholesale energy risk management policy;
- reviewing AGL's risk management framework;
- overseeing the transition of a new external audit signing partner to replace Mr Greg Couttas, who completed his five year audit rotation in FY2009; and
- the appointment of John Stanhope as Chair to replace Graham Reaney, who retired in October 2009.

Safety, Sustainability and Corporate Responsibility Committee

Review process

The Committee set aside time at one of its scheduled meetings to discuss its performance over the financial year in achieving the objectives set out in its Charter and to consider areas of focus to maintain or improve its effectiveness.

Committee achievements

The Committee considers it has been effective over the financial year, most notably in relation to workplace health and safety. Over the financial year, it has overseen significant reductions in AGL's lost time injury frequency rate from 2.5 to 1.0. The Committee has also overseen:

- changes to AGL's HSE organisational structure which have improved AGL's capabilities in this area;
- enhancements to HSE reporting;
- improvements in AGL's HSE framework in relation to contractors working on AGL's major construction projects; and
- revisions to AGL's Customer Charter.

While workplace health and safety will continue to be an important focus, the Committee anticipates that it will spend more time over the next year on sustainability matters, particularly with the new obligations under the National Greenhouse Emissions Reporting Act and on overseeing AGL's engagement with the communities in which it operates.

People and Performance Committee

Review process

The Committee set aside time at one of its scheduled meetings to discuss its performance over the financial

year in achieving the objectives set out in its Charter and to consider areas of focus to maintain or improve its effectiveness.

Committee achievements

The Committee considers it has been effective over the financial year. Each of its four meetings during the year focused on one of the following key strategic issues:

- driving improvement in levels of employee engagement;
- talent management, including development of succession plans for key roles;
- performance management and employee relations strategy; and
- remuneration.

The Committee has also overseen:

- implementation of a number of employee development programs to improve skills and raise employee engagement levels; and
- redesign of AGL's Long-Term Incentive Plan to provide better alignment of executive remuneration with sustained increases to Shareholder value.

Principle 5: Make timely and balanced disclosure

Recommendation 5.1 – *Companies should establish continuous disclosure policies and ensure compliance with those policies*

Market disclosure

AGL's Market Disclosure Policy describes AGL's continuous disclosure obligations and how they are managed by AGL, as well as how AGL communicates with financial markets. The Policy is complemented by the Market Disclosure Plan that gives effect to the Policy. The Market Disclosure Policy was reviewed during the year. Both the Market Disclosure Policy and the Market Disclosure Plan are published on AGL's website.

The Market Disclosure Committee – which comprises the CEO, Company Secretary (the nominated Continuous Disclosure Officer), CFO and Head of Investor Relations – is responsible for monitoring compliance with the Market Disclosure Policy. The Continuous Disclosure Officer is the convenor of meetings of the Committee.

The purpose of the Committee is to help AGL achieve its objective to establish, implement and supervise continuous disclosure within AGL. The Committee is responsible for ensuring that all AGL announcements are made in a timely fashion, contain material information that is both objective and factual, and are clearly written to allow investors to assess the impact of information on their investment decisions. The Committee is also responsible for recommending changes to the Market Disclosure Policy.

Accountability

The Company Secretary as the nominated Continuous Disclosure Officer reports to the Board quarterly on matters that were either notified or not notified to the ASX. Directors receive copies of all announcements immediately after notification to the ASX. All ASX announcements are available in the Media centre on the AGL website.

All the AGL Executives also confirm in writing to the Board, on a quarterly basis, that matters which might need to be disclosed have been brought to the attention of the Continuous Disclosure Officer for review.

Financial market communications

Communication with the financial market is the responsibility of the CEO, CFO and Head of Investor Relations. Communication with the media is the responsibility of the CEO, Company Secretary, and Head of Media. The Market Disclosure Policy covers briefings to institutional investors and stockbroking analysts, general briefings, one-on-one briefings, blackout periods, compliance and review as well as media briefings. The Market Disclosure Plan provides further guidance on how to give effect to the Market Disclosure Policy.

Principle 6: Respect the rights of shareholders

Recommendation 6.1 – *Companies should establish a shareholder communication policy*

AGL has not established a formal Shareholder communications policy, but it does strive to keep shareholders informed about the Company's activities.

Electronic communication

Shareholders have the option of electing to receive all Shareholder communications, including dividend statements, by email. AGL provides a printed copy of the Annual Report to only those shareholders who have specifically elected to receive a printed copy. Other shareholders are advised that the Annual Report is available on the AGL website.

AGL's website allows shareholders to view all ASX and media releases since at least December 2007; various investor presentations; a copy of the most recent Annual Report and Annual Reports for at least the two previous financial years; and the notice of meeting and accompanying explanatory material for the most recent AGM and the AGMs for at least the two previous financial years.

All announcements made to the ASX are available to shareholders by email notification when a Shareholder provides the AGL Share Registry with their email address and elects to be notified of all AGL ASX announcements.

Shareholder meetings are webcast and analyst/media briefings in relation to half-year and full-year financial results and other significant events can be heard by teleconference.

Meetings

Notices of meeting sent to AGL's shareholders comply with the 'Guidelines for notices of meeting' issued by the ASX in August 2007. Shareholders are invited to submit questions before the meeting and, at the meeting, the Chairman attempts to answer as many of these as is practical. Approximately 130 shareholders took the opportunity to submit questions in advance of the 2009 AGM.

The Chairman also encourages shareholders at the meeting to ask questions and make comments about AGL's operations and the performance of the Board and senior management. The Chairman may respond directly to questions or, at his discretion, may refer a question to another Director, the CEO or a member of the Executive Team.

New Directors or Directors seeking re-election are given the opportunity to address the meeting and to answer questions from shareholders.

At the 2009 AGM, the Chairs of the Audit and Risk Management Committee, the Safety, Sustainability and Corporate Responsibility Committee and the People and Performance Committee separately addressed the meeting to report on the activities of each Committee during the financial year. AGL intends to continue this practice at future AGMs.

AGL has adopted the practice of conducting a poll on each motion being considered at the meeting, although shareholders in attendance at the meeting are also given the opportunity to vote by a show of hands before the poll is conducted.

The external auditor attends AGL's AGM. Shareholders may submit written questions to the auditor to be considered at the meeting in relation to the conduct of the audit and the preparation and content of the Independent Audit Report, by providing the questions to AGL at least five business days before the day of the meeting. No questions were sent to the auditor in advance of the 2009 AGM. Shareholders are also given a reasonable opportunity at the meeting to ask the auditor questions relevant to the conduct of the audit, the Independent Audit Report, the accounting policies adopted by AGL and the independence of the auditor.

Principle 7: Recognise and manage risk

Recommendation 7.1 – *Companies should establish risk management policies for the oversight of material business risks*

Recommendation 7.2 – *Companies should establish risk management and internal control systems to manage material business risk and require management to report to the Board on the effectiveness of these systems and the effectiveness of the material business risks*

Risk Management Policy

AGL faces a wide variety of risks due to the nature of its operations and the regions in which it operates. These risks include:

Supply risk

Making sure that AGL can source adequate volumes of gas and electricity on acceptable terms to meet customer needs. This includes making sure that we have effective electricity hedging policies and procedures in place.

Asset operating risk

Making sure that AGL's assets, particularly electricity generation assets, operate reliably when required.

Regulatory risk

The prices AGL can charge its customers for gas and electricity are regulated in most of the markets in which AGL operates. AGL faces the risk that the regulated prices will not increase at the same rate as the costs of acquiring energy to meet customer needs.

Compliance risk

AGL operates in a heavily regulated industry.

Climate change

As an energy company, government policies on carbon emissions will affect AGL and its customers.

Financial risks

Making sure that AGL has the right capital structure to provide the financial capacity to implement its strategy.

AGL systematically examines all operational and financial areas of the Company to identify its major risk exposures using an enterprise-wide risk program based on Standards Australia's AS/NZS 4360:2004 (Risk Management). This program is supported by AGL's Risk Management Policy.

AGL has a number of other policies that directly or indirectly serve to reduce and/or manage risk. These include, but are not limited to:

- Compliance Policy;
- Market Disclosure Policy;
- Code of Conduct;
- Delegations of Authority Manual;
- Health, Safety and Environment Policy;
- Wholesale Energy Risk Management Policy;
- Treasury Policy; and
- Privacy Policy.

Roles and responsibilities

The Risk Management Policy, and the other policies listed above, describe the roles and responsibilities for managing risk. This includes, as appropriate, details of responsibilities allocated to the Board or to the Audit and Risk Management Committee (Committee), Executives, the business units and AGL's Group Audit function.

Board

The Board is responsible for reviewing and approving changes to the Risk Management Policy and for satisfying itself that AGL has a sound system of risk management and internal control that is operating effectively.

Committee

The Committee oversees the detailed analysis of the effectiveness of the system of risk management and internal control. The Committee receives an annual presentation of AGL's material business risks and the

controls in place to mitigate the consequences of those risks. The Committee also receives regular presentations from management throughout the year on specific risk topics.

The Committee has responsibility for approving the audit plan submitted annually by Group Audit. The Committee ensures that the audit plan has been developed based on an assessment of AGL's main risk exposures.

Executive Team

The CEO has primary responsibility for designing, implementing and reporting on AGL's risk management framework. The Executive Team collectively has responsibility for promoting a risk management culture throughout AGL, including consistent application of the Risk Management Policy across the Company.

Business units

AGL's business units are responsible for maintaining effective internal controls, consistently applying the risk management framework, and reporting new or changed risk events.

Group Risk

Group Risk is responsible for supporting the businesses in identifying and implementing effective risk management processes, for reporting details of AGL's material business risks and risk controls to the Committee, and for recommending changes to the Risk Management Policy.

Group Audit

Group Audit provides assurance to the Committee on the effectiveness of AGL's risk management framework and on the adequacy and effectiveness of the system of internal controls.

Risk Management Committee

To assist it in carrying out its responsibilities the Board has established an Audit and Risk Management Committee. Details of the operation of the Audit and Risk Management Committee are included in the commentary on Principle 4.

The Committee operates under a formal Charter published on AGL's website.

The Charter is reviewed annually to determine whether any changes are necessary or desirable.

Recommendation 7.3 – CEO and CFO assurance on financial reporting risks

The CEO and the CFO have provided the Board with written assurances that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Principle 8: Remunerate fairly and responsibly

Recommendation 8.1 – *The Board should establish a remuneration committee*

The Board has established a People and Performance Committee (equivalent to a remuneration committee) comprising three non-executive and independent Directors – Max Ould (Chairman), Mark Johnson, and Sandra McPhee. The Committee has a formal Charter that is reviewed regularly. A copy of that Charter is available on AGL's website.

Full details of the responsibilities of the People and Performance Committee are set out in the commentary in relation to Recommendation 2.4. These responsibilities include making recommendations to the Board in relation to remuneration policies applicable to Directors and to senior management.

The CEO attends meetings of the People and Performance Committee by invitation when required to report on and discuss senior management performance, remuneration and related matters, but is not present at meetings when his own performance or remuneration is discussed.

Recommendation 8.2 – *The Company should distinguish between non-executive Directors' remuneration and that of executive Directors and senior management*

AGL's remuneration structure distinguishes between non-executive Directors and that of the Managing Director and senior management. A Remuneration Report required under Section 300A(1) of the Corporations Act is provided in the Directors' Report on pages 39 to 48 of this Annual Report.

AGL's website

Apart from the corporate governance disclosures contained within this Annual Report, the ASX Principles also recommend that a company makes available relevant documents (eg. charters and policies) on its website.

The following documents are published on the AGL website under About AGL/Investor Centre.

- Annual Report;
- Sustainability Report;
- Corporate Governance Statement;
- Board Charter;
- People and Performance Committee Charter;
- Audit and Risk Management Committee Charter;
- Safety, Sustainability and Corporate Responsibility Committee Charter;
- Code of Conduct;
- Securities Dealing Policy;
- Compliance Policy;
- Auditor Independence Policy;
- Market Disclosure Policy;
- Risk Management Policy;
- Health, Safety and Environment Policy;
- Privacy Policy; and
- Wholesale Energy Risk Management Policy (summarised).