

AGL Energy Limited

AUDIT AND RISK MANAGEMENT COMMITTEE CHARTER

1. Purpose

- 1.1 The primary function of the Audit and Risk Management Committee is to assist the Board of Directors in fulfilling its responsibilities to shareholders by:

Audit

- Monitoring the adequacy of and integrity of financial reporting.
- Monitoring and reviewing the effectiveness of Group Audit.
- Overseeing and recommending to the board matters in relation to the external auditor, including the appointment of external auditors and their fee.
- Monitoring and reviewing the external auditor's qualifications, performance and independence.

Risk Management

- Maintaining and overseeing a sound system of internal controls based on the adoption by the Board of a risk-based approach to the identification, evaluation and management of risks that are significant to the fulfilment of AGL Energy's business objectives.
- Reviewing the effectiveness of AGL Energy's risk management and internal compliance and control system.

The Audit and Risk Management Committee will primarily fulfil these responsibilities by carrying out the activities in Section 6 of this Charter.

2. Membership

- 2.1 The membership of the Committee shall be appointed by the Board from amongst the non-executive Directors of AGL Energy. Each of the members will be independent which means they will be free from any interest, business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of AGL Energy.
- 2.2 All committee members shall have a working familiarity with basic accounting and finance practices with at least one having financial expertise (ie. qualified accountant or other financial professional) as well as members with understanding of the industry in which AGL Energy operates.
- 2.3 The Committee shall consist of a minimum of three members.
- 2.4 Committee members will be appointed for an initial term of 3 years. Existing members can be reappointed.

- 2.5 The duties and responsibilities of a member of the Committee are in addition to those set out for a member of the Board of Directors.
- 2.6 The Chairman of the Committee will be appointed by the Board. The Chairman of the Board may not be appointed Chairman of the Committee. Should the Chairman of the Committee be absent from any meeting, the members of the Committee present shall appoint one of those to be Chair of that meeting.

3. Meetings

- 3.1 The Committee will meet a minimum of four times annually and more frequently if required as determined by the Committee Chairman.
- 3.2 A quorum of any meeting shall be two members.
- 3.3 No one outside the Audit Committee and the Board is entitled to be present at a meeting of the Committee. It is for the Committee to decide if non-members should attend meetings. The Committee may request that any officer or employee of AGL Energy meet with them or any member and provide information as necessary.
- 3.4 The external auditor is invited to attend all Committee meetings and receive a copy of the Committee papers. The external auditor reports directly to the Committee.
- 3.5 The Committee shall meet at least annually with the [Manager, Group Audit] and the external auditors without management present to discuss any matters the Committee or these groups believe should be discussed privately.
- 3.6 The Secretary of the Committee is the Company Secretary.

4. Authority

- 4.1 The Committee is a Committee of the Board and shall have no authority independent of the functions delegated to it by the Board.
- 4.2 The Committee is authorised by the Board to investigate any activity it deems appropriate consistent with its responsibilities and duties. It is authorised to seek any information from any officer or employee of AGL Energy all of whom must co-operate with any request made by the Committee.
- 4.3 The Committee is authorised to engage any firm of accountants, lawyers or other professionals as the Committee sees fit to provide independent counsel and advice and to assist in any review or investigation on such matters as the Committee deems appropriate.

- 4.4 The findings of the Committee shall not relieve the Board of any of its responsibilities.

5. Reporting

- 5.1 The Committee shall regularly update the Board about Committee activities and make appropriate recommendations. The Committee will prepare any reports required by law or listing rules or requested by the Board including required reports on corporate governance in the Annual Report.
- 5.2 The Committee Chairman will report to the Board meeting next following a meeting of the Committee on any matters under consideration.
- 5.3 At the discretion of the Committee Chairman and members of the Committee, matters considered to be of major importance will be referred to the Board for its attention.
- 5.4 The Company Secretary shall distribute copies of the minutes of meeting of the Committee to the Board for discussion at the next Board meeting.

6. Responsibilities

To fulfil its responsibilities and duties the Audit and Risk Management Committee shall:

Financial Reporting Processes

- Review and discuss with management and the external auditor the half and annual financial reports including notes to the financial accounts and other disclosures and recommend to the Board whether the financial reports should be issued.
- Review the Group's accounting and financial reporting practices, including the effect of changes in accounting standards and practices, Australian Stock Exchange listing requirements and corporate legislation. This includes discussing with management and the external auditor the application of those practices and standards to AGL Energy Group's financial reports.
- Review and discuss with the external auditor their report regarding significant findings in the conduct of their audit and management's response.
- Discuss with management and the external auditor any major issues relating to the system of internal controls over financial information.
- Discuss with management and the external auditor the process and related information supporting the statements to the Board by the CEO and CFO that AGL Energy's financial reports present a true and fair view, in all material respects, of AGL Energy's financial condition and operational results and are in accordance with relevant accounting standards (ASX Corporate Governance Council, Principle 4.1).

Oversight of External Auditor

- Recommend to the Board the selection and termination of the external auditor subject to shareholder approval.
- Review the annual audit plan with the external auditors and approve the plan and audit fees.
- Review and discuss with the external auditor any matters relating to the conduct of the audit including responses from management.
- Receive and review quarterly reports on non-audit services to determine compliance with the Board's policy on maintaining the independence of the external auditors.
- Review annually the Board's policy on maintaining independence of the external auditors and recommend any changes if necessary.
- Review the performance of the external auditor having regard to the skills and capabilities of the lead external audit staff.
- The external auditor reports directly to the Committee.

Risk Management

- Review and approve the Group's risk management policy and framework for identifying, assessing and managing risk.
- Regularly review and update the Group's risk profile.
- Monitor the effectiveness of the risk management framework and the system of internal control. As part of monitoring and assessing the effectiveness of the system of internal control, regularly receive and review reports on internal control, particularly those included in the Annual Report.
- Review at least annually the Group's implementation of the risk management policy and framework.
- Discuss with management and the [General Manager, Group Strategic Risk] and [Manager, Group Audit] the process supporting the statements to the Board by the CEO and CFO that the integrity of financial statements is founded on a system of risk management and internal compliance and control which implements the policies adopted by the Board and that AGL Energy's risk management and internal compliance is operating efficiently and effectively in all material aspects (ASX Corporate Governance Council, Principle 7.2).

Internal Audit

- Review the appointment and replacement of the [Manager, Group Audit].
- Oversee, review and approve the scope of the annual internal audit plan.
- Review and discuss with [Manager, Group Audit] significant internal audit reports.
- Determine that no management restrictions are being placed on the Internal Auditor.

Legislative Compliance

- Monitor the development and ongoing review of appropriate legislative compliance programmes where applicable.
- Receive, review and discuss with management regular reports on legislative compliance.

Other responsibilities

- Any other relevant matters referred by or delegated to the Committee by the Board.

Review

- The Committee will conduct a review of its performance annually as part of the overall Board performance assessment process.

Approved by the Board in July 2006