# AGL Concise Sustainability Report 2007.





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This document is a concise printed version of the complete AGL Sustainability Report 2007. The full report is available online at:

www.agl.com.au/sustainability/report

# Message from the Chairman and Managing Director.

AGL has delivered energy to Australians for 170 years and today, around 6 million people rely on us to meet their energy needs.

During 2006/2007, AGL has continued to make progress towards achieving our stated strategic goal of becoming a world-class energy company.

In pursuing this goal, AGL recognises that our shareholders, customers, employees and the community expect us to appropriately and transparently manage the environmental and social risks that relate to our business.

# Our commitment to sustainability

AGL acknowledges that while delivering appropriate returns for our shareholders, it is imperative that we proactively manage key sustainability issues. These issues include:

- managing the environmental impacts of supplying energy to our customers;
- delivering improved service and value to our customers;
- engaging with the community in which we work; and
- developing the skills and talents of our staff.

In this, our first Sustainability Report as AGL Energy Limited, we have focused on setting out our goals and strategies to address these sustainability issues. This means accounting for the impacts of our activities and providing detail about the systems we have in place that ensure sustainability is a key focus for our business.

This report highlights achievements that AGL has made over the last 12 months to address sustainability issues. We have made considerable progress improving the sustainability of AGL's electricity generation portfolio through investing in

a range of renewable energy projects. We are also undertaking an overhaul of our retail support systems to improve the service that we provide our customers.

This year, the complete AGL Sustainability Report is published as an online version (www.agl. com.au/sustainability/report). Printing a small summary, rather than the whole report, helped us to significantly reduce the resources used in generating the report.

We are committed to an ongoing focus on managing our sustainability risks, to deliver long term value for our shareholders, and account for the impacts we have on our environment, our customers and our people.





**Michael Fraser**Managing Director
and CEO

## AGL's operations.

#### **Retail Energy**

AGL's Retail Energy division sells natural gas, electricity and energy-related products and services to about 4 million residential and small business customer accounts<sup>1</sup> across NSW, Victoria, South Australia, Western Australia and Queensland. This represents an increase of 40% in customer accounts from the previous year due to the acquisition of the Sun Gas and Powerdirect energy retailing businesses. These new businesses allowed AGL to extend our retail energy operations in Queensland beyond our existing commercial and industrial customers to include the residential market.

#### **Merchant Energy**

AGL's Merchant Energy division manages our wholesale energy portfolio including renewable and thermal power generation interests and upstream gas production interests. It also manages gas and electricity sales to major industrial and commercial business customers, and to other retailers.

During 2006/2007, the acquisition and development of a range of generation assets grew AGL's installed capacity from 1,687 MW to 1,777 MW<sup>2</sup>.

In 2007, through an agreement with TRUenergy, AGL divested the 180 MW Hallett Power Station and acquired the 1,280 MW Torrens Island Power Station (TIPS) in Adelaide. AGL took ownership of TIPS from 2 July 2007 resulting in a net increase of approximately 68% in AGL's installed capacity.

Construction commenced on the 95 MW Hallett Wind Farm in South Australia and the 140 MW Bogong Hydro development in Victoria. AGL also acquired various generation assets as part of the Powerdirect acquisition. AGL has further invested in its upstream gas portfolio during 2006/2007, building upon our existing Camden Gas Project in New South Wales. AGL made three key acquisitions during the past year: 50% joint venture interest in Queensland's Moranbah Gas Project; 27.6% shareholding in the Queensland Gas Company; and a 35%

shareholding in CSM Energy.

#### **Energy Investments**

AGL has maintained a diversified range of energy investments in generation, transmission, distribution, retail and energy related businesses:

ActewAGL (50%), AlintaAGL (33%)<sup>3</sup>, GasValpo Chile (100%), Elgas (50%), H C Extractions (100%), Loy Yang Power (32.5%).

- <sup>1</sup> Includes 100% of joint ventures. The number of customer accounts will reduce to approximately 3.4 million following completion of the AlintaAGL sale.
- <sup>2</sup> Installed capacity at 30 June 2007 including equity generation in joint ventures.
- <sup>3</sup> On 2 November 2007, AGL announced that it will sell its 33% interest in AlintaAGL Pty Ltd to Alinta 2000 Ltd. Completion of the sale is scheduled to occur 31 December 2007.



## About this report.

AGL Energy Limited (AGL) commenced trading on the Australian Securities Exchange on 12 October 2006, with business operations beginning effectively from 26 October 2006. This report covers the performance of AGL, the parent company, and its wholly owned Australian businesses for the full 2006/2007 financial year. Where it was not possible to report on activities prior to 26 October 2006 this has been duly noted.

This concise report represents a summary of the AGL Sustainability Report 2007 (the full report) which is available online (www.agl.com.au/sustainability/report).

This report was prepared with reference to the Global Reporting Initiative's (GRI) 'G3' guidelines and the GRI Electric Utility Sector Supplement – Draft for Public Comment.

Throughout the year we consulted our stakeholders about various elements of our approach to sustainability issues. We also sought specific comment on the scope and content of this report from representatives of the AGL Customer Council, WWF-Australia and Kenedex Pty Ltd.

AGL also sought assurance about data accuracy and reliability of the report. PricewaterhouseCoopers has conducted a limited assurance review of selected environmental and greenhouse data and AGL has sought external review of other parts of the report. Details of this review are set out in the full report.

### Sustainability and AGL

As part of our strategy to grow AGL into a world-class, customer focused energy company, we recognise that our shareholders, customers, employees and the community expect us to appropriately and transparently manage environmental and social risks and opportunities that relate to our business.

The key sustainability issues that inform AGL's business priorities include:

Reducing the carbon intensity of electricity generation, while at the same time meeting customer's expectations on energy cost;

- Providing improved service to all our customers and ensuring equitable access to energy for vulnerable customers;
- Responding to community concerns – including the impact of our development activities on local communities, and responding to broader community needs; and
- Providing a work environment that motivates, attracts and retains talented employees.

Details about AGL's Governance and Management approach are set out in the full report.

#### Greenhouse.

## Goal: Reduce the greenhouse gas intensity of energy across the supply chain.

Climate change is one of the most important issues facing the world today. AGL recognises that climate change is a critical issue facing the global community and accepts the scientific consensus that greenhouse gases in our atmosphere need to be stabilised at concentrations below 550 parts per million so as to avoid dangerous climate change.

AGL has an aspirational goal to reduce the greenhouse gas intensity of energy across the supply chain. This can be achieved through our investment decisions, improving our own operations and supporting customer choice.

AGL's strategies to reach our goal are:

- Engage with our stakeholders about reducing greenhouse gas emissions.
- Expand our portfolio of investments in renewable and low-emission power generation and power purchase contracts.
- Develop our portfolio of investments in conventional and coal-seam methane gas production and contracts.
- Participate in international emissions trading to gain early knowledge about operating in a carbon constrained environment.

- Help customers make better choices for their home and environment.
- Provide energy efficiency and climate change services to our industrial and commercial customers.
- Demonstrate best practice energy management in our corporate operation.
- Work with Loy Yang Power to improve its greenhouse gas emission performance.

This year, AGL has made a number of strategic investment decisions which means that 76% of AGL's capacity is now low or zero emission, and with the commissioning of assets under construction, this figure should increase to 78%.

This year, AGL joined the Chicago Climate Exchange (CCX®), the world's first voluntary and legally binding greenhouse gas emissions trading program. By becoming a member of the CCX we will be able to take advantage of a portfolio of highly efficient generation and trade allowances with other companies around the globe seeking to reduce their own carbon footprint.

### **Greenhouse Footprint**

The summary table shows the total annual emissions for the continuing operations of AGL Energy Limited (*AGL Footprint*). A breakdown of emissions is provided in the full report. Figures in brackets represent the emissions previously reported for The Australian Gas Light Company.

The AGL Footprint represents the emissions associated with fully or partly owned Australian assets and activities over which we have operational control. AGL's emissions for 2006/2007 represent an increase from the total greenhouse emissions in 2005/2006. The increase resulted from greater periods of generation by our Somerton and Hallett gas-fired power stations to meet peak electricity demand. Emissions also increased due to the acquisition of Powerdirect cogeneration and biomass assets.

The Australian Equity Footprint includes emissions from AGL's wholly and partly owned

businesses. Emissions have increased from 2005/06 due to greater generation by Loy Yang Power, the acquisition of Powerdirect and the establishment of the Moranbah JV. We continue to work with Loy Yang Power to improve greenhouse gas emissions performance. The full report provides further detail on activities undertaken during the year, including the Mechanical Thermal Expression pilot project.

The Overseas Equity Footprint represents an estimate of our emissions from our investments in PNG and Chile.

The Energy Supply Footprint estimates greenhouse emissions associated with the provision of gas and electricity to our customers. Emissions have increased from 2005/2006 due to an increase in customer accounts over the year. However, the emissions intensity of AGL's electricity portfolio remains lower than the published state emission intensity factors.

Greenhouse footprints (total annual emissions, Mt CO<sub>2</sub>e)

	2006/2007	2005/2006	2004/2005	2003/2004
AGL Footprint	0.182	-0.104(0.725)	N/A <sup>5</sup>	N/A
Australian Equity Footprint	6.892	(6.755)	(6.820)	(6.439)
Overseas Equity Footprint	0.498	0.274	-	-
Energy Supply Footprint	41.0	37.8 <sup>6</sup>	38.2	36.0

## Highlights of 2006/2007 included:

- Announcing a number of new renewable energy projects including construction of the 140 MW Bogong hydroelectric power station in Victoria and the development of the 95 MW Hallett Wind Farm in South Australia.
- Being the first energy company in Australia to join the Chicago Climate Exchange.
- Being the first energy company to publicly disclose the potential impacts on our business associated with an emissions trading scheme.
- Spearheading the amalgamation of the Business Council of Sustainable Energy and Australian Wind Energy Association into a single clear voice for the clean energy sector, the Clean Energy Council.
- Emissions represent those parts of The Australian Gas Light Company which are part of the continuing operations of AGL Energy Ltd.
- <sup>5</sup>A breakdown of the greenhouse emissions for 2004/05 and 2003/04 from those parts of The Australian Gas Light Company which are part of the continuing operations of AGL Energy Ltd is not considered appropriate for trending of data.
- <sup>6</sup>Energy Supply Footprint for 2005/06 has been adjusted due to an update in the geographic breakdown of electricity sales for the period.



The Chicago Climate Exchange is the largest voluntary carbon exchange in the world and AGL joins global companies such as Sony, Ford, Motorola and IBM as a member.





## People.

Goal: Provide a workplace that values the passion and energy of its people, where skills are grown, performance and contribution are rewarded and where our employees really make things happen.

Achieving our ambitious goal of growing AGL into a world class, customer focused energy company depends on us having a workplace where people have the opportunity and the resources to make a meaningful contribution to the business, where they are appropriately empowered to make the decisions they are best placed to make, and where they are recognised for the contributions that they make.

AGL's strategies to reach our goal are:

- Pursuing zero injuries and building a healthier workforce.
- Growing the skills and talents of all our people.
- Acting ethically and fairly in all our dealings.
- Recruiting and retaining the best staff to grow our business.
- Rewarding performance and recognising contribution.

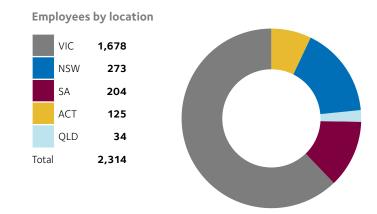
AGL's integrated business strategy – which is the operational blueprint for delivering AGL's goals – sets a clear direction and performance framework for all employees.

The 2006 demerger of our infrastructure assets and operations allowed AGL to simplify the organisational structure across all parts of the business. This was a key first step in reducing the number of reporting layers and increasing the agility and visibility of talented people and ideas at all levels. This included the consolidation of our large retail business in Melbourne.

Through this period of change AGL has faced a number of challenges. Significant restructuring in the business has resulted in a substantial reduction in staff numbers. AGL placed a high priority on supporting those employees leaving AGL, by access to career outplacement services.

During 2006/07 an increase in our Lost Time Injury Frequency Rate (LTIFR) has been predominantly due to the new and different health and safety challenges arising from our newer generation and gas production businesses.

In response to these new challenges AGL reviewed it's HSE Management committee structure and is implementing a new approach based upon the strong foundations of our HSE management system *Lifeguard*.



Lost time injury and medical treatment frequency rates



AGL Duration Rate

AGL MTIFR

<sup>&</sup>lt;sup>6</sup> Numbers exclude Agility employees

### Highlights of 2006/2007 included:

- Launching our *Operational Excellence* program to prepare retail employees at all levels for our new customer management system.
- Surveying employees to better understand the mix of ethnicity, disability, language and dependent care needs of our workforce.
- Commencing Fair Treatment workshops to remind employees what constitutes fair behaviour and where to turn in the event of a grievance.
- Defining the desirable behaviours for our business as foundation planks for articulating how we aspire to work, lead, recruit and reward at AGL.

The AGL Bogong Hydro
Development team is managing
the construction of the largest
hydroelectric scheme to be
built on mainland Australia in
the last 20 years.





#### **Environment.**

## Goal: Excellence in environmental management and performance.

We strive to operate our business in accordance with the AGL Environmental Principles. Our environmental principles guide us in minimising our environmental impact and assist us in our journey to achieve sustainable growth.

Our goal includes managing our assets in a responsible manner, which considers the needs and expectations of the community and other stakeholders.

AGL's strategies to reach our goal are:

- Monitor our impact on the environment.
- Improve our people's capability in environmental management.
- Strengthen and maintain our Environmental Management System.
- Minimise our impact on land, air and water resources.

This year we measured the first environment footprint of AGL Energy Limited. We continue to monitor our impacts on land, air and water resources across all areas of the business.

During 2006/2007 increased generation from our gas fired generation assets was required to meet peak electricity demand. Whilst generating electricity at

a lower carbon intensity than the grid average, these greater periods of generation resulted in an overall increase in our water use and emission of air pollutants. A detailed description of the environmental performance of our assets is provided in the full report.

AGL continues to aim for improvements in the environmental performance of our office operations.
AGL monitors water use, waste generation, electricity use and recycling performance at our offices.

In the report we also examine the environmental performance of our operating assets and those under construction. During 2006, AGL commenced construction of the Bogong Hydro Development. This project comprises the construction of a power station on the shores of Lake Guy, a regulating pondage located adjacent to the small village of Bogong in the Victorian Alps. AGL continues to work hard to minimise the potential environmental impacts of the project while ensuring that the environmental benefits such as returning the flow regime within Pretty Valley Creek to near natural conditions are fully realised.

#### **AGL's Environmental Principles**

- AGL will meet or exceed 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 the policy debate on energy and environmental matters, 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 requires that all its businesses 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 recognised for their expertise and 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.
- AGL will assess the potential environmental impacts of all its acquisitions.

#### Customers.

## Goal: Operational excellence for our customers.

As an energy retailer, AGL strives to deliver consistent and efficient service to our customers. We also acknowledge that we have a broader social responsibility to work with our customers experiencing difficult times and ensure that they have the opportunity to equitably access energy.

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

AGL's strategies to reach our goal are:

- Continued improvement to our customers' experience.
- Responsible sales and marketing of our products.
- Ensure equitable access to energy for vulnerable customers.
- Manage our customers' information responsibly.
- Ensure access to product information.

The focus of *Operational Excellence* revolves around the standardisation and simplification of both our systems and processes

to provide our employees the tools to meet our customers' needs. These changes are known as the Phoenix Change Program.

As we embark on these changes the need to retain a high quality service to all customers as well as supporting the vulnerable among our customer base is essential. Ensuring equitable access to energy and providing flexibility in both billing and payment help us strive for this goal.

AGL tracks a range of indicators so that we can use customer feedback to improve the service delivered to our customers. Our complaint handling process remains focused on first call resolution to keep the process accessible and effective for all customers. These processes have contributed to an overall reduction in cases escalated to the Ombudsman during the year.

AGL works with our Customer Council providing two-way communication between the company and community representatives on customer advocacy issues. The Council meets for a full day every quarter and is briefed on a wide range of matters that impact on AGL customers and

the communities in which we operate.

The Council also provides important feedback to AGL on our community programs, such as Staying Connected and Energy For Life. AGL's Staying Connected program aims to ensure access to energy for vulnerable customers. During 2006/2007 AGL expanded the Staying Connected program to include customers in the Queensland market.

#### Staying Connected program participants

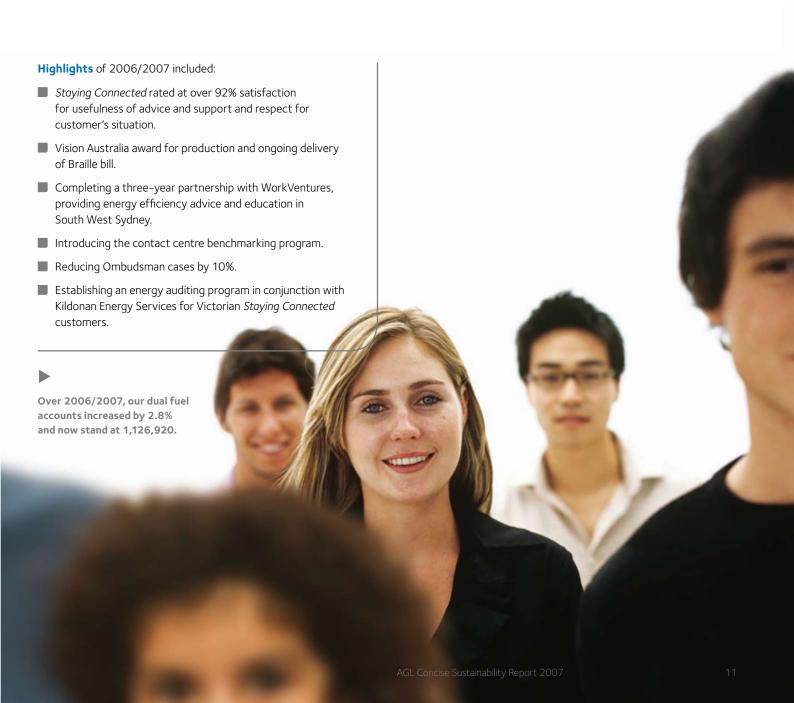


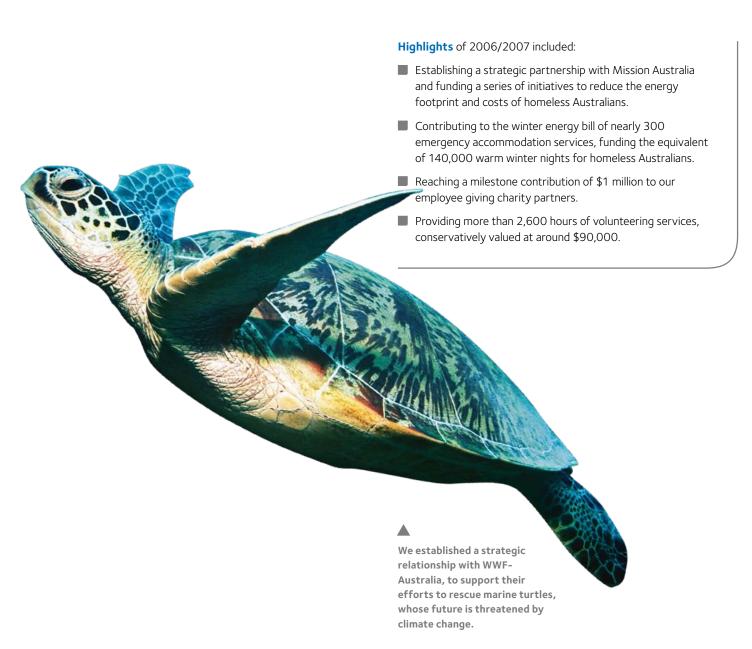
Number of participants as at 30 June 2007.

#### Completion of Staying Connected



Number of participants who successfully completed the program.





## Community.

# Goal: Connect our business and employees with the community in ways which make a genuine contribution, engage our people and strengthen our business.

We believe that our success is shaped and measured not only by the financial outcomes of what we do, but by the social and environmental impact our decisions and actions have on the wider community. We recognise that making a contribution to the communities in which we work and live grows and strengthens that community, an outcome from which everyone benefits.

AGL's strategies to reach our goal are:

- Building long-term strategic community partnerships.
- Providing sustainable assistance to vulnerable Australians
- Providing the means and opportunity for our employees to volunteer in the community.
- Providing direct financial support to charities chosen by our employees.
- Engaging with the community on projects that impact them, every step of the way.

Our community investment program, *Energy for Life*, reflects our genuine

commitment to making a difference in the communities in which we live and work. The program seeks to utilise the skills, expertise and energy that lie within our business, and within every AGL employee, and make a real contribution to the wider community.

Energy for Life incorporates four initiatives – Energy Matters, Warmth in Winter, Volunteering and Employee Giving.

Complementing Energy for Life is AGL's approach to community liaison, a process we recognise as vital to engaging the community on new developments and expansions. Only by engaging them at every stage of the development process, through transparency, accountability and regular communication and feedback, are we able to deliver those projects.

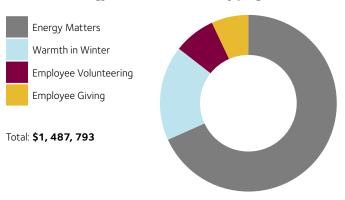
## Employee Volunteering -Energy advice for Mission Australia

AGL's Energy Services team provided professional, pro-bono assistance for Mission Australia in their recent head office relocation in Sydney's CBD.

AGL support included providing guidance on how to work within leasing agreements to gain the best possible tenant power usage options, and working with the project's design team to build in energy efficient options for lighting.

Mission Australia's David Pigott, General Manager Corporate Partnerships, said, "This is just one of the many ways in which AGL and their employees are helping us to save on energy usage and costs, whilst helping us reduce our overall energy footprint. Furthermore, we saved resources as we received the professional advice at no cost".

### 2006/2007 Energy for Life contribution by program area



## **Economic performance.**

# Goal: Deliver growth in returns to shareholders and enhance the quality of earnings by improved risk management and diversification of earnings streams.

While managing our sustainability issues, AGL has a responsibility to deliver appropriate financial returns to our shareholders.

AGL's strategies to reach our goal are:

- Implement AGL's integrated business strategy.
- Undertake new initiatives to leverage our leadership position in the retail energy sector and renewable energy generation.
- Reduce operating costs whilst maintaining service quality and appropriately managing our business risks.
- Promote a culture based on one team, open communication, making things happen and reward based on merit.

During 2006/2007, AGL's integrated business strategy has driven a series of strategic acquisitions and organic growth initiatives. AGL continues to improve its cost to serve competitiveness and we have increased the proportion of our electricity demand that we source from generation that we own or control, and gas from reserves that we hold interests in. AGL has capacity across the full suite of proven renewable energy generation technologies.

The full report provides a summary of the direct and indirect economic impacts that AGL has on shareholders, customers, suppliers, employees and the community. Detailed financial information is available in the AGL Annual Report 2007.

Total assets	\$14.1 billion
Capex (SIB)	\$18.7 million
EPS	77.3 cents
Debt	\$2.1 billion
ROE	12.2%
D/D+E	44.4%
Exp/Net Rev	84.3%
Revenue	\$3.8 billion

2006/2007

\$326 million7

\$98.7 million

26 cps

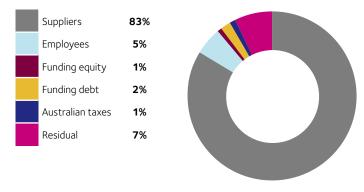
**Performance Summary** 

**NPAT** 

Interest Expense

Dividends Paid

#### 2006/2007 distribution of revenue



<sup>&</sup>lt;sup>7</sup> Pro forma underlying post acquisitions 30 June 2007.

During 2006/2007 AGL continued the development of 342 MW of renewable generation.



## Corporate ratings, awards and contact details.

#### **Ratings:**

AGL Energy Ltd achieved a "AA" RepuTex Rating for 2007 for sustainability performance.

AGL Energy Ltd was awarded RepuTex Carbon Rating of CR1 rating for carbon management. This is the highest score on the RepuTex carbon rating scale.

In May 2007, AGL Energy Ltd was rated by the Association of Chartered Certified Accountants (Australia and New Zealand) as having the top score (82%) for analysis of the ASX50 companies in relation to climate change disclosure.





# Our share price is included in the following indexes:

FTSE Group confirms that AGL 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.

AGL has been selected as an index company in the 2007 Dow Jones Sustainability World Index (DJSI World).





#### We support:

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

AGL is a founding member of The London Benchmarking Group, Australia.

#### **Product accreditation:**

AGL Green Balance™ is accredited under the Australian Greenhouse Office's Greenhouse Friendly™ Program.

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







An Australian Government Initiative



#### **Recent awards**

- Finalist, Business Leadership Award, 2007, Greenhouse Challenge Plus Awards.
- Winner, Sustainable Energy Generation, 2006, NSW Government Green Globe Awards.

## Feedback on the report

AGL welcomes comments on the report. Comments can be emailed or posted to the address below.

## **Further Information**

For more information about this report, please contact:

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#### About this report

This report is printed on Impress Silk, an Australianmade paper. Energy used in its manufacturing process is 92% renewable, sourced from zero-emission hydroelectric and wind farm power.

Impress paper is manufactured under the highest level of international environmental standards, ISO 14001. Assessment of these systems is undertaken by SAI Global (SAI) and Det Norske Veritas (DNV); recognised world leaders in environmental auditing.

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 Cobé Design and printed by Lilyfield Printing.

