We recognise that we have responsibilities to all our stakeholders (our employees, customers, investors, and the community) and to the environment in which we live. That’s why we hold ourselves to high standards of accountability and behave ethically in our business activities.

Operating honestly, transparently and ethically is of utmost importance to us. This section focuses on how these overarching principles inform the way we operate our business and communicate with our stakeholders:

- **Stakeholder engagement**: A wide variety of people and groups are interested in, or affected by, the decisions that we make. We proactively engage with our stakeholders on relevant issues in ways that are most appropriate to each group.
- **Ethical conduct**: We seek to operate our business and balance stakeholder interests in a way that is ethical, shows integrity, and is transparent.
- **Public policy engagement**: We are committed to the pursuit of evidence-based policy development, with a view to developing sensible policy responses.
- **Legislative compliance**: We integrate compliance risk management practices in our business processes and operations to drive consistent, effective and accountable decision-making.
- **Corporate governance**: Best practice corporate governance principles support sustainable performance by AGL over time.
We engage in constructive dialogue with our stakeholders to understand and respond to issues that are important to our people, customers, investors, suppliers and partners, regulators, landowners and the wider community.

A summary of the key issues for each of our stakeholder groups is provided below, along with an outline of how we engaged with each group during FY17, and the planned outcomes of that engagement. More information about the way we engage with local communities is available in the community engagement section of this report.

During FY17, we established the AGL Stakeholder Advisory Council. Chaired by our CEO and Managing Director, Andy Vesey, the primary function of the Council is to engage with our senior management on effective strategies to manage our business in a responsible, ethical and sustainable manner. External members of the Council were selected to provide expertise across the investment, customer, social services, civil society, government and environmental fields. Council meetings are also attended by a representative from Deloitte, AGL's current financial and non-financial auditor.

The Council met once during FY17, and provided constructive input on several matters, including:

- AGL's approach to determining material sustainability issues. This feedback will be taken into consideration when undertaking subsequent materiality reviews, and further information has been provided in the material issues section of the report to provide a better explanation of our current approach to materiality.
- AGL's approach for selecting future strategic partnerships with charitable organisations as part of the Energy for Life revitalisation process (refer to the community investment section).

The Council will prepare a report for the Board's Safety, Sustainability and Corporate Responsibility Committee following the August 2017 meeting.

### Key issues for our stakeholders

<table>
<thead>
<tr>
<th>How we engage with our stakeholders and what we hope to achieve</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>AGL people</strong></td>
</tr>
<tr>
<td>To remain competitive, we need a high performance and anticipatory culture where people reflect our core values of safe, sustainable, inclusive and focused, and are engaged, accountable, empowered, recognised and rewarded.</td>
</tr>
</tbody>
</table>

The key issues for our people include: workplace safety; career development and training; appropriate remuneration and recognition (including enterprise bargaining agreements); personal wellbeing; and a fair, equitable and inclusive workplace.

The AGL Engagement Survey is undertaken every two years and provides our people with the opportunity to give feedback about the organisation. The Engagement Survey was last undertaken in FY16 and will be next undertaken in FY18. Refer to the employee engagement section for further information.

AGL Enterprise Leadership Team (consisting of Executive Team members and their direct reports) forums are conducted throughout the year to discuss key priorities, projects and goals of each business group. Twice-yearly Town Halls are also held to share information with AGL people and invite conversation.

Networks such as AGL Equality and AGL Shine provide opportunities for our people to support the development of a diverse and supportive workplace culture, and Let's Talk lunchtime sessions held at our major offices provide opportunities to explore business priorities and community issues at a more in-depth level.

We also prioritise engagement with our people about their safety and wellbeing. Refer to the health and safety section for information about HSE Walks and Technical Interactions.

Our people are supported with a reward and recognition program that acknowledges their contributions and performance.

The key purpose of these engagement activities is to ensure that our people understand our strategic direction and are engaged and safe in the workplace.
Investment community

In addition to our periodic and continuous disclosure obligations, we engage with the investment community about the financial and non-financial risks and opportunities that may influence the company's performance and growth in the longer term.

Many investors are increasingly interested in our response to environmental, social and governance risks.

The key issues for regulators include: reliability and affordability of energy supply; efficient investment in utility infrastructure; climate change and renewable energy policies; energy prices; and reliability of energy supply.

We regularly engage with both retail and institutional investors throughout the year. The Annual General Meeting (AGM) provides all shareholders with the opportunity to vote on a range of issues and to raise questions concerning performance and strategy with AGL’s Directors and senior executives.

We hold a number of investor briefings each year, which are broadcast live and archived on the AGL website. These briefings include AGL’s half-year and full-year results as well as detailed strategy briefings and site visits. In addition, we participate in broker-hosted conferences and undertake regular road-shows to engage with institutional investors in Australia and overseas.

We participate in investor surveys focused on ESG performance, including the CDP Climate Change Program. The investment community uses these tools to collect relevant non-financial performance information to facilitate informed investment decisions.

During the year, we also engaged the following firms for strategic, communications and policy-related advice:

- Newgate Communications
- Hawker Britton
- Clean Energy Strategies
- FutureEye
- Craig Emerson Economic

Consistent with our Political Donations Policy, we do not use third parties to make direct or indirect political donations. Refer to the public policy engagement section for more information.

The key purpose of our engagement with the investment community is to ensure our business performance and strategy are aligned with the needs of our shareholders, customers and the communities in which we operate.

Government

Our business is affected by the policy decisions and commitments of governments at all levels. Governments have a responsibility to ensure the accessibility of essential services, such as energy, along with the development of energy infrastructure in accordance with accepted policy principles. These principles include consideration of climate change impacts and sustainability.

Federal, state and local governments are concerned with a wide range of issues including: the development of energy infrastructure; climate change and renewable energy policies; energy prices; and reliability of energy supply.

We conduct regular dialogue with relevant federal, state and local governments in relation to a range of project-specific and policy issues – including meetings, policy submissions (both directly and via industry associations), attendance at events and the provision of briefings. Further information is available in the public policy engagement section of the report.

Where possible, we use peer reviewed research published by AGL economists and other academics to engage with governments around issues related to the energy industry and public policy. This research can be found on the AGL Blog.

During the year, we also engaged with the following firms for public policy development with a view to maximising the benefits to our customers, shareholders, and the communities in which we operate.

Regulators

Regulators are responsible for economic regulation and monitoring compliance against jurisdictional and national energy regulations, as well as environmental regulation. Regulatory decisions can have a significant impact on our business.

The key issues for regulators include: reliability and affordability of energy supply; efficient investment in utility infrastructure; compliance with consumer protections and other parts of the regulatory framework; compliance with environmental licensing and other requirements.

We engage with regulatory bodies in New South Wales, Victoria, Queensland, South Australia, Western Australia and the Australian Capital Territory, and national bodies such as the Australian Energy Regulator, Australian Energy Market Operator and the Australian Energy Market Commission, including through direct engagement and activities undertaken as part of industry associations.

The key purpose of our engagement with regulators is to inform regulatory developments with a view to balancing the needs of our stakeholders, customers and the communities in which we operate. Engaging with regulators also provides us with valuable feedback on our performance, and we also benefit from the expertise of regulators in understanding emerging issues.

Investment partners, joint ventures and suppliers

We have a range of investments in electricity generation and retail operations.

We have business relationships with investment partners and suppliers, including, significantly, through the Powering Australian Renewables Fund (PARF).

The mechanisms for engagement with investment partners, joint ventures and suppliers vary, but can include meetings and correspondence, as well as more formal arrangements such as representation on the Powering Australian Renewables Fund (PARF), ActewAGL and Sunverge Energy boards.

During FY17 we have been continuing to engage with our suppliers about the AGL Supplier Code of Conduct (refer to the supply chain section). During FY17, we also piloted the introduction of a Lender Code of Conduct questionnaire. This questionnaire was issued to banks for optional completion alongside a debt facility invitation. The questionnaire covers issues such as corporate governance, ethical behaviour, risk management, labour practices, human rights, non-discrimination, health and safety, environmental management, community and supply chain. The questionnaire was broadly well received particularly by those banks who have a strong commitment to their own ESG policies. It is thought to be the first of its kind in the Australian market and has sparked much discussion and interest amongst borrowers and lenders alike.

This information is included in an interactive online report at http://agl2017.reportonline.com.au/sustainabilityreport. Visit this website to access the full FY17 Sustainability Report, sustainability data centre and other online features. This report is subject to the important information statement which is also available on this website.
Energy industry and industry associations

We play an active role in leading industry support for renewable energy and climate change initiatives, as well as the need to ensure reliable and efficient energy infrastructure and markets.

The business impacts of energy policy are a primary concern for the Australian energy industry.

During FY17, AGL participated in several industry associations. AGL paid the following membership fees to these organisations over FY17:

- Business Council of Australia ($65,000)
- Australian Industry Group ($25,318)
- Clean Energy Council ($65,121)
- Australian Energy Council ($332,222)
- The Carbon Market Institute ($6,000)
- Sustainable Business Australia ($0)
- Committee for Economic Development of Australia ($19,685)
- Australian Financial Market Association ($31,752)
- Australasian Investor Relations Association ($13,800)
- Group of 100 ($0)
- Financial Executives Institute of Australia ($5,600)
- Alliance to Save Energy ($18,000)
- Green Building Council ($0)
- Committee for Gippsland ($20,000)
- Gippsland Regional Executive Forum ($2,600)
- Corporate Tax Association ($13,700)
- Diversity Council Australia ($6,335)
- Energy Efficiency Council ($8,000)
- IAP2 Australia ($1,600)
- Global Compact Network Australia ($5,000)
- Australian Direct Marketing Association ($19,382)

We do not make separate payments to these associations for specific projects related to influencing political campaigns. Membership and participation in these bodies is undertaken for the interests of AGL and does not reflect the private interests or preferences of AGL Directors and officers.

Importantly, we do not always agree with the policy positions these associations take, and we aim to clarify this with other stakeholders where appropriate. Areas where our position differs from associations where we are a member is outlined in the public policy engagement section.

The key purpose of our engagement with associations and think-tanks is to develop mutually beneficial agreed positions on relevant issues, with a view to maximising the benefits to our shareholders, customers and the communities in which we operate. Such engagement also allows us to receive feedback on our performance and to benefit from the expertise of these organisations in understanding emerging issues.

Customers

To maintain and improve market share within Australia's highly competitive energy market, it is essential that we listen and respond to customer feedback and constantly seek to improve the level of customer service that we provide. We aim to work collaboratively with governments and the community sector to support customers who are having trouble accessing affordable energy.

Customers are concerned with the cost of energy, improving energy efficiency and the sustainability of the energy supply to their homes and businesses; customer service quality; and the impact, perceived or real, of government policies.

The AGL Customer Council meets on a quarterly basis to discuss a wide range of matters that affect our customers and the communities in which we operate.

Our Customer Experience team looks for opportunities to interact with small groups of customers in open discussions about their experience in dealing with us. In FY17 we held two ‘Customer Face to Face’ sessions with 86 customers and 52 AGL people.

As part of our Voice of the Customer satisfaction program, we also undertook nearly 1,000,000 retail customer surveys during FY17. Surveys were conducted by email, phone and automated after-call survey methods, and covered our key customer-facing areas, such as inbound Customer Services, New Connections, Consumer Sales and Solar teams.

Feedback received from our customers in FY17 was used to inform and improve the customer experience. For example, customer feedback highlighted the need for improved meter read processes, adding impetus to the rollout of digital metering.

The AGL Customer Charter outlines our commitment and timeframes for responding promptly to phone and written enquiries. Our Customer Escalations team also deals directly with customer concerns.

To improve our customers' energy experience, we have been investigating ways that customers can derive more value from their distributed energy resources, including their solar panels and battery storage. In May 2017, we led a project to investigate how 'blockchain' technology could be used to enable households with solar panels, batteries and ‘smart’ air conditioning to trade or share excess electricity they generate.

Account management and engagement with our major commercial and industrial customers is approached on a customer-preferred basis; however mechanisms include face-to-face meetings, executive engagement, dedicated communications, general correspondence and energy briefings.

The AGL Community allows the community to connect with us and contribute and collaborate on any matter relating to energy. Other feedback mechanisms available to customers include an online information request facility and social media such as Twitter and Facebook.
Local communities

Effective engagement with the community on development projects is vital to our long-term success. We can only deliver and operate projects with the respect and support of the community by transparently engaging with the community at every stage of the development process.

The key issues for local communities include the environmental, social and economic impacts of developments and infrastructure.

As part of the development approval and construction processes for each major project, we engage with impacted communities. Detailed information on individual energy projects is provided on our website.

Community Consultative Committees (CCCs), also known as Community Dialogue Groups (CDGs), are in place for a number of projects, including the Coopers Gap Wind Farm, the Silverton Wind Farm, the Macarthur Wind Farm, the Camden Gas Project, the Newcastle Gas Storage Facility, and AGL Loy Yang. A CDG and a CCC for AGL Macquarie and Dalton Power Project (respectively) are also in the process of being established. Each CCC is chaired by an independent chairperson and includes local council appointed representatives, local residents, local environment groups and AGL representatives. For other operational projects, we meet with the local community on an as needs basis (refer to the community engagement section for more information).

We also use social media to communicate and engage with the community. The AGL Blog is a forum for providing timely and accessible information to interested stakeholders on a broad range of issues, such as: AGL’s customer-focused initiatives, key external presentations by our people, published research, and rapidly evolving energy policies. The blog is updated frequently, with 208 blog posts by AGL contributors in FY17. The blog had over 22,300 users and over 52,200 page views during FY17.

The key purpose of our engagement with communities is to listen and engage on relevant issues, with a view to maximising the benefits to our shareholders, customers and to the communities in which we operate. Such engagement also allows us to receive feedback on our performance and benefit from the expertise of communities in contemplating major project decisions and in understanding emerging issues.

Non-government organisations (NGOs)

We engage with NGOs to understand the causes that they represent and to find constructive ways to work together to deliver mutually beneficial outcomes.

NGOs represent a range of community interests, including social welfare and environmental conservation.

The AGL Climate Change Council meets regularly to enable discussion and constructive dialogue on a range of issues relating to climate change and carbon policy. Areas of interest include government policy and program implementation, public areas of concern and international policy processes. Attendees include representatives from WWF-Australia, Australian Conservation Foundation, and The Climate Institute (prior to its closure on 30 June 2017).

The AGL Customer Council meets quarterly to discuss a wide range of matters that affect our customers. Attendees include representatives from the following groups: Australian Industry Group, Consumer Action Law Centre, South Australian Farmers Federation, Kildonan UnitingCare, Public Interest Advocacy Centre, Queensland Council of Social Service, St Vincent de Paul Society Victoria and Uniting Communities South Australia.

We engage with NGOs to develop mutually beneficial agreed positions on relevant issues, with a view to maximising the benefits to our shareholders, customers and the communities in which we operate. Such engagement also allows us to receive feedback on our performance and benefit from the expertise of these organisations in understanding emerging issues.
How we operate

Ethical conduct

Act ethically in all activities in accordance with the AGL Code of Conduct.

<table>
<thead>
<tr>
<th>FY17 target</th>
<th>FY17 performance</th>
<th>Status</th>
<th>FY18 target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of substantiated issues relating to unacceptable behaviour in the</td>
<td>Number of substantiated issues relating to unacceptable behaviour in the</td>
<td>Not met</td>
<td>Number of substantiated issues relating to unacceptable behaviour in the</td>
</tr>
<tr>
<td>workplace: 0</td>
<td>workplace: 8</td>
<td></td>
<td>workplace ranked as high or greater according to AGL’s FIRM risk management</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>process: 0</td>
</tr>
</tbody>
</table>

Given we have relationships with over 3.6 million customer accounts, and responsibilities to the communities where we operate, it is important to all stakeholders that we behave ethically in all our business activities.

Our behaviour is guided by the AGL Values and the AGL Code of Conduct.

Our values

AGL’s values guide how we deliver value for our customers, communities and other stakeholders while protecting the environment in which we live and work.

During FY17, we refreshed our values to support the evolution of our business to becoming more future-focused:

- Safety and beyond – caring about our people, making it safe to speak up.
- Sustainable thinking – thinking of the future today, creating a sustainable tomorrow.
- Inclusive of all – inclusive of all experiences, united in our success.
- Focused on what matters – focused on our customers, going further to deliver value.

Read more about our values in the employee engagement section.

Code of Conduct

Our Code of Conduct (Code) applies to AGL and its Directors, employees and contractors working on behalf of AGL (all of whom are referred to as ‘employees’ in the Code).

The Code sets out a number of overarching principles of ethical behaviours which are set out under the following headings:

- Acting honestly and with integrity
- Observing the law, voluntary commitments and internal standards
- Valuing and maintaining professionalism
- Respecting confidentiality
- Managing conflicts of interest
- Looking after our employees, and
- Looking after the community.

The Code of Conduct is reviewed by the Board Safety, Sustainability and Corporate Responsibility Committee for endorsement and approval by the Board every two years. During FY17 it was updated to reflect our new values.

“Acting ethically is a core component of our Code of Conduct, and is the backbone of the way a successful organisation operates”
– Stephen McSweeney, People & Culture Business Partner
Ethics Panel
The responsibilities of the Ethics Panel include:

- Risk management
- Reviewing the effectiveness of the Code and recommending any changes to the Board Safety, Sustainability and Corporate Responsibility Committee for endorsement and approval by the Board
- Putting in place procedures for the effective dissemination of, and compliance with, the Code
- Where appropriate, investigating any breaches of the Code, and
- Reporting breaches of the Code to the Board (or a Committee of the Board to which that responsibility has been delegated).

The independent Ethics Panel member provides the AGL Ethics Line service, acting as contact point available for reporting potential breaches of the Code and to investigate matters in an impartial and independent manner. Anonymity is offered in the use of the AGL Ethics Line.

Any breach of the Code is taken seriously, and may result in a range of disciplinary actions, including coaching, warnings, impacts to the payment of performance incentives, through to dismissal.

Induction and training programs
The Code of Conduct is included in the induction pack for all our new starters. We run a structured induction program that requires the completion of seven compulsory compliance training modules. These modules comprise:

- Code of conduct
- Information security essentials
- Privacy
- Risk management
- Diversity and inclusion
- Health, safety and environment, and
- Competition and Consumer Act.

Each compliance module includes a quiz to test understanding, with defined pass mark requirements.

On an annual basis, our people are required to complete mandatory compliance training topics. During FY17, 93% of all eligible AGL employees completed this training. Our people are also required to make an annual declaration indicating whether or not they have any actual or potential conflicts of interest.

Investigation and resolution of workplace issues
We set clear expectations for leaders and employees about the conduct and behaviour that is expected in our workplaces and in relation to how we conduct business. Sometimes these expectations are not met. Employees and leaders are encouraged to speak up about and resolve issues when they occur. The Workplace Resolution Guidelines provide guidance on how best to resolve workplace issues such as bullying, harassment and discrimination.

Our Whistleblower Protection Policy provides avenues for employees and contractors to report corrupt, illegal or undesirable conduct (including anonymously, confidentially or to an independent third party through the AGL Ethics Line). We are committed to protecting and respecting the rights of a person who reports wrongdoing in good faith. The Policy includes a reporting and investigation mechanism that is objective, confidential and independent which protects the employee from reprisal or disadvantage.

During FY17, we addressed 12 issues relating to unacceptable behaviour in the workplace (compared with 13 in FY16). Eight of these issues were substantiated following investigation in accordance with AGL's Workplace Issues Resolution Guidelines (FY16: four). Disciplinary actions taken included mediation, performance counselling, coaching, education sessions, written warnings and cessation of employment.

Privacy
We are committed to protecting the privacy of our customers, shareholders and other people who we deal with in our business. We are bound by the Australian Privacy Principles (Principles) contained in the Privacy Act 1988 (Privacy Act) which are designed to protect the personal information of individuals that interact with us.

Our obligations and commitments regarding privacy are outlined in the AGL Privacy Policy. Customers and other external stakeholders can raise complaints about any aspect of their dealings with us via the complaints mechanisms listed on our website. Complaints are investigated in accordance with the AGL Dispute Resolution Policy and our Feedback and Complaints Management Framework.

We take active measures to secure the customer personal information that we manage on behalf of individuals and to protect this information from misuse, interference and loss, as well as unauthorised access, modification and disclosure. Protection of personal data is achieved through continuous improvement of our IT security capability and existing security controls.

Issues relating to cyber security and privacy are becoming increasingly important to our customers as digital metering and other energy management technologies enable the collection of large volumes of energy data.
We believe that our customers should be provided with easy access to their own consumption data, and that our customers should retain direct control over who is permitted access to their data. Visit the customer experience section for information on our Data Policy.

**Information security**
Technology presents many opportunities for our business and our customers, it also gives rise to a number of risks.

We have placed an increased level of focus on addressing our cyber security risks because of our commitment to keep our customer and business information safe.

We are investing in tools, techniques, and training to manage our cyber security risks.

The business is focused on delivering technology innovation and improved user experience, balanced with the need to protect our customers and business.

AGL's Chief Information Security Officer is accountable for delivering our information security program. This wide reaching program has a strong focus on teaching our people how to best protect information and understand the cyber security risks in our connected world.

This year, we have continued to build awareness and educate our people by conducting:

- a security awareness campaign using multiple internal communication channels
- compulsory information security compliance training, and
- internal phishing email simulations, to assist people in recognising and reporting suspicious emails.

To protect AGL and our customers, we will continue to ensure that we're meeting our legal and regulatory requirements in the areas of information security. Additionally, we are building strong and collaborative relationships with key information security organisations such as CERT Australia, Energy Impact Partners, and Stay Smart Online to help share information on cyber security.

We are also a member of the Board to establish the Joint Cyber Security Centre which is part of the Federal Government's Cyber Security Strategy.

**Bribery and corruption**
We do not tolerate any incidence of bribery or corruption committed by people either from within or outside our organisation.

Risk-based anti-bribery and corruption controls are embedded throughout our processes and policies, including within the AGL Code of Conduct and the Fraud and Corruption Risk Control Policy. We also have a comprehensive Anti-Money Laundering / Counter-Terrorism Financing Compliance Program and an Australian Financial Services Licence Compliance Program within our wholesale markets (energy trading) areas. In this regard we conduct regular risk assessments to determine the adequacy of the controls that are in place.

We support a culture of openness and transparency, and together with a number of other mechanisms available for employees to raise risks and issues, we have an independent reporting line and accompanying Whistleblower Policy (refer above), as well as a process for registering and reviewing actual and potential conflicts of interest.

During FY17, there were no confirmed instances of corruption in relation to money laundering, counter terrorism financing or material instances of fraud.

1. FY17 compliance training extended into early FY18.
2. As of 30 June 2017, one of the 12 issues raised was still being investigated.
3. The increase in substantiated issues reported in FY16 (from three to four) reflects a finding made following the close of the FY16 year.

**Related Information**
AGL Code of Conduct
AGL Dispute Resolution Policy
AGL Privacy Policy

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In this section

- Stakeholder engagement
- Ethical conduct
- Public policy engagement
- Corporate governance
- Legislative compliance

This information is included in an interactive online report at [http://agl2017.reportonline.com.au/sustainabilityreport](http://agl2017.reportonline.com.au/sustainabilityreport). Visit this website to access the full FY17 Sustainability Report, sustainability data centre and other online features. This report is subject to the important information statement which is also available on this website.
How we operate

Public policy engagement

Engage transparently with governments and other stakeholders to facilitate the development of sensible public policy.

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<td></td>
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</tr>
<tr>
<td>AGL will annually disclose all groups which it is a member of that may influence public policy</td>
<td>Memberships of industry associations are included in the stakeholder engagement section of this report</td>
<td></td>
<td>AGL will annually disclose all groups which it is a member of that may influence public policy</td>
</tr>
</tbody>
</table>

As a supplier of an essential service to over 3.6 million customer accounts, we believe we have a responsibility to engage with governments at all levels in relation to energy and related policies. In a highly regulated industry such as the energy industry, government decisions have a significant influence on the way we source, produce and price energy and energy-related products, and the way in which we interact with and support our customers.

We provide policy makers with the best available information to help them understand the full implications (both positive and negative) of current and proposed government policies, and to develop sensible policy responses.

We have regular dialogue with relevant federal, state and local governments in relation to a range of policy issues, including with Members of Parliament whose electorates include our projects. Our dialogue with governments occurs through face-to-face and telephone meetings, written policy submissions (both directly and via industry associations), attendance at events, and the provision of briefings.

It is important to our stakeholders that our involvement in public policy development is undertaken transparently and consistently. Our submissions to government processes and research undertaken by our economists are published on the AGL Blog.

Key areas of focus

The key issues that were the focus of our engagement with government and policy makers during FY17 comprised:

• **Supporting investment certainty in a carbon constrained future**: We have consistently highlighted the need for long-term and stable policy frameworks to drive reductions in greenhouse gas emissions from Australia’s energy systems that are consistent with international efforts to limit global warming to no more than 2°C above pre-industrial levels. As Australia’s largest source of greenhouse gas emissions, it is expected that the electricity sector will be required to achieve significant emission reductions over the coming decades to meet Australia’s international commitments to reduce national greenhouse gas emissions by 26-28% by 2030 on 2005 levels. However, there continues to be uncertainty about the mix of policies that Australia will implement to facilitate the progressive closure of ageing, emissions-intensive power stations, and the development of new renewable and low-emissions capacity, as required to meet its international commitments.

As such, a key focus of our policy advocacy has been on clarifying what we consider to be the necessary elements of a policy suite, which will provide macro-level certainty to support required investment, enable efficient management of existing capital stock and support a community and energy market in transition. Core elements of this policy advocacy have centred around the need for regulation which drives an orderly closure of older emissions-intensive power stations, the implementation of an emissions intensity trading scheme and a long-term carbon budget.

“It’s critical that we are transparent in how we engage on issues of public policy”

–Tony Chappel, Head of Government & Community Relations
The policy brief ‘Reducing the horizons of uncertainty: Setting Australia’s post-2030 emission goal’, co-authored by AGL and The Climate Institute, outlines in more detail the role that long-term targets play in setting government policy and guiding business strategies. Papers by AGL economists and researchers have also explored the importance of the integration of climate change policy with energy market design. AGL’s submission to the Independent Review into the Future Security of the National Electricity Market (the ‘Finkel Review) has further information on the full suite of policies that AGL has advocated for governments to adopt to support investment certainty in a carbon constrained future.

The closure of coal fired generation (and related mines) will affect the regional communities that have relied upon the industry for employment for many years. As a result, we are working with governments, local communities, research organisations, and other industry sectors to identify new opportunities for those regions most affected, including the Latrobe Valley in Victoria and the Hunter Valley in New South Wales. This has included establishing an agreement in March 2017 with the Victorian Government and unions to allow retrenched Hazelwood workers to transfer to our Loy Yang power station and mine, located in the Latrobe Valley.

**Supporting the integration of increasing levels of variable renewable generation:** Australia’s energy markets are undergoing a significant period of transition. Government policies have been introduced to reduce greenhouse gas emissions, incentivise the entry of new renewable generation, and improve energy productivity, and the long-term decarbonisation of electricity generation will continue to be a global theme for many decades. Research by AGL economists has highlighted the need for better integration of energy and climate change policy, and has shown that the interaction of energy-only markets and renewable energy targets may give rise to unsustainable market outcomes. South Australia in particular has seen the entry of significant intermittent renewable generation and the disorderly closure and mothballing of several thermal power stations, making it increasingly reliant upon the interconnector with Victoria for supply at peak times. As the generation mix changes, demand for system stability services (such as frequency, reactive power and inertia) will also increase just as the traditional suppliers of these services exit the market.

Consequently, we continue to concentrate much of our public policy engagement with government and policy makers on exploring complementary measures that will enable the National Electricity Market to accommodate greater levels of variable renewable generation. Options include the introduction of incentives to ensure that new intermittent generation sources become ‘firm’ and dispatchable, and the use of existing and new supplementary markets to improve security, reliability and system resilience. Our submission to the Finkel Review provides greater detail on these and other potential measures.

**Transition to a more decentralised energy system:** Customers are seeking to exert more control over their energy supply arrangements than ever before. Australia leads the world with small-scale solar PV installations. Across the country, approximately 17% of households have a solar PV system installed. Installations are expected to continue to grow and, as costs decline, are anticipated to increasingly be accompanied by the installation of a battery energy storage system. Digital meters, smart appliances, smart inverters and intelligent control systems are also entering the market. The emergence and increasing accessibility of these technologies are enabling a range of new energy service offerings by both traditional energy market participants and new entrants.

Through engagement with government and policy makers, we seek to ensure that customers retain choice and control throughout this transition. This includes promoting fit-for-purpose and transparent technology standards and connection processes for distributed energy services, advocating the careful design of network pricing frameworks to drive efficient network utilisation and efficient technology adoption, and supporting regulatory and market frameworks that promote competitive neutrality between different technologies, different suppliers and between existing and new energy resources. A key component of protecting the competitive landscape involves the effective ring-fencing of regulated monopolies.

In addition to allowing customers to more actively manage their own energy needs, distributed energy services are also giving rise to new kinds of demand-side participation and the potential to participate in dynamic programs which deliver system-wide benefits. As a result, the once linear supply chain is becoming increasingly decentralised and bi-directional. Through our policy engagement, we also seek to promote efficient use of decentralised resources to manage broader system needs and to examine the market and competitive frameworks required to enable those outcomes. To learn more about our distributed energy services and energy efficiency technologies, refer to the distributed energy services section of this report.

Our Virtual Power Plant in South Australia offers a useful example of a program which seeks to enable the ‘stacking’ of multiple values. Over a three-year period, we plan to have one thousand smart, connected energy storage devices installed behind-the-meter at homes and small businesses across metropolitan Adelaide. When aggregated, the batteries will act like a 5 MW solar peaking plant. The project will demonstrate at a commercial scale the value that distributed energy services can provide three groups:

- **Consumers** can use the batteries to store more of their solar power by storing energy produced during the day that might otherwise be exported to the grid.
- **Networks** can benefit from peak load shaving and voltage management services that potentially avoid further infrastructure expenditure.
- **Retailers** can benefit from reduced wholesale exposure during peak demand periods, and through the use of the battery to provide synthetic inertia and frequency balancing services.
- **Learnings from the trial** will be used to inform ongoing consideration of how market and regulatory frameworks may need to evolve to facilitate customer choice and participatory energy services markets which support the overall security and resilience of the system.

This information is included in an interactive online report at [http://agl2017.reportonline.com.au/sustainabilityreport](http://agl2017.reportonline.com.au/sustainabilityreport). Visit this website to access the full FY17 Sustainability Report, sustainability data centre and other online features. This report is subject to the important information statement which is also available on this website.
• **Energy affordability:** We support a shared responsibility approach to energy hardship, where energy suppliers, governments and the community sector work together to deliver sustainable improvements for vulnerable customers, to ensure that they can access competitively priced, reliable and high-quality energy supplies. Refer to the energy prices and affordability section for further information.

### Submissions

During FY17, we prepared a range of submissions to government and energy industry bodies across several state and Commonwealth jurisdictions. These included submissions relating to:

- Reviews of retail energy market competition and pricing
- Proposed wholesale electricity market rule changes, including 5-minute settlement, emergency frequency control, demand response and ancillary service markets
- Reviews of system security, reliability and affordability in a transforming energy sector
- Victoria's transition to metering competition
- Framework for misuse of market power under the Competition and Consumer Act
- Climate change and renewable energy policies at the Commonwealth and Queensland jurisdictions
- Parliamentary inquiry into the retirement of coal fired generation
- Reviews of the planning, investment and economic regulatory frameworks applying to network businesses
- Reviews of the competitive framework for new energy services, including ring-fencing of regulated monopolies
- Electricity market transformation, including distribution market models, consumer protections for new energy services and frameworks for stand-alone energy systems
- Community energy projects
- Regulatory arrangements for solar feed-in tariffs in South Australia and Victoria
- Victorian inquiry into the 'true value' of distributed generation
- Review of South Australia's energy efficiency scheme
- Vehicle emissions
- Data availability and use
- Regulatory arrangements for customers experiencing payment difficulties
- Improving market processes such as customer transfers, and
- A review to harmonise the start time of the 'gas day' in the Victorian wholesale gas market.

Copies of public submissions are made available on the [AGL Blog](http://agl2017.reportonline.com.au/sustainabilityreport) so that stakeholders are able to view the positions we are taking on various issues.

### AGL research

During FY17, AGL economists published a range of peer-reviewed research papers:

- The Changing Nature of the Australian Electricity Industry (Article published in *Economic Papers*)
- Price discrimination in Australia's retail electricity markets: An analysis of Victoria and southeast Queensland (Article published in *Energy Economics*)
- Reducing the horizons of uncertainty: Setting Australia's post-2030 emission goal
- Access rights and consumer protections in a distributed energy system (published in the book *Innovation and Disruption at the Grid's Edge*)
- Electricity market design in a decarbonised energy system (under review)
- Price dispersion in Australian retail electricity markets (under review)
- Redesigning a 20th century regulatory framework to deliver 21st century energy technology

For further details, refer to the [energy market evolution](http://agl2017.reportonline.com.au/sustainabilityreport) section.
Industry associations
We are a member of several industry associations including the Business Council of Australia, the Australian Industry Group, the Clean Energy Council, the Australian Energy Council, the Carbon Market Institute and Sustainable Business Australia. A broader list of memberships is also available in the stakeholder engagement section.

Through our membership of industry organisations, we seek to work with other parties to provide a unified industry view on energy and related policies to put to government. Our view may, of course, differ on some issues from those of the industry groups to which we belong. Where this occurs on material issues, we aim to ensure that stakeholders are aware of these differences of view.

During FY17, the key areas where our views differed to those of the industry associations of which we are (or were) a member comprised:

• **Climate Change Policy:** There is general agreement amongst AGL and its industry associations about the principles that should guide Australia's greenhouse gas emission reduction targets and climate change policy framework. There is also general agreement that Australia's climate change objectives are most efficiently managed at a national level, rather than by states developing jurisdictional targets and policies. There may, however, be some disagreement amongst these associations about the particular mechanisms to achieve these outcomes and the prioritisation of particular principles to guide the policy pathway, with different organisations prioritising industry competitiveness, the use of market-based mechanisms, accelerating the use of renewable energy, energy affordability, policy stability, or the integration of climate change and renewable energy policies. Most organisations agree that a sectoral approach for electricity generation is appropriate. Our Greenhouse Gas Policy states that a range of regulatory and market-based policies is likely to be needed to achieve decarbonisation and modernisation in the electricity sector.

Political donations
The community very reasonably expects that corporations should not have an undue level of influence on government policy by providing a level of financial contribution to political parties that could result in, or could be seen to result in, preferential treatment.

We are committed to advocacy and engagement with governments that is evidence-based and transparent. All submissions to government inquiries are published on our website.

In FY16, AGL pleaded guilty to offences under the *Environmental Planning and Assessment Act 1979* for failing to disclose certain reportable political donations to the New South Wales Department of Planning and Environment in relation to a number of planning applications made between FY10 and FY14. In January 2017, AGL was fined $124,000 in the Land and Environment Court of New South Wales in relation to this issue.

The Court found that there was no evidence that the offences were deliberate or committed for financial gain.

We have since adopted a **Political Donations Policy** (August 2015) which prohibits AGL from making political donations. The Political Donations Policy governs the actions of all employees, including Directors and officers of AGL Energy and its subsidiaries. Importantly, the policy covers both direct political donations and payments made to fund political campaigns.

No political donations (monetary or in-kind) were made during FY17, nor were any political donations made through third parties.

1. Refer to The Changing Nature of the Australian Electricity Industry and Electricity market design in a decarbonised energy system (under review).

Related Information
AGL Political Donations Policy
AGL Code of Conduct
The adoption of best practice corporate governance principles is an important element of our sustainability performance.

Our corporate governance arrangements are consistent with the Australian Securities Exchange (ASX) Corporate Governance Council’s ‘Corporate Governance Principles and Recommendations – 3rd Edition’ (ASX Principles) issued in March 2014.

The eight ASX Principles are:

- Principle 1: Lay solid foundations for management and oversight
- Principle 2: Structure the Board to add value
- Principle 3: Act ethically and responsibly
- Principle 4: Safeguard integrity in corporate reporting
- Principle 5: Make timely and balanced disclosure
- Principle 6: Respect the rights of security holders
- Principle 7: Recognise and manage risk
- Principle 8: Remunerate fairly and responsibly

The ASX Principles include as Recommendation 7.4 that “A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks”. This sustainability report provides that information to our stakeholders.

Our annual Corporate Governance Statement discloses the extent to which AGL has adopted and met the ASX Principles. A ‘Corporate Governance Summary’ section has also been included in the 2017 Annual Report which provides shareholders with an overview of AGL’s corporate governance framework, policies and practices.

We recognise that stakeholders are becoming increasingly interested in executive remuneration, including short- and long-term incentivisation schemes, and how remuneration is aligned to shareholder interests. At AGL’s 2016 Annual General Meeting, more than 25% of the shares voted in relation to the 2016 Remuneration Report were against the adoption of the 2016 Remuneration Report. This is commonly referred to as a ‘first strike’. As a result, we have taken the opportunity to review our remuneration practices. A response to the concerns raised with respect to the 2016 Remuneration Report has been included in the FY17 Remuneration Report.

We will continue to engage with our stakeholders about our remuneration policies to understand and consider their views.

AGL Board and committees
As at 30 June 2017:

- the AGL Board comprised eight non-executive Directors and one executive Director, our CEO, Andy Vesey, and
- the proportion of female Directors on the Board was 33%. This meets the target set by the Board that, by 2018, at least 30% of non-executive Directors will be female.
Detailed information about the structure, responsibility and experience of the AGL Board is included on the AGL website and within the Annual Report.

The Board has established four standing committees that meet regularly to oversee key risks affecting the business. During FY17, each committee set aside time at one of its meetings to review and discuss its performance over the past 12 months. Each committee was satisfied that it had been effective in performing its responsibilities under its Charter (whilst also identifying areas for improvement).

**Safety, Sustainability and Corporate Responsibility Committee**
The Safety, Sustainability and Corporate Responsibility Committee assists the Board in (a) reviewing and overseeing the development and implementation of policies and procedures that enable AGL to operate its business safely, ethically, responsibly and sustainably; and (b) monitoring the decisions and actions of management in achieving AGL’s objective to be a safe, ethical, responsible and sustainable organisation. The Committee operates under a formal charter and currently comprises four non-executive, independent Directors. The Committee oversees and reviews, amongst other things:

- 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 activities, and the systems for managing compliance with AGL’s sustainability policies and practices
- initiatives to enhance AGL’s sustainable business practices and reputation as a responsible corporate citizen
- the integration of safety, sustainability and corporate responsibility matters in the formulation of AGL’s strategy, risk management framework, health, safety and environment management systems, and people and culture priorities, and
- AGL’s compliance with all relevant legal and regulatory requirements governing the matters within its responsibilities.

A suite of internal sustainability key performance indicators is reported to the Committee on a quarterly basis.

**Audit and Risk Management Committee**
The Audit and Risk Management Committee operates under a formal charter. Its primary function is to assist the Board in fulfilling its responsibilities to provide shareholders with timely and reliable financial reports and to safeguard AGL’s interests taking into account the reasonable interests of shareholders, customers, employees, the communities in which AGL operates and other relevant stakeholders through the effective identification, assessment, monitoring and management of risks.

**People and Performance Committee**
The People and Performance Committee operates under a formal charter. Its primary function is to assist the Board in fulfilling its responsibilities to shareholders, customers, employees and the broader community through the appropriate recruitment, retention and remuneration of senior managers and other employees with the capabilities and skills necessary to execute AGL’s business strategy. The responsibilities of the Committee include, among other things, making recommendations to the Board in relation to:

- the remuneration of Directors
- the remuneration, recruitment, retention and termination policies applicable to AGL’s Executive Team
- creating positive employee relations
- guidelines for incentive plans
- the superannuation arrangements in place for AGL employees, and
- AGL employment policy matters.

**Nominations Committee**
The Nominations Committee operates under a formal charter. Its primary function is to assist the Board in fulfilling its responsibilities to shareholders through the appropriate recruitment, retention and education of Directors. The responsibilities of the Committee include, among other things:

- reviewing the skills, knowledge and experience a Director should have, having regard to AGL’s operating performance, financial position and strategic objectives
- reviewing the structure, size and composition of the Board and Board committees
- developing and implementing a process for evaluating Board, committee and individual Director performance
- developing selection criteria for the appointment of new directors and overseeing arrangements for the effective appointment and induction of new Directors, and
- developing succession plans for non-executive Directors, taking into account the challenges and opportunities facing AGL, and the skills and experience likely to be required in the future.

**Related Information**
AGL Corporate Governance Statement
AGL Board and Committee Charters

In this section
Stakeholder engagement  Ethical conduct  Public policy engagement  Corporate governance  Legislative compliance
How we operate

Legislative compliance

Comply with legislative requirements across the organisation.

<table>
<thead>
<tr>
<th>FY17 target</th>
<th>FY17 performance</th>
<th>Status</th>
<th>FY18 target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of adverse court findings in relation to Australian Consumer Law: 0</td>
<td>Number of adverse court findings in relation to Australian Consumer Law: 0</td>
<td>Met</td>
<td>Number of legislative non-compliances that result in adverse court findings: 0</td>
</tr>
<tr>
<td>Number of fines or penalties in relation to environmental licences: 0</td>
<td>Number of fines or penalties in relation to environmental licences: 0</td>
<td>Met</td>
<td>Number of fines or penalties in relation to environmental licences: 0</td>
</tr>
<tr>
<td>The Environmental Regulatory Reportable Frequency Rate (ERRFR): &lt;1.5</td>
<td>The Environmental Regulatory Reportable Frequency Rate (ERRFR): 1.0</td>
<td>In Progress</td>
<td>Environmental Regulatory Reportable Incidents: ≤12</td>
</tr>
</tbody>
</table>

We are subject to a wide range of compliance obligations, which are comprised of compliance requirements (things we must do, e.g. by law) and compliance commitments (things that we choose to do). Our compliance obligations include, but are not limited to:

- laws and regulations
- permits, licenses and other forms of authorisations
- orders, rules and guidance issued by regulatory agencies
- relevant industry codes and compulsory standards
- judgements of courts and administrative tribunals
- our own organisational requirements including policies and procedures, and
- obligations arising under contractual arrangements with third parties.

We are committed to managing compliance risk effectively and efficiently. In our view, this is pivotal to the ongoing and sustainable growth and success of our business.

We have a comprehensive compliance management framework to manage these requirements. Compliance risk management practices are embedded within our broader risk management and governance frameworks, and integrated into our business processes and operations to drive consistent, effective, and accountable decision making.

The AGL Board is responsible for:

- approving and monitoring the implementation of policies governing AGL’s systems of internal compliance, risk management and control, and
- monitoring AGL’s compliance with obligations governing AGL’s operations.

To assist it in discharging its responsibilities, the AGL Board has established the Audit and Risk Management Committee. Refer to the corporate governance section for more information about our Board committees.

Information about how we identify, manage and review compliance risk is available in our Compliance Management Policy. This policy is aligned with the principles and requirements of the international standard ISO 19600: 2015 Compliance Management Systems, and outlines our expectations for a compliance culture. Accordingly, the policy applies to both legislative requirements and voluntary commitments (such as compliance with our policies and procedures).

We conduct internal reporting, investigation and remediation of compliance-related complaints, breaches, and incidents through established breach reporting and complaints handling processes. This is in addition to mandatory regulatory reporting regimes that we are subject to in various jurisdictions, which require companies to report various categories of non-compliance to relevant regulators.

Our compliance program monitors activities in relation to material compliance obligations – this includes the effectiveness of compliance plans. Compliance reports are provided to the Audit and Risk Management Committee approximately every two months, which provide an overview of activity, issues and breaches in relation to 20 compliance strands.

This information is included in an interactive online report at http://agl2017.reportonline.com.au/sustainabilityreport. Visit this website to access the full FY17 Sustainability Report, sustainability data centre and other online features. This report is subject to the important information statement which is also available on this website.
FY17 performance
During FY17, no environmental incidents occurred that have led to AGL paying fines or penalties in relation to environmental licences. Similarly, no issues occurred during FY17 that led to adverse court findings in relation to Australian Consumer Law.

Environmental incidents
During FY17 we notified the relevant environmental authority of 10 environmental incidents, in accordance with mandatory notification provisions under legislation and/or environmental licences. Of these, six incidents were assessed to have a severity of ‘High’ or above under our Risk Management and Assessment Framework, and four incidents had a severity of ‘Moderate’ or ‘Low’.

Of the incidents rated as high or above, three related to dust complaints from Flynn residents associated with the Loy Yang mine, two related to uncontrolled discharges from the Ravensworth A ash line, and one related to a dust leak from the Ravensworth A silo. The low risk mandatory notifications related to licence limit exceedances for air or water relating to E. Coli, turbidity or suspended solids.

During FY17, in the interests of transparency and operating to best-practice reporting standards, we also voluntarily notified the relevant environmental authority of 11 additional environmental incidents. Of those voluntarily reported incidents, four related to leaks or uncontrolled discharges, two related to administration, two related to exceedances of licence pH limits, one to discharge equipment failure, one related to a complaint regarding stack emissions, and one related to fauna.

The incidents were investigated, and corrective actions and process improvements implemented to prevent recurrence.

During June 2017, the NSW Environment Protection Authority (EPA) commenced a prosecution against AGL, alleging that AGL had contravened a condition of its environment protection licence. The alleged offence relates to a flood event that occurred in early June 2016 and impacted the Camden Gas Project. As at the date of this report there is no allegation in the proceedings that environmental harm occurred. Proceedings are in progress.

Political donations
In FY16, AGL pleaded guilty to 11 offences under the Environmental Planning and Assessment Act 1979 for failing to disclose certain reportable political donations to the New South Wales Department of Planning and Environment in relation to a number of planning applications made between FY10 and FY14. In January 2017, AGL was fined $124,000 in the Land and Environment Court of New South Wales in relation to this issue. The Court found that there was no evidence that the offences were deliberate or committed for financial gain. Refer to the public policy engagement section of the report for further information, and for information about our Political Donations Policy.

Inquiries
ACCC Electricity Inquiry: On 27 March 2017, the Federal Treasurer directed the ACCC to conduct a wide-ranging inquiry into the supply of and demand for wholesale gas in Australia, as well as to publish regular information on the supply and pricing of gas for the next three years. AGL is providing information as requested, and will continue for the 3 year duration.

ACCC Gas Inquiry: On 19 April 2017 the Australian Government directed the ACCC to conduct an inquiry into the supply of retail electricity and the competitiveness of retail electricity prices. A preliminary report is due to the Treasurer by 27 September 2017 and a final report by 30 June 2018.

1. Based on the number of court findings in relation to issues that occurred during FY17.
2. Based on the number of court findings in relation to issues that occurred during FY18.
3. Based on the number of fines or penalties received in relation to incidents that occurred during FY17.
4. Based on the number of fines or penalties received in relation to incidents that occurred during FY18.
5. ERRFR involves the number of Environment Regulatory Reported Incidents in a 12 month rolling period, per million hours worked in that 12 month period. The ERRFR target applies to the performance areas of: legislative compliance; water management; air, waste and noise; and biodiversity and cultural heritage.

Related Information
AGL Compliance Management Policy
AGL Risk Management Policy

In this section
Stakeholder engagement Ethical conduct Public policy engagement Corporate governance Legislative compliance