AGL Energy Limited
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AGL Energy Limited Financial Results for the year ended 30 June 2014

20 August 2014

We attach the following documents relating to AGL Energy Limited's results for the year ended 30 June 2014:

1. ASX Appendix 4E
2. Directors' Report
3. Financial Report

Paul McWilliams

Company Secretary

Further inquiries:

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About AGL

AGL is one of Australia's leading integrated energy companies and largest ASX listed owner, operator and developer of renewable energy generation in the country. Drawing on over 175 years of experience, AGL operates retail and merchant energy businesses, power generation assets and an upstream gas portfolio. AGL has one of Australia's largest retail energy and dual fuel customer bases. AGL has a diverse power generation portfolio including base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources including hydro, wind, landfill gas and biomass. AGL is taking action toward creating a sustainable energy future for our investors, communities and customers.

Appendix 4E

AGL Energy Limited
ABN 74 115 061 375

Preliminary Final Report

Results for announcement to the market for the year ended 30 June 2014

				2014 $A million	2013 $A million (Restated)
Revenue	**Down**	**1.8%**	to	**9,543**	9,716
Statutory Profit after tax attributable to shareholders	**Up**	**52.0%**	to	**570**	375
Underlying Profit after tax attributable to shareholders	**Down**	**3.9%**	to	**562**	585
				cents	cents
Statutory Earnings per share	**Up**	**49.9%**	to	**102.2**	68.2
Underlying Earnings per share	**Down**	**5.2%**	to	**100.8**	106.3
				$	$
Net tangible asset backing per share	**Up**	**2.5%**	to	**7.75**	7.56

Dividends	Amount cents	Franked amount cents
Final dividend per ordinary share	33.0	33.0
Interim dividend per ordinary share	30.0	30.0

Record date for determining entitlements to the final dividend:
4 September 2014 and payable 30 September 2014

Brief explanation of Underlying Profit and Underlying Earnings per share:
Statutory Profit and Statutory Earnings per share are prepared in accordance with the Corporations Act 2001 and Australian Accounting Standards, which comply with International Financial Reporting Standards.

Statutory Profit after tax of $570 million included a loss of $20 million after tax treated as significant items and a gain of $28 million after tax from the changes in the fair value of financial instruments. Excluding these items, the Underlying Profit was $562 million, down 3.9% on the prior corresponding period.

Underlying Profit is reported to give information to shareholders that provides a greater understanding of the performance of AGL Energy Limited's (AGL's) operations. AGL believes Underlying Profit is useful as it removes significant items and timing mismatches between the fair value of derivatives and the underlying asset being hedged thereby facilitating a more representative comparison of financial performance between financial periods.

This report should be read in conjunction with the AGL Directors' Report incorporating the Operating and Financial Review and AGL Financial Report for the year ended 30 June 2014 released to the market on 20 August 2014.

Directors' Report 2014

The Directors present their Report together with the annual Financial Report of AGL Energy Limited (AGL) and its consolidated entities, being AGL and its controlled entities, for the year ended 30 June 2014 and the Independent Audit Report thereon.

AGL is the head entity of the AGL Energy Limited Group. Its shares are listed on ASX Limited under the code of "AGK".

The Directors of AGL at any time during or since the end of the financial year are:

Non-executive Directors:

Jeremy Maycock, Les Hosking, Graeme Hunt, Belinda Hutchinson, Sandra McPhee, Bruce Phillips, John Stanhope

Executive Director: Michael Fraser

Jeremy Maycock
BEng (Mech) (Hons), FAICD, FIPENZ

Non-executive Director since October 2006 and Chairman since October 2010. Age 62.

Directorships: Chairman of Port of Brisbane Pty Ltd and Director of Nuplex Limited (commenced in 2011), The Smith Family (commenced January 2013) and of Arrium Limited (commenced 19 August 2014).

Experience: Jerry's commercial experience spans 41 years, in senior executive and non-executive roles in significant Australian and international companies.

Michael Fraser
BCom, FCPA, FTIA – Managing Director

Managing Director and Chief Executive Officer since October 2007. Age 57.

Directorships: Nil

Experience: Michael has 30 years of energy industry experience, including having established AGL as one of the country's largest energy retailers and led the rapid expansion of AGL's upstream energy interests in renewables, thermal power generation and upstream gas exploration and development. He was previously Chairman of the Clean Energy Council Limited (retired in December 2013), Elgas Limited, ActewAGL and of the NEMMCo Participant's Advisory Committee. He was a Director of Queensland Gas Company Limited, the Australian Gas Association, the Energy Retailers Association of Australia and of Uniting*Care* Ageing Board.

Les Hosking

Non-executive Director since November 2008. Age 69.

Directorships: Chairman of Adelaide Brighton Limited (commenced as a Director in 2003) and of The Carbon Market Institute, and a Director of Australian Energy Market Operator (AEMO).

Experience: Les has over 30 years of experience in trading, broking and management in metals, soft commodities, energy and financial instrument derivatives in the global futures industry. He was previously a Director of Innovation Australia Pty Limited, Australian Energy Market Operator (Transition) Limited (AEMO), Managing Director and Chief Executive Officer of NEMMCo and a non-executive Director of NEMMCo.

Graeme Hunt
MBA, BMET

Non-executive Director since September 2012. Age 57.

Directorships: Managing Director of Transfield Services Limited (commenced as a Director in November 2012) and Chair of the National Resources Science Precinct (commenced in February 2014).

Experience: Graeme brings to AGL extensive experience in establishing and operating large capital projects. He was previously a non-executive Director of Transfield Services Limited (May 2012 to November 2012), Managing Director of G. P. Hunt Associates Pty Ltd, Chief Executive Officer of Lihir Gold Limited and he has held a number of senior executive positions with the BHP Billiton Group.

Composition of Board Committees as at 30 June 2014

Director	Status	Audit and Risk Management Committee	People and Performance Committee	Safety, Sustainability and Corporate Responsibility Committee	Nominations Committee
Jeremy Maycock	Independent				Chair
Michael Fraser	Managing Director and Chief Executive Officer				
Les Hosking	Independent	•	Chair		•
Graeme Hunt	Independent		•	•	•

Belinda Hutchinson

AM, BEc, FCA, FAICD

Non-executive Director since December 2010. Age 61.

Directorships: Chancellor of the University of Sydney. Director of the State Library of New South Wales Foundation and Australian Philanthropic Services, and a member of the Australian Treasury Advisory Council.

Experience: Belinda has extensive experience in non-executive roles including as Chairman of QBE Insurance Limited (2010 to March 2014), a Director of Telstra Limited, Coles Group Limited, Energy Australia Limited, Snowy Hydro Trading Limited, TAB Limited and Crane Group Limited. She was previously an Executive Director of Macquarie Group Limited and Vice President of Citibank Limited.

Sandra McPhee

AM, Dip Ed, FAICD

Non-executive Director since October 2006. Age 68.

Directorships: A Director of Fairfax Media Limited (commenced in 2010), Kathmandu Holdings Limited (commenced in 2009), Scentre Group Limited (commenced 30 June 2014) and Tourism Australia.

Experience: Sandra has extensive experience as a non-executive Director and senior executive in a number of consumer oriented industries including retail, aviation and tourism. She was previously a Director of Westfield Retail Trust (commenced in 2010 and ceased on 30 June 2014), Australia Post, Coles Group Limited, Perpetual Limited, Primelife Corporation Limited, St Vincent's & Mater Health Sydney, CARE Australia and Vice President of The Art Gallery of New South Wales.

Bruce Phillips

BSc (Hons) PESA, ASEG

Non-executive Director since August 2007. Age 59.

Directorships: Chairman of Platinum Capital Limited (commenced as a Director in 2009), and of AWE Limited (commenced as a Director in 2009).

Experience: Bruce is an energy industry expert with more than 30 years of technical, financial and managerial experience in the energy sector. He founded and was Managing Director of Australian Worldwide Exploration Limited (now AWE Limited) and was previously a Director of Sunshine Gas Limited.

John Stanhope

BCom (Economics and Accounting), FCPA, FCA, FAICD, FAIM, FAHRI

Non-executive Director since March 2009. Age 63

Directorships: Chairman of Australia Post, a Director of The Bionics Institute of Australia, of Melbourne Jazz Limited and a member of the Council of Deakin University.

Experience: John has many years of experience in senior positions in financial, communications and other commercial organisations. He was previously a member of the Financial Reporting Council, a Director of RACV Ltd and of Telstra Corporation Limited.

Composition of Board Committees as at 30 June 2014

Director	Status	Audit and Risk Management Committee	People and Performance Committee	Safety, Sustainability and Corporate Responsibility Committee	Nominations Committee
Belinda Hutchinson	Independent	•	•		•
Sandra McPhee	Independent	•		Chair	•
Bruce Phillips	Independent	•		•	•
John Stanhope	Independent	Chair	•		•

Directors' Interests

The relevant interest of each Director in the share capital of the companies within the consolidated entity, as notified by the Directors to the ASX in accordance with Section 205G of the Corporations Act, at the date of this Report is as follows:

AGL Energy Limited Ordinary Shares

Jeremy Maycock	65,951
Michael Fraser	763,242
Les Hosking	2,334
Graeme Hunt	0
Belinda Hutchinson	7,630
Sandra McPhee	17,121
Bruce Phillips	33,834
John Stanhope	3,738

Jeremy Maycock holds 1,500 Subordinated Notes issued by AGL Energy Limited.

No options have been granted over any securities or interests of AGL or the consolidated entity.

Company Secretaries

Paul McWilliams was appointed Company Secretary of AGL Energy Limited on 25 August 2006. Paul's educational qualifications include Bachelor of Arts (Accounting) from the University of South Australia, Master of Applied Finance from Macquarie University and a Graduate Diploma in Applied Corporate Governance. He is a member of the Institute of Chartered Accountants of Australia and the Governance Institute of Australia. Paul has had more than 37 years of experience across a variety of roles in the Australian Taxation Office, chartered accounting and listed public companies.

John Fitzgerald was appointed an additional Company Secretary in August 2010. John's qualifications are a Bachelor of Arts and a Bachelor of Laws from the University of New South Wales and a Masters in Arts from the National University of Ireland (University College Dublin). John is admitted as a Solicitor of the Supreme Court of New South Wales and is AGL's General Counsel. John has been practising in projects, mining and energy law for approximately 20 years.

Directors' Meetings

The number of Directors' Meetings (including meetings of Committees of Directors) and number of meetings attended by each of the Directors of AGL during the financial year were:

	Regular Board Meetings		Special Board Meetings		Audit and Risk Management Committee		People and Performance Committee		Safety, Sustainability and Corporate Responsibility Committee		Nominations Committee	
Directors' Name	A	B	A	B	A	B	A	B	A	B	A	B
Jeremy Maycock	11	11	8	8							2	2
Michael Fraser	11	11	7	8								
Les Hosking	11	11	8	8	5	5	4	4			2	2
Graeme Hunt	11	11	8	8			4	4	4	4	2	2
Belinda Hutchinson	11	11	8	8	4	5	4	4			2	2
Sandra McPhee	11	11	7	8	5	5			4	4	2	2
Bruce Phillips	11	11	8	8	5	5			3	4	2	2
John Stanhope	11	11	8	8	5	5	3	4			2	2

A – number of meetings attended as a member

B – number of meetings held during the time the Director held office during the year

During the year, in aggregate, there were 18 occasions when the non-executive Directors also attended some of the meetings of committees, of which they were not members.

Directors also participated in informal meetings and telephone conferences. AGL makes extensive use of email between meetings to keep Directors informed of current developments; to provide relevant background and industry information; to dispose of routine matters and allow formal Board meetings to concentrate on more important matters. Periodically, Directors meet informally outside AGL to discuss matters of interest and travel to visit assets, operations or locations of particular relevance to AGL.

Principal Activities

- Buying and selling of gas and electricity;
- Construction and/or operation of power generation and energy processing infrastructure;
- Development of natural gas storage facilities; and
- Exploration, extraction, production and sale of natural gas.

Review of operations

A review of the operations and results of AGL during the year is set out in the AGL Operating and Financial Review, which is attached to and forms part of this Directors' Report.

Changes in state of affairs

In the opinion of the Directors there were no significant changes in the state of affairs of the AGL consolidated entity that occurred during the financial year other than those included in this Directors' Report.

Proceedings on Behalf of the Company

No person has applied under Section 237 of the Corporations Act for leave of the Court to bring proceedings on behalf of AGL or intervene in any proceedings to which AGL is a party for the purpose of taking responsibility on behalf of AGL for all or any part of those proceedings. AGL was not a party to any such proceedings during the year.

Commercial in confidence information

Further information about likely developments in the operations of AGL and its consolidated entity and the expected results of those operations in the future has been included in this Directors' Report except to the extent disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

The type of information not disclosed includes commercial in confidence information such as detailed operational plans and strategies that would provide third parties a commercial advantage.

Non-Audit Services

Non-audit services have been provided during the year by the external auditor, Deloitte Touche Tohmatsu. Disclosure of the details of these services can be found in the AGL annual Financial Report Note 30.

The Board has a formal policy on the provision of auditing and related services. Specifically, the external auditor is precluded from providing any services that might threaten its independence or conflict with its assurance and compliance role. Semi-annual reports on the provision of auditing and related services are provided to the Board through the Audit and Risk Management Committee. Directors are satisfied that the provision of $612,000 of non-audit services by the external auditor is compatible with the general standard of independence for auditors.

The policy and procedures in place, and the review by the Audit and Risk Management Committee, enable Directors to conclude that non-audit services provided did not compromise the external auditor's independence requirements of the Corporations Act. There is also in place an agreed rotation policy for the senior auditor of Deloitte Touche Tohmatsu. The external auditor annually provides a letter to the Company Secretary on its independence within the meaning of relevant legislation and professional standards. No officers of AGL were partners or directors of Deloitte Touche Tohmatsu during this reporting period.

Indemnification and Insurance of Officers and Auditors

AGL's constitution indemnifies, to the extent permitted by law, officers of the consolidated entity when acting in their capacity in respect of:

- liability to third parties (other than related entities) when acting in good faith; and
- costs and expenses of successfully defending legal proceedings and ancillary matters.

The Directors named earlier in this Report and the Company Secretaries, Paul McWilliams and John Fitzgerald, have the benefit of the indemnity, together with any other person concerned in or who takes part in the management of the consolidated entity.

During the year AGL paid premiums in respect of contracts insuring all Directors of AGL as listed earlier, all Directors of related bodies corporate of AGL, secretaries and other officers of the consolidated entity against liabilities incurred in their capacity as Director or Officer, as the case may be, of the consolidated entity.

The contract prohibits disclosure of the nature of the liabilities and the amount of premium paid and the Corporations Act does not require disclosure of the information.

Auditor's Independence Declaration

A copy of the external auditor's declaration under Section 307C of the Corporations Act in relation to the audit for the financial year is attached to the AGL Financial Report 2014.

Rounding

AGL is an entity to which ASIC Class Order 98/100 applies and in accordance with that Class Order, amounts in the Financial Report and the Directors' Report have been rounded off to the nearest million dollars, unless otherwise stated.

Remuneration

The Remuneration Report is attached to and forms part of this Directors' Report.

Dividends

The annual dividend for the year ended 30 June 2014 was 63.0 cents per share compared with 63.0 cents per share for the prior year.

The following dividends have been paid or declared by the Directors since 30 June 2013:

Final dividend of 33.0 cents per share (100% franked) paid on 27 September 2013	$183 million
Interim dividend of 30.0 cents per share (100% franked) paid on 4 April 2014	$168 million
Final dividend of 33.0 cents per share (100% franked) payable on 30 September 2014	$185 million

Environmental Regulation

AGL businesses are subject to a range of environmental laws and regulations as well as project and site-specific environmental permits and approvals issued at both Federal and State Government levels.

Table 1 sets out environmental issues and non-compliances that were reported to regulators during the reporting period. Corrective actions have been implemented to address each of the issues listed. More information on the Group's environmental performance is published in AGL's Sustainability Performance Report 2014, available on the AGL website in late 2014.

Table 1 – Summary of AGL's Environmental Incidents and Non-Compliances

Site	Key Environment and Planning legislation	Comments
Rosalind Park Gas Plant, Camden Gas Project, NSW	Protection of the Environment Operations Act 1997	During the year, AGL reported to the EPA breaches of obligations to monitor emissions of Nitrogen Oxide (NOx) and some exceedances of NOx emission limits. The EPA imposed two penalty infringement notices (aggregating $2,500) in respect of breaches. AGL has entered into, and has complied with, the terms of an enforceable undertaking to improve its emissions monitoring performance. AGL has put in place a number of other remedial actions.
AGL Loy Yang, Vic	Environment Protection Act 1970	In August 2013, the EPA licence limit for turbidity was exceeded at discharge point L171 (Traralgon Creek) during a period of high rainfall. Stormwater runoff from roads and surrounds contributed to the elevated turbidity. The EPA has amended the site licence so that AGL's discharge limits reflect the background quality of the creek.
Torrens Island Power Station, SA	Environment Protection Act 1993	In June 2013, AGL submitted a notification to the EPA relating to contamination in groundwater surrounding the site sewerage treatment plant at Torrens Island Power Station. The cause and extent of contamination was investigated, and the investigation report and AGL action plan was submitted to the EPA in February 2014.
Moranbah Power Station, Qld	Environmental Protection Act 1994	In December 2013, AGL notified the Department of Environment and Heritage Protection (DEHP) that noise levels measured at the Power Station were above the Development Approval (DA) limits. The DA noise limits were imposed prior to a number of adjoining land developments, and were based on previous noise policy requirements. In light of this, in April 2014, following a review of ambient noise and consistent with current noise policy requirements, DEHP amended the noise limits that apply to the power station. The station is compliant with the amended limits.

AGL Energy Limited
Operating and Financial Review

For the year ended 30 June 2014

This report is attached to and forms part of the Directors' Report

Contents

Operating and Financial Review

1. AGL's Operations

1.1. About AGL

AGL is one of Australia's leading integrated renewable energy companies and is taking action toward creating a sustainable energy future for our investors, communities and customers. Drawing on over 175 years of experience, AGL operates retail and merchant energy businesses, power generation assets and an upstream gas portfolio. AGL has one of Australia's largest retail energy and dual fuel customer bases. AGL has a diverse power generation portfolio including base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources including hydro, wind, landfill gas and biomass. AGL is Australia's largest private owner and operator of renewable energy assets and is looking to further expand this position by exploring a suite of low emission and renewable energy generation development opportunities.

1.2. Operating Segments

AGL's segment results are reported according to the internal management reporting structure at the reporting date. AGL has four reportable operating segments:

- **Retail Energy** sells natural gas, electricity and energy-related products and services to residential and small business customers.
- **Merchant Energy** develops, operates and maintains power generation assets and manages the risks associated with the procurement and delivery of natural gas and electricity for its wholesale portfolio and for the Retail Energy segment. Merchant Energy also sells natural gas and electricity to business customers and provides energy efficiency and carbon management services.
- **Upstream Gas** invests in, and operates gas exploration, development and production tenements and develops and operates gas storage facilities.
- **Investments** include equity accounted investments in the ActewAGL Retail Partnership and Diamantina Holding Company Pty Limited. Also included are AGL's long-term investments in strategic growth opportunities.

1.3. Results Overview

The consolidated profit after tax attributable to shareholders was $570 million (FY13: $375 million). The underlying profit after tax was $562 million (FY13: $585 million).

The following tables reconcile Statutory Profit to Underlying Profit.

	Year ended 30 June 2014 $m	Year ended 30 June 2013 $m (Restated)
Statutory Profit	**570**	375
Adjust for the following after tax items:		
Significant items[1]	**20**	290
Changes in fair value of financial instruments[2]	**(28)**	(80)
Underlying Profit	**562**	585
	cents	cents
EPS on Statutory Profit	**102.2**	68.2
EPS on Underlying Profit	**100.8**	106.3

[1] Section 1.4
[2] Section 4

Underlying Profit and Operating EBIT are the Statutory Profit and Statutory EBIT respectively adjusted for significant items and changes in the fair value of financial instruments. AGL believes that Underlying Profit and Operating EBIT provide a better understanding of its financial performance and allows for a more relevant comparison of financial performance between financial periods.

Underlying Profit and Operating EBIT are useful as they:

- remove significant items that are material items of revenue or expense that are unrelated to the underlying performance of the business thereby facilitating a more representative comparison of financial performance between financial periods and;
- remove changes in the fair value of financial instruments recognised in the statement of profit or loss to remove the volatility caused by mismatches in valuing derivatives and the underlying asset differently.

Underlying Profit is presented with reference to the Australian Securities and Investment Commission Regulatory Guide 230 "Disclosing non-IFRS financial information" issued in December 2011. AGL's policy for reporting Underlying Profit is consistent with this guidance. The Directors have had the consistency of the application of the policy reviewed by the external auditor of AGL.

Underlying Profit summary

	Year ended 30 June 2014 $m	Year ended 30 June 2013 $m (Restated)
Revenue	**9,543**	9,716
Operating EBITDA	**1,330**	1,318
Operating EBIT by segment:		
Retail Energy	**318**	356
Merchant Energy	**899**	853
Upstream Gas	**(13)**	0
Investments	**23**	26
Centrally managed expenses	**(223)**	(204)
Total Operating EBIT	**1,004**	1,031
Less Net finance costs	**(223)**	(206)
Underlying Profit before tax	**781**	825
Less: Income tax expense	**(219)**	(240)
Underlying Profit	**562**	585

Underlying profit for the year ended 30 June 2014 (FY14) was 3.9% lower than the prior corresponding period (FY13) with record warm weather, declining average consumption amongst residential customers and continued strong competition, especially in the Business customer segment, all restricting earnings growth.

Total revenue was 1.8% lower predominantly due to lower residential and commercial & industrial volumes.

AGL has restated the result for the year ended 30 June 2013 to reflect the adoption of the revised accounting standard, AASB 119 *Employee Benefits*. The following table summarises these changes:

	Year ended 30 June 2013 As published $m	AASB 119 Restatement $m	**Year ended 30 June 2013 Restated** $m
Operating EBIT			
Retail Energy	356	-	356
Merchant Energy	869	(16)	853
Upstream Gas	0	-	0
Investments	26	-	26
Centrally managed expenses	(202)	(2)	(204)
EBIT	1,049	(18)	1,031
Depreciation and amortisation	287	-	287
EBITDA	1,336	(18)	1,318

1.4. Significant Items

	Year ended 30 June 2014		Year ended 30 June 2013	
	Pre-tax	**PAT**	Pre-tax	PAT
	$m	**$m**	$m	$m
Merger and acquisition costs	**(61)**	**(44)**	(53)	(53)
Impairment of NSW Upstream Gas assets	**-**	**-**	(343)	(284)
Impairment of other Upstream Gas assets	**-**	**-**	(52)	(37)
Impairment of Power Development assets	**-**	**-**	(46)	(39)
Tax items	**-**	**24**	-	123
Total significant items	**(61)**	**(20)**	(494)	(290)

1.4.1. Merger and acquisition costs

Current Year

i. *Acquisition of Australian Power and Gas Company Limited (APG)*

AGL completed the acquisition of APG on 25 October 2013 as described in section 6. The following items were recognised as significant items in the period:

- Acquisition related transaction costs of $15 million before tax including adviser fees, redundancies and other transaction costs.
- Break costs of $2 million before tax associated with terminating APG's funding facilities.
- Incremental contract costs of $21 million before tax associated with existing customer servicing arrangements.
- Termination costs of $11 million before tax associated with other contracts.

ii. *Acquisition of Macquarie Generation*

On 12 February 2014, AGL announced that it had entered into an agreement with the New South Wales (NSW) Government to acquire the Macquarie Generation (Macgen) assets for a consideration of $1,505 million including stamp duty. On 4 March 2014, the Australian Competition and Consumer Commission (ACCC) announced it opposed the transaction. On 24 March 2014, AGL made an application to the Australian Competition Tribunal (ACT) requesting authorisation for the proposed acquisition. The ACT subsequently ruled in favour of AGL. During the period AGL incurred $12 million of costs before tax associated with the acquisition.

Prior Year – Loy Yang acquisition - Stamp Duty

AGL advised the market on 29 May 2013 that a final amount of $53 million had been paid in full settlement of stamp duty in relation to the acquisition of Loy Yang. In accordance with accounting standards, this amount was expensed. This stamp duty payment was non-deductible for tax purposes.

1.4.2. Prior year impairment of Upstream Gas NSW assets

Current Year
Nil

Prior Year
On 19 February 2013, the NSW Government announced its intention to amend the State Environmental Planning Policy (Mining, Petroleum Production and Extractive Industries) 2007 (Mining SEPP). At the date of reporting the 2013 results, the NSW Government was still to release a final amended Mining SEPP. Based on information available at the time of reporting, a provision for impairment was recognised for the expected effect of the proposed changes. Subsequent to the reporting of the 2013 results, the NSW Government amended the Mining SEPP to prelude coal seam gas exploration and development within two kilometres of residential areas and within certain critical industry cluster areas covering viticulture and equine activities.

1.4.3. Prior year impairment of other Upstream Gas assets

Current Year
Nil

Prior Year

AGL has a 50% joint venture interest in ATP 529P with the other 50% held by Galilee Energy Limited (GLL). During the year ended 30 June 2013 a parcel of approximately 16.1% of the shares in GLL was exchanged at less than the value of cash reserves held by GLL, indicating that the interest in the ATP 529P had no value. AGL conducted a carrying value review of its interests in ATP 529P. After allowing for technical and commercial uncertainty associated with the ongoing exploration program, AGL considered its interests in the joint venture to have negligible value.

1.4.4. Prior year impairment of Power Development assets

Current Year
Nil

Prior Year

A review of the portfolio of power development projects was conducted in the light of the supply and demand outlook for the National Electricity Market. This review concluded that a number of projects were unlikely to be developed based upon the expected revenue streams and the costs to develop each project. As a result, the previously capitalised costs of these projects was written off resulting in an impairment charge of $46 million before tax and $39 million after tax.

1.4.5. Tax items

Current Year
On 9 May 2014, AGL lodged an objection with the Australian Tax Office (ATO) in relation to the tax cost setting amount applied to Southern Hydro assets at the time of formation of the AGL tax consolidated group in 2006. On 11 July 2014, the ATO confirmed the allowance of AGL's objection resulting in an increase in allowable depreciation deductions in the income years ended 2010 to 2013 inclusive. AGL has recognised a $24 million credit to income tax expense in relation to this matter in the 2014 results. This credit arises as a result of a refund of income tax for the 2010 to 2013 years of income as well as a reduction in the deferred tax liability previously recognised relating to the Southern Hydro assets.

Prior Year

- Tax treatment of unbilled revenue.

  AGL and the ATO agreed a revised approach whereby AGL's tax treatment of unbilled revenue would transition to the approach consistent with the accrual method used for accounting. This resulted in amended assessments of $41 million in respect of AGL's 2008 to 2012 years of income.

  The agreement reached with the ATO resulted in an income tax benefit of $176 million recorded as a significant item, arising from a reversal of the deferred tax liability, net of taxes paid and payable.

- A deferred tax asset of $53 million, originally recognised at 30 June 2012 in relation to the Petroleum Resource Rent Tax Assessment Act 1987 was de-recognised as at 30 June 2013.

1.5. Earnings per Share

Earnings per share (EPS) has been calculated on the profit after tax attributable to shareholders (Statutory) and the Underlying Profit adjusted for significant items and changes in the fair value of financial instruments. Further discussion on the reconciliation between Statutory Profit and Underlying Profit is contained in Section 1.3.

	Year ended 30 June 2014 $m	Year ended 30 June 2013 $m (Restated)
Statutory Profit	**570**	375
Underlying Profit	**562**	585
	cents	cents
EPS on Statutory Profit	**102.2**	68.2
EPS on Underlying Profit	**100.8**	106.3

The above EPS calculations have been based upon a weighted average number of ordinary shares of 557,700,307 (FY13: 550,104,613).

1.6. Dividend

The Directors have declared a final dividend of 33.0 cents per share for the year, compared with 33.0 cents per share for the prior corresponding period's final dividend. The final dividend will be paid on 30 September 2014. The record date to determine shareholders' entitlements to the final dividend is 4 September 2014. Shares will commence trading ex-dividend on 2 September 2014.

Before declaring the dividend the Directors satisfied themselves that:

- AGL's assets exceeded its liabilities immediately before declaring the dividend and the excess was sufficient for the payment of the dividend;
- the payment of the dividend was fair and reasonable to AGL's shareholders as a whole; and
- the payment of the dividend would not materially prejudice AGL's ability to pay its creditors.

The final dividend will be fully franked.

This will bring the annual dividend to 63.0 cents per share compared with 63.0 cents per share in the prior corresponding period.

The AGL Dividend Reinvestment Plan (DRP) will be in operation. No discount will apply to shares issued under the DRP. New shares will be issued to plan participants at the volume weighted price at which AGL shares trade during the 10 trading days commencing 8 September 2014.

2. Review of Operations

The following review of operations focuses on Operating EBIT defined as EBIT before changes in fair value of financial instruments and significant items. AGL believes that Operating EBIT provides a better understanding of its financial performance by removing significant items and volatile changes in fair value of financial instrument accounting adjustments thereby facilitating a more relevant comparison of financial performance between financial periods.

The following table reconciles Statutory EBIT to Operating EBIT.

	Year ended 30 June 2014 $m	Year ended 30 June 2013 $m (Restated)
Statutory EBIT	**979**	649
Significant items	**61**	494
Change in fair value of financial instruments	**(40)**	(114)
Finance income included in Operating EBIT	**4**	2
Operating EBIT	**1,004**	1,031

Operating EBIT for the year ended 30 June 2014 was $1,004 million compared with $1,031 million for the prior corresponding period. The Statutory and Operating EBIT by segment is presented in the following table:

	EBIT (Statutory) Year ended 30 June		**EBIT (Operating) Year ended 30 June**	
	2014 $m	2013 $m (Restated)	**2014 $m**	2013 $m (Restated)
Retail Energy	**269**	356	**318**	356
Merchant Energy	**937**	866	**899**	853
Upstream Gas	**(13)**	(395)	**(13)**	0
Investments	**23**	26	**23**	26
Centrally managed expenses	**(237)**	(204)	**(223)**	(204)
EBIT	**979**	649	**1,004**	1,031
Depreciation and amortisation	**326**	287	**326**	287
EBITDA	**1,305**	936	**1,330**	1,318
Average funds employed	**10,018**	9,851	**10,018**	9,851
EBIT / Average funds employed	**9.8%**	6.6%	**10.0%**	10.5%

Operating EBIT/Average funds employed decreased 0.5 percentage points (ppts) due to a 2% increase in average funds employed whilst operating EBIT was 3% lower than the prior corresponding period. The factors affecting Operating EBIT are explained in detail in Sections 2.1 to 2.5.

The increase in average funds employed was due to AGL's capital expenditure program and a $126 million loan to the Diamantina Power Station joint venture.

On 25 October 2013, AGL completed the acquisition of 100% of the voting shares in APG by way of an off-market takeover. For consolidation purposes, AGL obtained control of APG on 16 September 2013. The purchase consideration of $102 million was paid in cash. The acquisition of APG and its 354,000 customer base across Victoria, Queensland and NSW increased AGL's total customer numbers by approximately 10%.

2.1. Retail Energy Operating EBIT:

Decreased 10.7% to $318 million from $356 million

	Year ended 30 June 2014 $m	Year ended 30 June 2013 $m
Statutory EBIT	**269**	356
Significant items	**49**	-
Operating EBIT	**318**	356
Add back:		
Depreciation and amortisation	**86**	75
Operating EBITDA	**404**	431
Average funds employed	**3,346**	3,152
Operating EBIT / Average funds employed	**9.5%**	11.3%

Retail Energy is responsible for growing and servicing AGL's consumer customers. Retail Energy sells natural gas, electricity and energy related products and services to residential and small business customers. Retail Energy currently services over 3.8 million customer accounts following the acquisition and successful integration of APG.

Retail Energy sources its energy from AGL's Merchant Energy business. The transfer price for this energy is calculated based on methodologies adopted by regulators for determining wholesale energy costs in setting tariffs.

Significant items of $49 million relate to the acquisition costs associated with APG as described in section 1.4.1

The lower Operating EBIT / Average funds employed was caused by the 10.7% reduction in Operating EBIT together with higher average funds employed due to the acquisition of APG.

2.1.1. Analysis of Operating EBIT

Retail Energy contributed $318 million to Operating EBIT for the year, down 10.7% on the prior corresponding period. The main factors contributing to the change in Operating EBIT are summarised in the table below.

	$m
Operating EBIT for the year ended 30 June 2013	**356**
Decrease in gas and electricity gross margin	(4)
Increase in depreciation and amortisation	(11)
Increase in net operating costs	(23)
Operating EBIT for the year ended 30 June 2014	**318**

AGL completed the acquisition of APG on 25 October 2013 as described in section 6. APG's contribution to Retail Energy's Operating EBIT for the 9 months to 30 June 2014 was as follows:

	APG contribution 9 months to 30 June 2014 $m
Electricity gross margin	38
Gas gross margin	23
Total gross margin	**61**
Operating costs	(28)
Operating EBITDA	**33**
Depreciation and amortisation	(6)
Operating EBIT	**27**

2.1.1.1. Gross Margin

Gross margin, excluding fees and charges, decreased by $4 million, or 0.6% compared with the prior corresponding period.

The following table shows gross margin by fuel type:

	Year ended 30 June 2014 $m	Year ended 30 June 2013 $m	Movement %
Electricity	**420**	463	(9.3)
Gas	**277**	238	16.4
Fees and charges	**74**	82	(9.8)
Total gross margin	**771**	783	(1.5)
Gross margin excluding fees & charges	**697**	701	(0.6)

FY14 was considerably affected by record weather conditions, with the 2013 calendar year being the warmest on record. The biggest effect being the very mild 2013 winter. The trend continued in 2014 with autumn and winter weather also warmer than historical mean temperatures, particularly in May and June.

Electricity gross margin was down $43 million or 9.3%. Excluding the $38 million contribution from APG, gross margin was down $81 million or 17.5%. Lower volumes accounted for $60 million of this reduction as average consumption continued to decline driven by changing customer behaviour and energy efficiency and the effect of the above mentioned weather records. Year on year volumes were down 1.2 TWh or 7.7% with the weather effect accounting for approximately 45% of the volume decline. Lower volumes were typically skewed to lower rate blocks, amplifying the impact of lower volume on margin. This was partially offset by net price increases and customer growth in NSW.

Gas gross margin was up $39 million or 16.4%. Excluding the $23 million contribution from APG, gross margin was up $16 million or 6.7%. Lower volumes reduced gross margin by $23 million or 5.6 PJs with the weather records across the peak winter months accounting for approximately 70% of the year on year volume decline. Net price increases more than offset the volume impacts.

Discounts have increased throughout the year despite the reduction in headline discount acquisition rates across the majority of the portfolio. This was due to the addition of APG customers with higher average discounts, intense competition in Victoria, retention activity through high discount product offers and the lagging effect of discounts provided in prior periods.

2.1.1.2. Depreciation and Amortisation

Depreciation and amortisation (D&A) increased by $11 million, or 14.7% compared with the prior corresponding period.

	Year ended 30 June 2014 $m	Year ended 30 June 2013 $m	Movement %
NSW direct customer acquisition cost amortisation	**(40)**	(37)	8.1
Other	**(46)**	(38)	21.1
Total D&A	**(86)**	(75)	14.7

The increase in D&A partly relates to AGL's project (now completed) to substantially grow its customer base in NSW by 30 June 2014. For the life of the project (which commenced in January 2011) the direct cash costs incurred to acquire NSW customers were capitalised. These costs will then be amortised over the expected benefit period, typically between two and three years. The project has now finished and no further costs will be capitalised in relation to this initiative. At the completion of the project, total NSW electricity customers had grown to 815,000, including an additional 74,000 customers from the APG acquisition.

Increases in other D&A relate mainly to customer contracts acquired as part of the APG acquisition. These contracts are being amortised over five to ten years.

The following table outlines expenditure which has been capitalised for direct NSW electricity customer acquisition costs, other than the APG acquisition, and also shows the amortisation profile:

	Year ended 30 June 2014 $m	Year ended 30 June 2013 $m	Total Project $m
Direct cash outlay	**25**	44	125
Amortised to the income statement	**(40)**	(37)	(95)
Net capitalised costs	**(15)**	7	30
Number of lead sales	**138,155**	196,893	645,829
Cash cost per lead sale	**$181**	$221	$194

Amortisation for the year ending:	**$m**
30 June 2011	2
30 June 2012	17
30 June 2013	37
30 June 2014	40
30 June 2015	15
30 June 2016	14
Total amortisation	**125**

In addition to the above capitalised costs, AGL estimates that it spent a further $9 per new customer on sales fulfilment activities. These costs have been incurred to process new customers onto AGL's system and are consistent with prior corresponding period costs.

Cost per lead sale decreased to $181 compared with $221 for the prior corresponding period. The total completed project life costs averaged $194 per lead sale. The decline was due to reduced campaign expenditure during the year.

2.1.1.3. Net Operating Costs excluding Depreciation & Amortisation

Retail Energy's net operating costs excluding D&A increased by $23 million, or 8.5%, during the year compared with the prior corresponding period. The following table includes the breakdown of the material changes in net operating costs:

	Year ended 30 June 2014 $m	Year ended 30 June 2013 $m	Movement %
Labour and contractor services	**(145)**	(142)	2.1
Bad and doubtful debts (net of recoveries)	**(65)**	(48)	35.4
Campaigns and advertising	**(69)**	(76)	(9.2)
Other expenditure	**(89)**	(87)	2.3
Fees and charges	**74**	82	(9.8)
Net operating costs excluding D&A	**(294)**	(271)	8.5
Depreciation and amortisation	**(86)**	(75)	14.7
Net operating costs	**(380)**	(346)	9.8

Total net operating costs increased $34 million predominantly due to the acquisition of APG. Underlying costs were flat year on year with cost saving initiatives more than offsetting inflationary cost increases.

Labour and contractor services costs increased by $3 million, or 2.1%, largely due to the acquisition of APG, closure costs associated with the Canberra call centre and other restructuring costs. Excluding these items labour costs were 3.4% below the prior year.

The increase in bad and doubtful debts expense (net of recoveries) of $17 million, or 35.4%, included $16 million in relation to APG. Excluding APG, bad and doubtful debts expense increased 2.1% compared with a revenue increase of 3.8%.

Campaign and advertising expenditure decreased $7 million, or 9.2%, due to the reduction in churn and market activity.

Fees and charges decreased by $8 million, or 9.8%, mainly due to lower AGL Solar margins following reductions in government solar incentives.

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2.1.2. Customer Profitability

AGL uses gross margin per customer as its primary measure of customer profitability, with Operating EBIT/Sales used as a secondary measure.

2.1.2.1. Gross Margin per Customer

	Year ended 30 June 2014	Year ended 30 June 2013	Movement %
Gross margin (excluding fees & charges)	**$697m**	$701m	(0.6)
Average customer numbers	**3,733,047**	3,500,200	6.7
Consumer gross margin per customer	**$187**	$200	(6.5)

The decrease in gross margin per customer was due to the significant effect of weather on volumes, continued decline in average consumption and increased discounting.

2.1.2.2. Operating EBIT / Sales Analysis

	Year ended 30 June 2014 $m	Year ended 30 June 2013 $m	Movement %
Electricity revenue	**3,679**	3,542	3.9
Gas revenue	**1,362**	1,302	4.6
Other fees and charges	**74**	82	(9.8)
Total revenue	**5,115**	4,926	3.8
Cost of sales - electricity	**(3,259)**	(3,079)	5.8
Cost of sales - gas	**(1,085)**	(1,064)	2.0
Gross margin	**771**	783	(1.5)
Operating costs (excl D&A)	**(367)**	(352)	4.3
Operating EBITDA	**404**	431	(6.3)
Depreciation and amortisation	**(86)**	(75)	14.7
Operating EBIT	**318**	356	(10.7)
Operating EBIT / Sales %	**6.2%**	7.2%	-1.0 ppts

Operating EBIT / Sales decreased by 1.0 ppts largely due to the effect of weather, lower average consumption and increases in electricity network distribution costs compared with the prior corresponding period, and an increase in operating costs following the acquisition of APG offset by cost saving initiatives during the year.

2.1.3. Operating Efficiency

AGL focuses on net operating costs as a percentage of gross margin (excluding fees and charges) as the primary measure of operating efficiency. As a secondary measure, cost to serve is also analysed.

2.1.3.1. Net Operating Costs as a Percentage of Gross Margin

	Year ended 30 June 2014 $m	Year ended 30 June 2013 $m	Movement %
Net operating costs	**(380)**	(346)	9.8
Gross margin	**771**	783	(1.5)
Fees and charges	**(74)**	(82)	(9.8)
Gross margin less fees and charges	**697**	701	(0.6)
Net operating costs as a percentage of gross margin (less fees and charges)	**54.5%**	49.3%	5.2 ppts

Net operating costs increased by 9.8% as detailed in section 2.1.1.2 and 2.1.1.3.
Net operating costs as a percentage of gross margin increased by 5.1 ppts.

Gross margin (less fees and charges) decreased by 0.6% primarily due to lower volumes as a result of record weather conditions and continued lower average consumption, increased discounting and network costs, partially offset by regulatory and contract price increases and the inclusion of APG.

2.1.3.2. Cost per account analysis

	Operating costs Year ended 30 June			**Cost per account Year ended 30 June**		
	2014 $m	2013 $m	Movement %	**2014 $**	2013 $	Movement %
Cost to Serve	**(249)**	(218)	14.2	**(67)**	(62)	8.1
Cost to Acquire	**(108)**	(106)	1.9	**(148)**	(125)	18.4
Cost to Retain	**(23)**	(22)	4.5	**(29)**	(19)	52.6
Cost to Acquire/Retain	**(131)**	(128)	2.3	**(86)**	(63)	36.5
Net Operating costs	**(380)**	(346)	9.8	**(102)**	(99)	3.0

The overall cost to serve increased 14.2% due to increased net bad debt expense from the inclusion of APG, closure of the Canberra call centre and other restructuring costs as describe in section 2.1.1.3. Excluding net bad debt expense the cost to serve per customer account increased by 1.8%, slightly below the rate of inflation.

The overall cost to acquire and retain increased by 2.3% with lower cost internal sales channels proportionally greater than the prior corresponding period. As churn and market activity has declined the number of accounts acquired and retained has decreased by approximately 500,000 resulting in the cost to acquire/retain per customer account increasing 36.5% with fixed costs associated with Project Storm and other fixed acquisition and retention costs.

Net operating cost per customer account was $102, a 3.0% increase on the prior corresponding period. The increase in net operating costs relates largely to APG net bad debt expense which in the first year was higher consistent with acquisition modelling. Net operating cost excluding net bad debt expense per customer account for the period was $84, a 0.9% decrease on the prior corresponding period as a result of successful cost savings initiatives during the period.

2.1.4. Customer numbers

The following table provides a breakdown of customer numbers by state.

	30 June 2014 ('000)	30 June 2013 ('000)	Movement ('000)	Movement %
Consumer Electricity				
New South Wales	**815**	712	103	14.5
Victoria	**665**	603	62	10.3
South Australia	**431**	440	(9)	(2.0)
Queensland	**386**	372	14	3.8
	2,297	2,127	170	8.0
Consumer Gas				
New South Wales	**707**	683	24	3.5
Victoria	**567**	482	85	17.6
South Australia	**130**	129	1	0.8
Queensland	**79**	77	2	2.6
	1,483	1,371	112	8.2
Total Consumer	**3,780**	3,498	282	8.1
Total C&I Accounts	20	19	1	5.3
Total Customer Accounts	**3,800**	3,517	283	8.0

AGL churn decreased by 3.0% to 15.4% from 18.4% in the prior corresponding period. The Rest of Market (Qld, Vic, SA and NSW excluding AGL customers) also decreased, to 20.5% from 24.0%, with AGL remaining below the Rest of Market by 5.1%. This favourable performance to the Rest of Market decreased by 0.5% with the acquisition of APG which added approximately 1% to the AGL churn rate. The favourable gap is supported by strong product offers such as My AGL Monthly Bill, the flybuys reward scheme and interactive tools like AGL Energy Online and My AGL IQ.

2.2. Merchant Energy Operating EBIT:

Increased 5.4% to $899 million from $853 million

	Year ended 30 June 2014 $m	Year ended 30 June 2013 $m (Restated)
Statutory EBIT	**937**	866
Significant items	**-**	99
Finance income included in EBIT	**4**	2
Change in fair value of financial instruments	**(42)**	(114)
Operating EBIT	**899**	853
Add back:		
Depreciation and amortisation	**194**	165
Operating EBITDA	**1,093**	1,018
Average funds employed	**5,638**	5,408
Operating EBIT / Average funds employed	**15.9%**	15.8%

Merchant Energy is structured into three business units: Energy Portfolio Management, Merchant Operations and Business Customers. It is responsible for developing, operating and maintaining AGL's power generation assets and managing the risks associated with the procurement and delivery of gas and electricity for AGL's Wholesale and Retail portfolios. It also manages the relationship with AGL's business customers. In addition to providing gas and electricity the business unit supplies beyond the meter services such as energy efficiency advice and broader carbon management services.

The business uses financial hedges, bilateral contracts and physical generation to provide competitively priced supply. Generation assets include both thermal and renewable assets including Australia's largest privately owned and operated renewable portfolio and a pipeline of development opportunities.

The contribution from each business unit to Merchant Energy's Operating EBIT and EBITDA is set out in the following table.

	Operating EBIT Year ended 30 June		**Operating EBITDA Year ended 30 June**	
	2014 $m	2013 $m (Restated)	**2014 $m**	2013 $m (Restated)
Energy Portfolio Management	**1,230**	1,135	**1,244**	1,154
Merchant Operations	**(415)**	(387)	**(253)**	(257)
Business Customers	**102**	127	**119**	142
Sundry	**(18)**	(22)	**(17)**	(21)
Total Merchant Energy	**899**	853	**1,093**	1,018

Merchant Energy results include a net increase in EBIT of $13 million largely as a result of adjustments which were non cash in nature and effectively relate to other periods. The benefit from the unwind of onerous contract provisions increased $68 million ($80 million increase in Wholesale Electricity less $12 million decrease in Merchant Operations), driven by a review of the Torrens Island power station onerous contract provision in relation to gas haulage which resulted in a de-recognition of the provision back to profit. Offsetting this, a review of unbilled revenue asset balances resulted in a reduction in the unbilled balance and an associated charge to profit of $55 million.

2.2.1. Energy Portfolio Management Operating EBIT:

Increased 8.4% to $1,230 million from $1,135 million

	Year ended 30 June 2014 $m	Year ended 30 June 2013 $m	Movement %
Wholesale Electricity	**1,038**	971	6.9
Wholesale Gas	**164**	124	32.3
Eco-Markets	**54**	71	(23.9)
Gross margin	**1,256**	1,166	7.7
Operating costs	**(12)**	(12)	-
Operating EBITDA	**1,244**	1,154	7.8
Depreciation and amortisation	**(14)**	(19)	(26.3)
Operating EBIT	**1,230**	1,135	8.4

Energy Portfolio Management is responsible for managing the price risk associated with procuring electricity and gas and for managing AGL's green product obligations. It also controls the dispatch of owned and contracted generation assets which complement the portfolio of electricity hedges.

To effectively manage risk, AGL has in place a governance framework which establishes the policy under which energy hedging activities are conducted. Key components of that policy include segregation of duties, independent risk oversight, Earnings at Risk limits and regular reporting to the Board.

The risk policy mandates that the principal purpose of electricity trading is to hedge AGL's market price exposure resulting from operating an integrated energy business. The policy allows for commercial optimisation of the portfolio provided that overall Earnings at Risk limits are adhered to. Commercial optimisation activities include:

- Reducing hedging costs through optimising load diversity between customer classes and regions;
- Harnessing the implicit optionality of the generation portfolio including arbitraging fuel types;
- Accelerating or decelerating hedging programs based on a view of market price; and
- Utilising a variety of instruments including weather derivatives to optimise risk and return.

2.2.1.1. Wholesale Electricity Gross Margin:

Increased 6.9% to $1,038 million from $971 million

Wholesale Electricity is responsible for managing the procurement and hedging of AGL's wholesale electricity requirements, for commercial management of the generation portfolio and for wholesale pricing to support AGL's retail and business customer base.

There were four main contributors to the $67 million increase in gross margin;

i. A $40 million benefit from higher generation volumes with a full year of generation from Macarthur wind farm, higher hydro generation as a result of strong water inflows and a higher contribution from the South Australian wind farms;
ii. $35 million in relation to higher transfer prices from Retail Energy;
iii. Additional gross margin of $24 million from the addition of APG customers;
iv. Partly offset by a $35 million reduction in gross margin due to a decline in consumer electricity volumes as described in the Retail Energy gross margin discussion in section 2.1.1.1.

There were a number of other movements in gross margin that largely offset each other;

The onerous contract unwind discussed in section 2.2 coupled with the reduction in the unbilled balance resulted in a net benefit to Wholesale Electricity gross margin of $25 million. Other benefits included lower carbon intensity at AGL Loy Yang and the non-repeat of a short position in Queensland in the prior year during a period of price volatility.

Additionally, FY13 contained a non-recurring one-off benefit of contract purchases at a carbon exclusive price prior to the enacting of the carbon tax legislation.

2.2.1.2. Wholesale Gas Gross Margin:

Increased 32.3% to $164 million from $124 million

Wholesale Gas is responsible for sourcing and managing AGL's gas supply and transportation portfolio to maximise wholesale price effectiveness for the retail and business customer base. Wholesale Gas also supplies gas to other retailers and internal and third party gas fired generators.

The $40 million increase in gross margin was largely due to an additional 15 PJ of wholesale gas sales largely in Queensland during the year.

Higher transfer prices from Retail Energy of $16 million were largely offset by lower Consumer and Business Customer volumes. Consumer volumes were down 3 PJ due to the weather conditions and a general fall in average consumption. Business customer volumes were also lower with average consumption down 23% driven by a change in customer mix and customer usage.

2.2.1.3. Eco-Markets Gross Margin:

Decreased 23.9% to $54 million from $71 million

Eco-Markets is responsible for managing the liabilities for both voluntary and mandatory green schemes. The largest of these schemes in which Eco-Markets participates are the Small-scale Renewable Energy Scheme (SRES) and the Large-scale Renewable Energy Target (LRET).

The decrease in gross margin compared with the prior corresponding period was due to a decline in consumer electricity volumes of 1,752 Gwh or 11% as outlined in section 2.1.1.1 and an increase in Small-scale Renewable Energy Certificates (SREC) compliance costs.

The increase in SREC compliance costs was the result of higher market costs for SREC's in FY14 following depressed prices in prior periods.

2.2.2. Merchant Operations Operating EBIT:

Decreased 7.2% to ($415 million) from ($387 million)

	Year ended 30 June 2014 $m	Year ended 30 June 2013 $m (Restated)	Movement %
Other revenue	**85**	80	6.3
Labour	**(154)**	(153)	(0.7)
Contractor services	**(104)**	(101)	(3.0)
Other operating costs	**(80)**	(83)	3.6
Operating EBITDA	**(253)**	(257)	1.6
Depreciation and amortisation	**(162)**	(130)	(24.6)
Operating EBIT	**(415)**	(387)	(7.2)

Merchant Operations is responsible for managing and maintaining both AGL's and third party generation assets. AGL's thermal and renewable generation portfolio includes the 2,210 MW Loy Yang A power station and adjacent brown coal mine, the 1,280 MW gas fired Torrens Island power station, the 150 MW gas fired Somerton power station and 795 MW of hydro generation. AGL also operates and receives the generation revenues from Wattle Point, Hallett 1, Hallett 2, Hallett 4, Hallett 5, Oaklands Hill and Macarthur wind farms (combined 925 MW of capacity).

Merchant Operations is largely a cost centre with all generation revenues and variable fuel costs included in the Energy Portfolio Management results. Other revenue is predominantly AGL Loy Yang coal sales to third parties.

The increase in Merchant Operations operating expenses for the period was mainly due to higher depreciation ($23 million) and higher operational expenditure ($4 million) for the Macarthur wind farm which was not fully operational in the prior corresponding period. Underlying labour costs were in line with labour inflation, this was largely offset by recoveries to capital program during the year.

2.2.3. Business Customers Operating EBIT:

Decreased 19.7% to $102 million from $127 million

	Year ended 30 June 2014 $m	Year ended 30 June 2013 $m	Movement %
Electricity gross margin	**39**	66	(40.9)
Gas gross margin	**62**	64	(3.1)
C&I Operations & Customer Services expenses	**(30)**	(30)	-
Energy Services	**48**	42	14.3
Operating EBITDA	**119**	142	(16.2)
Depreciation and amortisation	**(17)**	(15)	13.3
Operating EBIT	**102**	127	(19.7)

Business Customers manages AGL's Commercial and Industrial (C&I) gas and electricity customers through an integrated sales and service model. The customer base provides a channel to market for additional energy related services over and above basic energy supply.

Electricity gross margin decreased compared with the prior corresponding period due to contraction in average load per customer of 14%, partially offset by a 3% increase in customer numbers. Strong competition drove lower average margins as expiring customer contracts were renewed.

Gas gross margin was slightly lower due to a 23% fall in average customer usage due to a shift in customer mix. This was partially offset by increased customer numbers and higher average margins as expiring customer contracts were renewed.

Energy Services earnings increased mainly due to favourable LPG prices and higher volumes at HC Extractions.

2.2.4. Sundry Operating Expenses

Decreased 18.2% to ($18 million) from ($22 million)

Sundry includes overhead expenses for the Merchant Energy business unit. The decrease in operating expenses compared with the prior corresponding period was due primarily to lower employee expenses.

2.3. Upstream Gas Operating EBIT:

Decreased to ($13 million) from $0 million

	Year ended 30 June 2014 $m	Year ended 30 June 2013 $m
Statutory EBIT	**(13)**	(395)
Significant items	**-**	395
Operating EBIT	**(13)**	0
Add back:		
Depreciation and amortisation	**17**	24
Operating EBITDA	**4**	24

Upstream Gas is responsible for AGL's investments and operations in gas exploration, development and production tenements, and development and operation of gas storage facilities. The portfolio is divided into two broad regions: (i) Queensland; and (ii) New South Wales.

The significant item expense of $395 million for the prior corresponding period related to impairment provision charges in relation to NSW coal seam gas assets resulting from the Mining SEPP changes and the impairment of the Galilee Basin joint venture as discussed in detail in section 1.4.2 and 1.4.3.

The following table provides a breakdown of the contributors to Operating EBIT and EBITDA:

	Operating EBIT		**Operating EBITDA**	
	Year ended 30 June 2014 $m	Year ended 30 June 2013 $m	**Year ended 30 June 2014 $m**	Year ended 30 June 2013 $m
Queensland	**(2)**	6	**7**	18
New South Wales	**0**	0	**9**	10
Sundry	**(11)**	(6)	**(12)**	(4)
Total Upstream Gas	**(13)**	0	**4**	24

2.3.1. Queensland Operating EBIT:

Decreased to ($2 million) from $6 million

The Queensland portfolio includes the Moranbah Gas Project (MGP) joint venture, the upstream elements of the North Queensland Energy (NQE) joint venture, the Silver Springs conventional oil and gas interests in the Surat Basin including underground gas storage, oil and gas exploration interests in the Cooper/Eromanga and Galilee Basins, and the Spring Gully joint venture.

Operating EBIT contribution from the combined MGP and NQE joint venture interests was a loss of $1 million compared with $0 million in the prior corresponding period. The combined MGP and NQE joint ventures are expected to be divested and have been classified as "held for sale" since 1 January 2014. Accordingly, depreciation has been no longer charged on these assets since 1 January 2014. Depreciation expense for these businesses for the year was $6 million (2013: $11 million). Reduced gas sales revenue (gas sales of 7.3 PJ compared with 7.6 PJ in the prior corresponding period) and an increase in operating expenses were partially offset by the lower depreciation expense.

Operating EBIT contribution from the Silver Springs interests was a loss of $1 million compared with a gain of $6 million for the prior corresponding period. Reduced Operating EBIT was mainly due to the cessation of capacity income ($15 million, 50% of an upfront payment of $30 million from QGC, was amortised over the first 27 months of gas injection ending June 2013) and increased operating expenses, predominantly related to higher labour and associated costs.

2.3.2. New South Wales Operating EBIT:

Unchanged at $0 million

The New South Wales portfolio includes the Camden Gas Project, gas exploration interests in the Sydney Basin (including Hunter Valley) and Gloucester Basin development assets.

Operating EBIT contribution from the Camden Gas Project was $0 million compared with $0 million in the prior corresponding period. Reduced gas sales revenue (gas sales of 4.8 PJ compared with 5.4 PJ for the prior corresponding period) were fully offset with a corresponding reduction in royalties and depreciation charges.

2.3.3. Sundry Operating EBIT:

Decreased to ($11 million) from ($6 million)

The Sundry category includes Upstream Gas overheads. The increase in costs was mainly due to the increased level of AGL's community relations activities over the past year, including the launch of "AGL Side by Side", a project aimed at improving engagement with local communities near AGL's operations.

2.3.4. Gas Sales and Reserves Position

The following table summarises the gas sales volume and associated revenue from each operating region during the period:

AGL share of operations	**Year ended 30 June 2014**	Year ended 30 June 2013	Movement %
Gas sales volume (PJ)			
Queensland	**7.6**	7.6	-
New South Wales	**4.8**	5.4	(11.1)
Total gas sales volumes	**12.4**	13.0	(4.6)
Sales revenue ($m)			
Queensland	**25**	24	4.2
New South Wales	**19**	21	(9.5)
Total sales revenue	**44**	45	(2.2)
Average gas price ($/GJ)	**3.55**	3.45	2.9

AGL's share of proved plus probable (2P) and proved plus probable plus possible (3P) natural gas reserves by project, including coal seam gas and conventional gas is summarised below:

AGL share of gas reserves (PJ)	**30 June 2014**		30 June 2013	
	2P	**3P**	2P	3P
Gloucester (100%)	**527**	**649**	454	565
Moranbah (50%)	**285**	**481**	291	487
Camden (100%)	**45**	**45**	50	50
Silver Springs (various)	**57**	**149**	58	150
Spring Gully (various)	**9**	**11**	8	9
Sub-Total	**923**	**1,335**	861	1,261
ATP 1103 back-in rights (50%) [1]	**968**	**2,191**	868	2,065
Total	**1,891**	**3,526**	1,729	3,326

[1] Under a 50-year project agreement that commenced in 2000, AGL has no effective exploration rights (or ongoing cost obligations) within exploration tenement ATP 1103 (previously designated ATP 364P) as these were assigned to Arrow Energy Limited. However, AGL is entitled to participate up to a 50% interest in any commercial development by contributing its share of past costs.

AGL engages independent experts SRK Consulting Australia (SRK) to evaluate reserves and resources for its operated gas projects.

Gas reserves within the Gloucester Gas Project were reassessed by SRK as at 30 June 2014. Gloucester 2P reserves increased by 73 PJ (16.1%), due to an increased area accessible under the final Mining SEPP and reduced fuel gas usage based on the decision to change from gas-drive to electric-drive compressors for the Project.

Gas reserves within the Camden Gas Project were last reassessed by SRK as at 30 June 2013. There has been no reassessment since then. The change in Camden reserves was wholly due to gas sales over the past year.

Gas reserves within the MGP were last reassessed by independent reserves and resources evaluation company Netherland Sewell & Associates, Inc (NSAI) as at 31 December 2012; whereas gas reserves within ATP 1103 were last reassessed by NSAI as at 31 August 2013. There has been no reassessment since then. The change in MGP reserves was wholly due to gas sales over the past year. AGL's entitlement of 2P reserves within the combined Project and ATP areas, net of gas sales, increased by 94 PJ (8.1%) to 1,253 PJ over the past year as a result of exploration and appraisal activities. As noted in section 2.3.1, these assets have been classified as "held for sale" since 1 January 2014.

Refer to AGL's Annual Reserves Assessment as at 30 June 2014, released to the ASX on 20 August 2014, for more details relating to AGL's gas reserves and resources.

2.4. Investments Operating EBIT:
Decreased 11.5% to $23 million from $26 million

	Year ended 30 June 2014	Year ended 30 June 2013
	$m	$m
Statutory EBIT	**23**	26
Operating EBIT	**23**	26
Depreciation and amortisation	**-**	-
Operating EBITDA	**23**	26

The following table provides a further breakdown of the contributors to the Operating EBIT:

	Year ended 30 June 2014	Year ended 30 June 2013
	$m	$m
ActewAGL	**25**	26
Diamantina Power Station	**(2)**	-
Operating EBIT	**23**	26

2.4.1. ActewAGL (50% AGL Ownership) Operating EBIT:
Decreased 3.8% to $25 million from $26 million

ActewAGL is a 50/50 partnership between AGL and Actew Corporation, an ACT Government owned enterprise. Established in 2000, it was the first utility joint venture in Australia between a private company and a publicly owned enterprise. AGL holds a 50% interest in ActewAGL's retail business.

ActewAGL Retail partnership contributed an equity share of profits of $25 million for the year compared with $26 million for the prior corresponding period. The decrease was due to lower electricity consumption in the ACT region due to milder winter conditions, the continued effect of energy efficiency schemes and the growth of residential solar generation.

2.4.2. Diamantina Power Station Joint Venture

On 6 October 2011, AGL entered into a 50:50 joint venture with the APA Group to construct the Diamantina Power Station (242 MW) and the adjacent Leichhardt Power Station (60 MW) in Mt Isa. The Diamantina Power Station commenced partial open cycle operation in January 2014. Full combined cycle operation is due to commence in the last quarter of calendar 2014. The Leichhardt Power Station commenced open cycle operation in July 2014. The joint venture posted a loss of $2 million (AGL share) for the year ended 30 June 2014.

2.5. Centrally Managed Expenses:

Increased 9.3% to ($223 million) from ($204 million)

	Year ended 30 June 2014 $m	Year ended 30 June 2013 $m (Restated)
Statutory EBIT	**(237)**	(204)
Significant items	**12**	-
Change in fair value of financial assets	**2**	-
Operating EBIT	**(223)**	(204)
Add back:		
Depreciation and amortisation	**29**	23
Operating EBITDA	**(194)**	(181)

Significant items relate to the costs associated with AGL's proposed acquisition of Macgen as described in section 1.4.1.

The following table provides a more detailed breakdown of centrally managed expenses.

	Year ended 30 June 2014 $m	Year ended 30 June 2013 $m (Restated)
Labour	**(81)**	(65)
Office leases	**(17)**	(16)
Hardware and software costs	**(38)**	(38)
Consultants and contractor fees	**(13)**	(13)
Insurance premiums	**(17)**	(21)
Depreciation and amortisation	**(29)**	(23)
Other	**(28)**	(28)
Total	**(223)**	(204)

The increase in labour costs was largely due to reallocations associated with employee incentive provisions. In the prior corresponding period, the majority of incentive provisions were recognised in the operating businesses. In FY14, these provisions have been better balanced to reflect the split of cost between the central areas and the operating business units. After adjusting for these changes and the creation of a Group Strategy function, underlying labour costs were up 1.5%.

Insurance premiums were 19% lower due to the consolidation of a number of previously separate policies into a combined program.

Depreciation and amortisation charges increased 26% or $6 million due to the completion of a number of IT related projects and the commencement of the associated depreciation.

AGL centrally manages a number of expense items, including information technology and office leases, to maximise operational efficiencies, minimise costs and optimise service levels across business divisions. While these costs would not be incurred but for the existence of the business units, they have not been formally reallocated because the management of these costs is the responsibility of various corporate functions.

However, although not formally reallocated for the purposes of reporting Operating EBIT, a substantial proportion of the expenses can be attributed to the business units. The following tables provide further analysis of the centrally managed expenses incurred on behalf of business units during the years ended 30 June 2014 and 30 June 2013.

30 June 2014	Centrally Managed Expenses $m	Reallocate Retail Energy $m	Reallocate Merchant Energy $m	Reallocate Upstream Gas $m	Unallocated $m
Labour	(81)	-	-	-	(81)
Office leases	(17)	6	7	1	(3)
Hardware and software costs	(42)	29	9	-	(4)
Consultants and contractor fees	(9)	1	2	-	(6)
Insurance premiums	(17)	3	12	2	-
Depreciation and amortisation	(29)	21	7	-	(1)
Other	(28)	3	9	-	(16)
Total	(223)	63	46	3	(111)

30 June 2013	Centrally Managed Expenses $m (Restated)	Reallocate Retail Energy $m	Reallocate Merchant Energy $m	Reallocate Upstream Gas $m	Unallocated $m
Labour	(65)	-	-	-	(65)
Office leases	(16)	6	7	1	(2)
Hardware and software costs	(38)	26	8	-	(4)
Consultants and contractor fees	(13)	1	3	-	(9)
Insurance premiums	(21)	4	15	2	-
Depreciation and amortisation	(23)	16	5	-	(2)
Other	(28)	3	10	-	(15)
Total	(204)	56	48	3	(97)

2.6. Net Finance Costs

Increased 8.3% to $223 million from $206 million

	Year ended 30 June 2014 $m	Year ended 30 June 2013 $m
Statutory finance costs	**(243)**	(245)
Statutory finance income	**24**	41
Remove finance income included in EBITDA	**(4)**	(2)
Net finance costs	**(223)**	(206)

Net finance costs were $223 million compared with $206 million for the prior corresponding period. The increase in net finance costs was due to an overall increase in average net debt to $3,037 million compared with $2,656 million for the prior corresponding period. Net debt increased over the period driven by the APG acquisition and funding of the capital expenditure program. Statutory finance income reduced by $17 million due to lower cash balances held during the year.

2.7. Income Tax Expense

Underlying income tax decreased 8.8% to $219 million from $240 million

	Year ended 30 June 2014 $m	Year ended 30 June 2013 $m (Restated)
Statutory income tax expense	**(190)**	(70)
Income tax benefit from significant items	**(41)**	(204)
Income tax (benefit) / expense from fair value movements	**12**	34
Underlying tax expense	**(219)**	(240)

The decrease in the underlying tax expense was largely in line with a 5% fall in underlying earnings. The effective tax rate of 28% was lower than 29% for the prior corresponding period due to higher research and development concessions and adjustments to prior year tax balances.

3. Operating Cash Flow

3.1. Reconciliation of Operating EBITDA to Statutory Cash Flow:

The following table provides a reconciliation of Operating EBITDA to Statutory Cash Flow.

		Year ended 30 June 2014 $m		Year ended 30 June 2013 $m (Restated)
Operating EBITDA		**1,330**		1,318
Equity accounted income (net of dividend received)		**1**		(2)
Accounting for onerous contracts		**(117)**		(49)
Working capital movements				
(Increase) / decrease in receivables	**109**		(248)	
(Increase) / decrease in inventories	**(54)**		21	
Increase / (decrease) in creditors	**(189)**		22	
Increase / (decrease) in carbon liability	**(12)**		145	
Net derivative premiums paid / roll-offs	**-**		22	
Net movement in GST recoverable / payable	**(9)**		13	
Net movement in green assets/liabilities	**43**		(61)	
(Increase) / decrease in futures margin calls	**-**		8	
Other	**47**	**(65)**	(10)	(88)
Operating cash flow before interest, tax & significant items		**1,149**		1,179
Net finance costs paid		**(198)**		(213)
Income tax paid		**(191)**		(71)
Underlying operating cash flow		**760**		895
Unwind of carbon assistance received		**-**		(240)
Cash flow relating to significant items		**(61)**		(53)
Statutory net cash provided by operating activities		**699**		602

The impact of carbon on working capital is not significant in FY14.

The year on year variance in onerous contracts of $68 million is driven by a de-recognition of the Torrens Island power station onerous contract provision as discussed in section 2.2. This was largely offset by an unbilled debtors adjustment of $55 million (a decrease in receivables). Both accounting adjustments are non-cash and relate to other periods.

The increase in inventories is largely due to a higher level of banked gas.

3.2. Underlying Operating Cash Flow before Interest and Tax:

Decreased 2.5% to $1,149 million from $1,179 million

The statutory net cash flow from operating activities does not take into account a number of material items that affect operating cash flow. AGL has made adjustments to take these items into consideration in calculating the underlying operating cash flow before interest and tax.

	Year ended 30 June 2014 $m	Year ended 30 June 2013 $m
Statutory net cash provided by operating activities	**699**	602
Cash flow relating to significant items	**61**	53
Carbon assistance received	**-**	240
Underlying Operating Cash Flow	**760**	895
Net finance costs paid	**198**	213
Income tax paid	**191**	71
Underlying Operating Cash Flow before interest and tax	**1,149**	1,179

3.2.1. Significant Items

AGL incurred cash expenses in the year relating to transaction costs associated with the acquisition of APG and the proposed acquisition of Macgen. These payments are discussed further in Section 1.4.

3.2.2. Carbon Transitional Assistance

Immediately prior to AGL's acquisition, GEAC received $240 million of carbon transitional assistance in June 2012. This receipt was not recognised in the underlying cash flow for the year ended 30 June 2012 as it was provided to partially offset the cost of carbon in the 2013 financial year. This receipt was subsequently recognised in underlying cash flow for the year ended 30 June 2013.

4. Changes in Fair Value of Derivative Financial Instruments

AGL uses derivative financial instruments ("derivatives"), in large part, to manage energy price risks but also to manage its exposure to interest rates and foreign exchange rates arising in the normal course of business. AGL's intention when transacting derivatives is to prudently manage the energy price risk, interest rate risk and foreign exchange rate risk it faces. AGL considers this activity to be hedging in nature.

Australian Accounting Standard AASB 139 'Financial Instruments: Recognition and Measurement' ("AASB 139") requires derivatives to be reported at fair value in the financial statements. Changes in the fair value of derivatives between reporting periods for "effective hedges" are recognised in equity as an adjustment to the hedge reserve. Changes in the fair value of derivatives between reporting periods for "ineffective hedges" are recognised in the statement of profit or loss.

AASB 139 considers derivatives to be effective hedges where the change in the fair value of the item being hedged and the change in the fair value of the derivative substantially offset each other. All other hedges are deemed to be ineffective hedges.

In AGL's view, AASB 139's definition of an effective hedge results in an appropriate outcome for the interest rate and foreign exchange rate hedging activity currently undertaken by AGL. It does not however adequately address the more complex exposures from managing energy price risk. This means that a material number of AGL's energy derivatives are not considered effective hedges under AASB 139.

The change in fair value of derivatives reported in profit and loss for the year ended 30 June 2014 was a gain of $40 million before tax and $28 million after tax. For the year ended 30 June 2013 change in fair value of derivatives was a gain before tax of $114 million and $80 million after tax.

A reconciliation of the statement of financial position movement in derivative balances to the amount included in the statement of profit or loss for the year ended 30 June 2014 is presented in the following table:

	Net Assets (Liabilities)		
	30 June 2014	30 June 2013	Change
	$m	$m	$m
Energy derivative contracts	**18**	113	(95)
Interest rate swap and foreign currency derivative contracts	**(79)**	(56)	(23)
Total net assets (liabilities) for derivative contracts	**(61)**	57	(118)
Change in derivative net asset	**(118)**		
Premiums paid	**(105)**		
Premium roll off	**107**		
Derivatives acquired	**20**		
Total change in fair value	**(96)**		

Recognised in equity hedge reserve	**(141)**
Recognised in borrowings	**(8)**
Recognised in profit and loss (fair value – pre-tax)	**40**
Recognised in profit and loss (interest – pre-tax)	**13**
Total change in fair value	**96**

5. Funding and Capital Expenditure

Total borrowings increased from $3.1 billion to $3.7 billion, an increase of 19% due to the acquisition of APG and the funding of AGL's capital expenditure program including the Newcastle Gas Storage Facility, Upstream Gas projects and operating plant maintenance programs. During the year a $600 million syndicated term facility was increased to $650 million and extended to February 2018 and a $400 million bank revolver facility was increased to $450 million and extended to June 2017. AGL's Gearing (Net Debt / (Net Debt + Equity) as at 30 June 2014 was 29.8% (FY13: 27.9%), consistent with the BBB Standard & Poor's credit rating.

Total capital expenditure was $517 million, $91 million lower than the prior corresponding period. "Stay in business" capital expenditure was $256 million (2013: $154 million) and included higher expenditure on planned outages at AGL Loy Yang during the year. Capital expenditure on growth initiatives, net of government grants was $262 million and included $154 million of expenditure on the Newcastle Gas Storage Facility and $124 million on Upstream Gas projects. Expenditure on the Solar generation projects of $114 million for the year was more than offset by the timing of government grant receipts of $191 million for the year. Other growth expenditure of $60 million related to Retail and Corporate IT projects. Expenditure on growth projects was $192 million lower than the prior corresponding period which included $132 million of expenditure on the completion of the Macarthur wind farm project.

6. Business Acquisitions and Disposals

On 25 October 2013, AGL completed the acquisition of 100% of the voting shares in Australian Power and Gas Company Limited (APG) by way of an off-market takeover. For consolidation purposes, AGL obtained control of APG on 16 September 2013. The purchase consideration of $102 million was paid in cash.

The acquisition of APG and its 354,000 customer base across Victoria, Queensland and New South Wales increased AGL's total customer numbers by approximately 10%. AGL will realise value from the acquisition by applying its lower cost of servicing to the APG customer base.

There were no material acquisitions or disposals during the financial year ended 30 June 2013.

7. Business Strategies and Prospects

7.1. Overview

AGL has built a strong position as a vertically integrated energy supplier in a centralised production and distribution energy market. Emerging trends including more engaged consumers, rapidly advancing disruptive technologies, shifts in policy and regulatory frameworks, and declining centralised electricity supply and demand, present both challenges and new growth opportunities. AGL is leveraging a strong industry position to build a platform for near and long term growth by transforming to become an integrated energy solutions provider.

Existing Business Model	Current Priorities	Future Business Model
Vertically Integrated Energy Supplier		*Integrated Energy Solutions Provider*

1. Integrate and maximise value of existing generation/trading portfolio
2. Source/develop long term gas supplies to strengthen existing portfolio
3. Grow retail margins and market share of customer value
4. Develop new business capabilities as integrated energy solutions provider
5. Continue disciplined investments in additional growth opportunities

i. Integrate and maximise value of existing generation/trading portfolio

The centralised wholesale electricity market is under pressure with falling consumer demand, coupled with excess supply in the National Electricity Market (NEM), putting downward pressure on wholesale electricity prices. Recent and potential changes to carbon emission reduction policies will affect the wholesale electricity market and AGL's business. The repeal of the carbon tax is not expected to materially alter NEM demand, but will result in a decline in wholesale electricity prices. Further analysis of the effect on AGL of the repealing of the carbon tax is set out below in section 7.2. There is continuing political uncertainty regarding the Renewable Energy Target (RET), and whether the existing targets will be maintained. The Large Renewable Energy Certificate (LREC) market continues to carry a bank of certificates until FY16. AGL has sufficient LRECs to meet its consumer market and existing contracts for business customers for approximately four years under the existing RET. AGL has made significant investments in renewable assets, currently generating 3.5 million certificates per year. Any changes to the RET may affect AGL's earnings and the valuation of its assets.

In the wholesale gas market there will be upward pressure on prices, driven by increased demand due to the commencement of LNG exports from Queensland (QLD) combined with declining supply. AGL is well placed with a long gas position in QLD, with supply contracts in place to 2027 that allow for gas sales of up to 50 PJ per annum from 2015 onwards. In the south-eastern states, AGL is in negotiations with suppliers to replace major gas supply contracts that end from 2016. The NSW Government policy on coal seam gas (CSG) exploration and development continues to restrict supply. This is expected to particularly affect AGL's ability to supply gas to Commercial and Industrial (C&I) users.

ii. Source/develop long term gas supplies to strengthen existing portfolio

AGL has a number of self-supply gas sources including the Camden, Gloucester and Hunter gas projects to complement its contract gas portfolio. AGL's ability to develop some of these sources has been constrained by the final amendments to the Mining SEPP, announced in January 2014, that exclude CSG exploration and development within two kilometres of residential areas as well as within certain industry cluster areas covering viticulture and equine activities. The effect of the Mining SEPP is to preclude AGL from proceeding with the Camden northern extension project and most exploration activities in the Hunter Valley. It also limits some of the scope of the Gloucester Gas Project. These policy changes in NSW increase AGL's reliance on interstate gas supplies from existing producers, which is expected to lead to a material increase in gas supply costs and potential gas shortages for C&I customers.

In August 2014, AGL received NSW Government approvals to perforate, fracture stimulate and flow test four existing Waukivory Pilot wells. The information from the Waukivory Pilot will enable AGL to comply with its State and Federal

Government approvals, and is a critical activity to reduce the uncertainty around production performance of the Gloucester Gas Project Stage 1 area.

AGL has a dedicated program in place to work side-by-side with the local communities and has made substantial progress in improving community engagement

iii. Grow retail margins and market share of customer value

AGL has successfully achieved the strategic goal to grow its NSW electricity customer base to over 800,000 by 30 June 2014, enabled by the completion of Project Storm and acquisition of APG. APG was successfully integrated into AGL in the second half of FY14.

In recent years there has been a contraction in the average volume of electricity usage by consumers, as they become more energy conscious, increasingly taking up energy efficiency measures and rooftop solar generation. Combined with a difficult environment for the manufacturing sector and milder weather conditions, this has led to a fall in centralised electricity demand. Whilst presenting some challenges, these shifts also provide opportunities.

In Retail Energy, AGL has implemented plans through the Must Win Battles program to drive a step change in customer service and experience. This program will focus on five key areas: Win and Keep Valuable Customers, Grow Energy Solutions Value, Make it Easy for Customers, Deliver Leading Digital Solutions, and Know our Customers. This will enable AGL to grow its market share of value while maintaining the overall share of customers. In addition to the Must Win Battles program, AGL has also implemented a three-year strategy to improve its credit risk management practices and systems.

iv. Develop new business capabilities as integrated energy solutions provider

Recent and upcoming regulatory and policy shifts such as price deregulation and Power of Choice review outcomes will enable AGL to provide customers with more choice about energy products and services. AGL is leveraging existing competencies in energy markets to deliver more in-home energy services. To do this, AGL is developing new capabilities such as smart metering, solar PV solutions and energy storage as well as targeted strategic partnerships. This new business model will also give AGL a capability and future growth opportunity.

v. Continue disciplined investments in additional growth opportunities

NEM Electricity Generation

AGL is continuing to drive growth from its Merchant operations by expanding the generation portfolio through investments in competitive assets. These assets will support customer demand into the future.

AGL is constructing two large-scale solar photovoltaic projects: a 102 MW solar plant at Nyngan with expected completion by mid-2015 and a 53 MW solar plant at Broken Hill with expected completion by late 2015. The total project cost for both plants is approximately $450 million. However, AGL will receive funding totalling $231.6 million from the NSW and Federal Governments.

Other Electricity Generation

In 2011, AGL entered into a 50:50 joint venture with the APA Group to construct the Diamantina Power Station (242 MW) and the adjacent Leichhardt Power Station (60 MW) in Mt Isa. The power stations will provide secure, long-term and cost-effective power supply required for the city of Mt Isa and local mines operated by Glencore.

The Diamantina Power Station commenced partial open cycle operation in January 2014. Full combined cycle operation is due to commence in the last quarter of calendar 2014. The Leichhardt Power Station commenced open cycle operation in July 2014.

Gas Storage

Gas demand is heavily biased towards the winter months. Demand fluctuations ("swing gas") have traditionally been managed by gas producers and pipeline owners. As gas supply tightens in the eastern Australian market, effective management of seasonal and daily swings in customer demand becomes more expensive through contracts with gas producers and pipeline owners. This has provided AGL with the opportunity to create value by managing demand with self-storage. With the emergence of LNG exports, opportunities are likely to emerge for producers to increase plant utilisation rates, leading to increased pressure on retailers to assume greater responsibility for managing peak demand, as existing supply contracts roll off.

In July 2012, AGL announced approval to build the Newcastle Gas Storage Facility. Expected to be complete by mid-2015, this facility will enable AGL to manage the highest peak demand periods of NSW customers.

In 2011, AGL began injecting and storing gas at the Silver Springs/Renlim underground gas reservoir in the Surat Basin, south of Roma in QLD. AGL is currently providing gas storage services at this facility to another company. In the near future, with potential investment in additional capacity, AGL will also be able to use this facility to manage seasonal demand variations of its domestic QLD customers.

AGL will continue to target new domestic growth opportunities.

7.2. Financial Year 2015 outlook

On 17 July 2014, AGL advised that the passage of legislation through the Federal Parliament to remove the carbon tax from 1 July 2014 is expected to reduce FY15 earnings before interest and tax (EBIT) by a gross amount of approximately $186 million. This includes an expected net reduction of approximately $100 million in EBIT in relation to the operations of the Loy Yang A power station due to the cessation of transitional assistance arrangements associated with the carbon tax. It also includes an expected reduction in EBIT of approximately $86 million from AGL's renewable energy and gas generation portfolios due to the anticipated fall in wholesale electricity prices associated with the removal of the carbon tax.

AGL does not expect a recovery in the price of Large Generation Certificates in FY15 to offset the anticipated fall in wholesale electricity prices due to the current surplus of certificates and uncertainty surrounding the ongoing review of the RET by the Federal Government.

AGL also advised that its LPG extraction plant (HCE) at Kurnell will be closing following the announced closure of the Caltex Oil Refinery. This will further reduce FY15 EBIT by approximately $14 million.

AGL expects this combined gross reduction in EBIT of approximately $200 million to be largely offset by very strong growth in the rest of AGL's business, underlining the strength of AGL's business model. This includes previously announced additional gas sales into the Queensland market.

This expectation does not include any profit uplift from the acquisition of Macquarie Generation.

Whilst the removal of the carbon tax and associated transitional assistance has a negative impact on the short term earnings of the Loy Yang A power station, it has a materially positive impact on its long term value. Any reduction in the RET would also have a positive impact on the value of AGL Loy Yang.

AGL will provide formal guidance for FY15 at its Annual General Meeting on 23 October 2014.

8. Business Risks and Mitigations

AGL identifies major risk exposures using an enterprise-wide risk program based on ISO 31000, the international standard on risk management. This program is supported by AGL's Risk Management Policy. AGL faces a wide variety of risks due to the nature of its operations and the regions in which it operates. In relation to each risk, AGL has in place actions to reduce the likelihood of the risk eventuating and/or to reduce, as far as practicable, the adverse consequences of the risk should it happen. Many of the risks are influenced by factors external to, and beyond the control of, AGL.

Details of AGL's main risks and related mitigation strategies are set out below:

Risk	Risk Description	Potential consequence and mitigation strategies
a) Policy uncertainty	The risk of political intervention resulting in increased regulation and/or unfavourable regulation outcomes.	Active engagement with all levels of government.
b) Reputation & trust	The risk of poor reputation or lack of trust and the impact on stakeholders including customer, community, regulators, employees and investors.	Effective engagement with all stakeholders and a focus on operational excellence. Provide industry leadership to engender trust in the whole industry.
c) Shareholder returns	The risk of failing to maintain competitive operational and capital funding requirements to finance AGL's growth objectives to generate adequate returns to shareholders.	Strong strategic and operational performance. Credit rating, timely and transparent market communication, maintaining strong relationships with capital providers.
d) Business model disruption	The evolution of emerging business models, offerings and technologies which will permanently change the traditional mass market, merchant vertically integrated business model.	Pursue opportunities for retail differentiation, position AGL to capture value as new technologies emerge. Long term planning capability.
e) Asset operations	The risk of failing to operate assets safely, efficiently and reliably and in accordance with environmental obligations.	Operational excellence program. Operational improvement plan. Asset maintenance and reliability program.
f) Demand destruction	The risk of continued reduced demand on a per capita basis, changes to load shape and customer behaviour.	Grow market share of customer value. Offer differentiation to win and keep customers.
g) Compliance	The ability for AGL to maintain compliance with a growing number of obligations and increased expectations of Regulators.	AGL compliance policy and program, benchmarking, monitoring and reporting, assurance and compliance training.

9. Subsequent Events

Apart from the matters discussed below or elsewhere in this Directors' Report or the AGL Financial Report, the Directors are not aware of any other matter or circumstance which has arisen since 30 June 2014 that has significantly affected or may significantly affect the operations of AGL, the results of those operations, or the state of affairs of AGL in the future.

9.1. Macquarie Generation

On 12 February 2014, AGL announced that it had entered into an agreement with the NSW Government to acquire Macquarie Generation (Macgen) assets for a consideration of $1,505 million. The acquisition was conditional on approval by the Australian Competition and Consumer Commission (ACCC).

On 4 March 2014, the ACCC announced that it would oppose the proposed acquisition of Macgen by AGL. On 24 March 2014, AGL made an application to the Australian Competition Tribunal (ACT) requesting authorisation for the proposed acquisition.

On 25 June 2014, the ACT granted conditional authorisation for AGL's proposed acquisition, the ACCC had 28 days to apply for a review of the decision. On 25 July 2014, the ACCC announced that it would not apply for a judicial review of the ACT's decision to grant AGL conditional approval for its proposed acquisition of Macgen assets.

On 20 August 2014, AGL announced the acquisition of Macgen assets for $1,505 million. The acquisition will be funded by a combination of equity and debt with an equity raising launched on the day of the announcement.

9.2. Carbon Tax Repeal

On 17 July 2014, the Federal Government passed legislation to repeal the Carbon Tax. The expected impact on AGL's earnings for the year ending 30 June 2015 is outlined in section 7.2.

10. Information on Audits

This report has been derived from the AGL Financial Report 2014 which has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and interpretations or other standards acceptable to ASX.

This report, and the financial statements upon which the report is based, use the same accounting policies.

This report does give a true and fair view of the matters disclosed.

This report is based on financial statements that have been audited.

The entity has a formally constituted Audit and Risk Management committee.

The audit report, which is unqualified, is attached to the AGL Financial Report 2014 also released to the market on 20 August 2014.

AGL Energy Limited
Remuneration Report

For the year ended 30 June 2014

This report is attached to and forms part of the Directors' Report

Remuneration Report

Dear Fellow Shareholder,

AGL's approach to remuneration is intended to attract and retain Executive talent whilst aligning Executive rewards with the creation of shareholder value.

2014 has been a year where AGL's Underlying Profit was lower than the past year and this has been reflected in remuneration outcomes for the year, with short- term incentive payments lower than previous years and clawback being triggered in the long-term incentive plan for the EBIT/Funds Employed performance hurdle and no allocation made under the relative total shareholder return performance hurdle. For FY14 fixed remuneration was frozen for Executives. Non-executive Directors' fees were frozen for calendar 2014.

During the year the Board, through the People and Performance Committee, undertook a comprehensive review of AGL's remuneration practices, with a particular focus on whether they are continuing to support AGL's ongoing strategy and business objectives and how these remuneration practices compare against the market. The review was supported by external advisers who reported directly to the Committee.

The review confirmed that our framework as a whole supports AGL's business and organisational objectives. In particular:

- our fixed remuneration levels are generally competitive when considered against our market comparators. However, the review confirmed our understanding that some Executives were being paid below market while they have developed in their roles and we are moving to address that issue;
- our incentive opportunity levels are significantly lower than our market comparators. The Board considered this together with our desire to extend the practice of deferring a component of short- term incentives (STI) to more Executives. As a result, STI opportunities for some Executives have been increased (not for the CEO) but this has typically been accompanied by the introduction of a deferral of a portion of the total STI opportunity. The deferral is into equity for 12 months during which time it will be subject to malus in the event of a material misstatement of financial results;
- our long-term incentive, which is tested and earned annually but a large portion of which is held subject to restriction (and clawback, if performance is not sustained), aligns our Executives' interests with those of our shareholders over the longer term while ensuring that Executives have direct visibility over the annual performance conditions. As a business with long-term capital investments extending over decades, we believe this works as a stronger motivator than a longer performance period. It is important that this incentive plan is considered in its entirety rather than comparing its component features to more conventional plans.

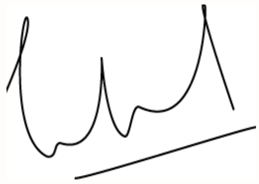
  The Board did determine to alter the way in which 'good leavers' are treated under the long-term incentive plan in the event of retirement. Further details are set out in section one.

While the Board is pleased with the way that our remuneration practices and communication of those practices have, in general, been received by our shareholders, we remain committed to continuing to listen to your feedback and to report to you as clearly as possible, including to demonstrate how our performance translates to remuneration outcomes and so this year we have reviewed the way that we communicate our remuneration arrangements.

We hope you, as our shareholders, will find our 2014 Remuneration Report provides a clear and simple explanation of our remuneration policies and practices and the remuneration outcomes for our Executive team for the financial year.

On behalf of the Board we look forward to welcoming you to the 2014 AGM.

Yours faithfully



Les Hosking (Chair of People and Performance Committee) and Jeremy Maycock (Board Chair)

The Directors present the Remuneration Report for AGL Energy Limited and its consolidated entities for the year ended 30 June 2014 in line with Section 300A of the Corporations Act.

This report covers the remuneration and benefits of AGL's Key Management Personnel (KMP).

We have structured the report into eleven sections:

1. Key outcomes for 2014 and changes for 2015
2. Key Management Personnel
3. Overview of Executive remuneration components
4. Our remuneration policy
5. Our remuneration framework
6. How STI was linked to performance this year
7. Long-term incentive plan
8. Remuneration disclosures (including actual "take-home' pay): KMP
9. Executive Service Agreements
10. Non-executive Directors
11. Five-year financial performance

1. Key outcomes for 2014 and changes for 2015

During the 2014 financial year, the Board undertook a comprehensive review of AGL's Executive remuneration framework. The review focused on whether AGL's remuneration practices are continuing to support the company's ongoing strategy and business objectives, and also considered AGL's framework against market practice, and current remuneration trends.

Following the review, the Board concluded that AGL's overall approach to remuneration remains appropriate, however, some further opportunities for improvement were identified that would provide even further alignment with the interests of shareholders.

The Board also regularly engages with shareholders and proxy advisers to discuss our remuneration arrangements, and receive any feedback they may have.

A summary of the key remuneration outcomes for 2014 and those changes to be introduced in the 2015 financial year are outlined in the table below.

Total Remuneration	
2014 Total remuneration for CEO was lower than 2013	The CEO's total remuneration decreased in 2014 primarily reflecting the decrease in the financial performance of AGL for the year. The CEO's total remuneration was down by 8.6%.
Fixed Remuneration (FR)	
CEO 2014 FR	There was no increase in the CEO's FR for FY14.
Short term incentive (STI)	
2014 STI payout for CEO was 45% of maximum	The STI had regard to financial performance with Underlying Profit 3.9% behind last year, and at the bottom of guidance range. In mitigation of this there was good performance in cost management in the business, and cash flow was strong at $1.149 billion. Good progress was made in executing AGL's vertical integration strategy including the successful bid for Macquarie Generation and on a number of development projects. Further all customer metrics tracked well and lagging safety indicators improved significantly with AGL's Total Injury Frequency Rate down 44%.
2015 Incentives for Executives	While AGL's approach has been to focus on the longer term a review was undertaken of Executives' STI percentage opportunities, which showed some Executives' STI percentages to be significantly below market. Where this was found to be the case, in order to assist in ensuring AGL can retain and attract talent, the Board determined to increase STI percentage opportunities for 2015. There was no increase for the CEO. In conjunction with this review to further align the interests of management with shareholders, the Board has decided to extend the practice of deferring a portion of STI for 12 months into equity for a number of KMP and other senior Executives. The deferred component will be subject to malus during the deferral period.
Long term incentive (LTI)	
2014	There were mixed LTI outcomes for 2014. AGL's performance against the relevant performance hurdles resulted in the following outcomes for the year: ➢ The EBIT/Funds Employed notional bank account was reduced due to a clawback being applied; ➢ No Share Performance Rights (SPRs) being transferred into the Relative Total Shareholder Return (RTSR) notional bank account due to performance hurdles not being met; ➢ SPRs being transferred into the Total Shareholder Return (TSR) notional bank account with performance hurdles having been met. From 1 July 2013, RTSR replaced EBIT/Funds Employed as a performance hurdle in respect of the LTI. In 2013, the Board reviewed the continued appropriateness of the EBIT/Funds Employed hurdle

	in light of the disincentive that may have been created for management to pursue value creating opportunities lying between cost of capital and actual average returns. It is also not possible to grow this measure into perpetuity. The Board determined that RTSR should be introduced (in place of EBIT/Funds Employed) to measure AGL's relative performance against other ASX 100 companies. The EBIT/Funds Employed notional bank account has been closed effective 30 June 2013. No further allocations will be made to this bank account, however to ensure that performance against the EBIT/Funds Employed condition is sustained, the balance in that account will remain subject to clawback until September 2015.
2015	The Board has determined to alter the way in which 'good leavers' are treated under the long-term incentive plan in the event of retirement. At present, all 'banked' SPRs (ie those that have met performance hurdles but haven't vested) are converted to shares in AGL on retirement. The Board is cognisant of the alternative approach that long-term incentives should remain within the plan for a period following retirement, so that Executives remain exposed to share price movements in the period immediately following their retirement. The Board has determined that 50% of any positive balances in a 'good leaver's' notional bank account will be released on retirement. This is approximately equivalent to the Executive's tax obligation. The remaining 50% will remain in the account and be paid out 12 months following retirement to ensure that Executives remain aligned with shareholders over this period. This will apply to all Executives appointed or promoted after 1 September 2014.
Non-executive Directors (NEDs)	
2014 Total fees paid	Total fees paid to NEDs in the year were $1.85 million, $0.65 million below the approved maximum aggregate NED remuneration.
2014 NED base fees	There was no increase in the NED base fees for calendar year 2014.

2. Key Management Personnel

Key Management Personnel (KMP) are those people who have authority and responsibility for planning, directing and controlling the activities of AGL. The KMP are the Managing Director/Chief Executive Officer (MD/CEO), certain AGL executives (together, the Executives) and each of the Non-executive Directors.

The KMP for 2014 and detailed in this Report (all of whom have been KMP for the entire year) are:

Name	Position
Non-Executive Directors	
Jeremy Maycock	Chairman
Les Hosking	Non-executive Director
Graeme Hunt	Non-executive Director
Belinda Hutchinson	Non-executive Director
Sandra McPhee	Non-executive Director
Bruce Phillips	Non-executive Director
John Stanhope	Non-executive Director
Managing Director and Chief Executive Officer	
Michael Fraser	Managing Director and Chief Executive Officer
Executives	
Anthony Fowler	Group General Manager Merchant Energy
Stephen Mikkelsen	Group General Manager Retail Energy
Michael Moraza	Group General Manager Upstream Gas
Brett Redman	Chief Financial Officer

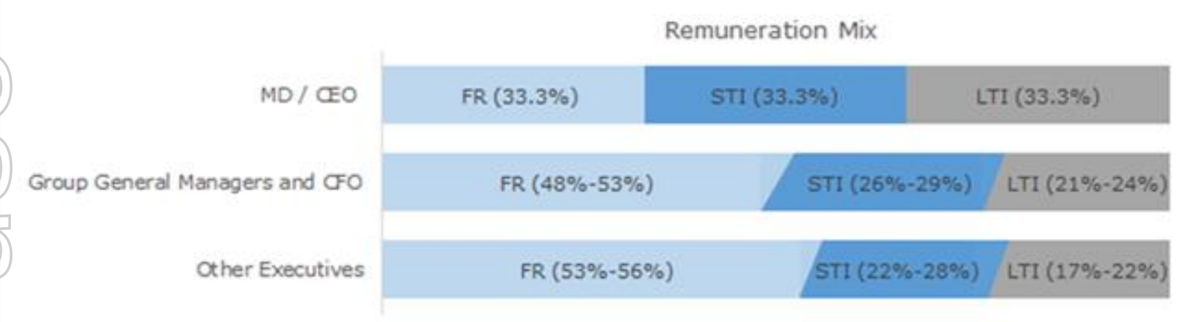
3. Overview of Executive remuneration components

AGL's Board is committed to an Executive remuneration framework that is focused on driving a performance culture and linking Executive pay to the achievement of the Company's objectives and ultimately, generating satisfactory returns to shareholders. Our Executive remuneration framework comprises three elements:

- fixed remuneration (FR);
- a short-term incentive (STI); and
- a long-term incentive (LTI).

Together, STI and LTI are known as the 'variable' or 'at risk' element of Executive remuneration. The three components are intended to provide an appropriate mix of fixed and variable remuneration, and provide a combination of incentives intended to drive performance against the Company's short and longer term business objectives. If the performance hurdles are not met, Executives lose that part of their potential variable remuneration.

AGL's mix of remuneration components for each of the Executives disclosed in this Report for the 2014 financial year allocation is as follows:



4. Our remuneration policy

Our remuneration policy is designed to promote excellent performance while meeting these goals:

- align the interests of shareholders, employees, customers and the community with AGL's objectives and values;
- attract and retain key talent;
- keep employees committed and motivated by providing fair remuneration and other benefits to all employees;
- meet long-term people needs through effective talent management and succession planning;
- meet AGL's commitment to a diverse and inclusive workplace;
- promote AGL as an employer of choice; and
- comply with relevant legislation and corporate governance principles.

Remuneration governance

The Board takes an active role in the governance and oversight of AGL's remuneration policies and is responsible for ensuring that the Company's remuneration strategy aligns with AGL's short and longer term business objectives.

The People and Performance Committee (Committee) reviews and makes recommendations to the Board on the remuneration arrangements for the CEO/MD, non-executive Directors and Executives.

To assist in performing its duties, and making recommendations to the Board, the Committee seeks independent advice from external consultants on various remuneration related matters.

During 2014, the Committee reviewed their independent remuneration advisor and appointed *3 degrees consulting*. *3 degrees consulting* was engaged to assist with the review of the Company's remuneration arrangements, including in the context of current market practice, and provide advice on certain other governance and remuneration related matters. No 'remuneration recommendations' as defined in the Corporations Act 2001 were provided by any remuneration consultant during the 2014 year.

The Board conducted a review of its own performance, the performance of individual Directors, and the performance of the Board Committees during the last year. Following the review the Board implemented a number of measures including, monitoring the volume and complexity of Board papers, and allowing more time in meetings to review strategy, consider material risks and improve understanding of AGL's joint ventures. The Board also now plans Director education topics for each 6 months.

Minimum shareholding policy for non-executive Directors and Executives

While AGL does not have a formal minimum shareholding policy for non-executive Directors and Executives in place, they currently hold sizeable shareholdings, including approximately two times NED fees for the Chairman and more than five times FR for the CEO.

The details of non-executive Directors and Executives shareholdings as at 30 June 2014, are set out in a table in section 8.

Hedging policy

To ensure alignment between Executives' incentives and shareholders' interests, the Company has a policy in place that prevents Executives from entering into any derivative or other financial product in relation to the SPRs notionally granted under the LTIP.

5. Our remuneration framework

The following diagram provides the linkage between the components of remuneration for Executives, the performance measures used to determine the outcomes and the strategic objectives of AGL these are designed to achieve.

Component	Performance measure	Strategic objective
Fixed remuneration • Base salary plus any superannuation contributions • Salary sacrifice items (eg novated vehicle lease payments)	Considerations: • Relevant market analysis • Scope and nature of the role • Executive's performance • Executive's expertise, skills and experience	• Set to attract, retain and motivate the right talent to deliver on our strategy. • For Executives who are new to their roles, the objective is to set fixed remuneration at relatively modest levels compared to their peers and to progressively increase as they prove themselves in their roles (ie performance based).
Short-term incentive (STI)	Based on the Executive's achievement of specified performance objectives in the following categories: • Financial • Customer • People Management (includes employee safety and engagement) • Strategic Growth and Innovation For the CEO for 2013/2014 the performance objective weightings were: • Financial 50% • Customers, Strategic and People Management 50% in total. . Weightings for KMP are in the following range: • Financial 30 – 50% • Customers and Strategic 30 - 50% • People Management 20%.	STI payments are based on the achievement of individual performance targets set at the start of the financial year. The STI is designed to motivate Executives to achieve AGL's overall performance objectives. The STI aligns individual performance with business outcomes in the areas of financial performance, customers, people management and strategic growth and innovation (the achievement of which are intended to translate through to shareholder return). A large portion is subject to financial performance, group or business unit, depending on the role of the Executive. Financial targets are to ensure strong discipline is maintained. Outcomes are assessed annually using the Performance and Development Review (PDR) process (which is used for all employees throughout AGL). The PDR is used to measure the actual level of achievement of each objective in the financial year. No STI is payable for any objective where a minimum level of performance has not been reached. This performance management process links the amount of STI paid with AGL's overall performance as well as an individual's performance during the year, and gives superior rewards for outstanding performance.
Long-term incentive (LTI)	The hurdles used are selected on the basis that rewards correspond with returns that shareholders receive. • **Relative Total Shareholder Return** (**RTSR**) measured against the ASX100 • Annual growth in **Total Shareholder Return (TSR)**	AGL has chosen these hurdles because, in conjunction with the clawback mechanism: • TSR and RTSR reward consistent performance in the generation of sustained shareholder value over the long-term. It aligns the interests of shareholders and Executives with the achievement of AGL's strategic goals; • Both market mechanisms reflect AGL's performance, TSR by year on year growth and RTSR that requires AGL to outperform the returns delivered by other ASX100 companies.
Total remuneration	The total remuneration mix is designed to attract, retain and motivate appropriately qualified and experienced Executives, encourage a strong focus on performance, align the interests of Executives and stakeholder interests and support the delivery of outstanding returns to AGL shareholders over the short and long-term.	

Remuneration data for Executive reviews

A rigorous approach to establishing remuneration levels for each Executive is informed by:

- consideration of their skills, expertise, and performance;
- experience in role whereby Executives are remunerated at the lower end of the market while they grow into a role; and
- relevant market remuneration data information sourced from *3 degrees consulting* and Hay Group, an independent external organisation.

3 degrees consulting provided for both the CEO and Executive roles, data sourced from disclosed market remuneration data for the previous 12 months for ASX-listed entities ranked 11 to 50 by market capitalisation. These entities are chosen by size as they are 20 either side of AGL's market capitalisation.

Hay Group provided remuneration market survey samples for the CEO and Executives, which were considered when reviewing their remuneration. The market survey samples were:

- A large survey sample containing executive positions in ASX Industrial & Service organisations was utilised.
- A smaller survey sample drawn from the same Industrial & Service organisations, but only containing positions that are similar in scale and complexity to each role.

6. Operation of STI and how STI was linked to performance this year

Operation of STI

AGL's STI is the Company's at risk short-term incentive component of the remuneration mix for Executives.

The STI is an annual cash incentive plan subject to the achievement of pre-defined Company and individual annual performance objectives. The maximum STI opportunity able to be earned under the plan is derived as a percentage of each Executive's FR and is based on the individual's role and responsibility. Executive KMP STI opportunities are listed in the table below.

Section 5 – Our remuneration framework sets out the STI performance objectives and the relevant weightings that apply in respect of each objective, dependent on each Executive's role and responsibility.

The CEO's STI comprises a deferred component. For the year ending 30 June 2014, 50% of Mr Fraser's award will be paid in cash and the remaining 50% will be deferred in cash until the date of his retirement. Mr Fraser has advised AGL that in the event of a material misstatement of the financial accounts or gross misconduct, his deferred STI will be subject to malus.

From 2015, to further align the interests of management with shareholders, the Board has determined that a deferred STI component in equity for a period of 12 months will be introduced for a number of other Executives. The deferred portion will also be subject to malus during deferral. *Section 1 – Key Outcomes for 2014 and changes for 2015* discusses this change.

AGL Executives' performance objectives for 2013/2014

Results against objectives common to all Executives are detailed in the table below. Performance against other objectives specific to each Executive's key area of responsibility is also included.

Common objectives	What	Result
Financial results Shareholder returns are directly impacted by the profit made by AGL.	All Executives had an objective related to AGL's Underlying Profit for 2013/2014 as well as individual business unit operating expenses.	AGL's Underlying Profit was 3.9% behind last year. Outcomes for this objective were below expectations.
Safety performance AGL is committed to providing a safe workplace for all of its employees.	Completing specific plans to continue improving AGL's safety leadership and culture (including targets with respect to injury rates).	Lagging safety indicators improved across AGL. Overall AGL's Lost Time Injury Frequency Rate for 2013/2014 was 44% lower than the previous year at 2.8 and the Occupational Injury Frequency Rate was 42% lower than the previous year at 3.7 and all specific safety action plans for 2013/2014 were completed. Outcomes for this objective were well above expectations.

Common objectives	**What**	**Result**
Customer satisfaction AGL has customer base in excess of 3.8 million, customer satisfaction is considered to be critical to AGL's longer term success and the Board is focused on ensuring our customer centric culture is maintained and further strengthened.	All Executives had an objective to improve AGL's overall customer satisfaction as measured against a range of metrics over the prior year.	Generally customer metrics tracked well against a range of metrics including mean customer satisfaction score and overall customer satisfaction. Outcomes for this objective met expectations.
Employee engagement Independent research shows that companies with high employee engagement have higher profitability, customer advocacy and performance output when compared to companies with low employee engagement.	AGL develops specific initiatives each year to build employee engagement and invites all employees to take part in an engagement survey. All Executives had targets with respect to employee engagement.	Numerous initiatives to promote engagement were successfully implemented across the business. The overall employee engagement score for 2014 was 77% which placed AGL in the "High Performing" zone against an international benchmark. Outcomes for this objective were above expectations.
Specific individual objectives for Executives	**What**	**Result**
Each Executive also has performance objectives related to their specific area of responsibility for AGL's business.	Individual Executives focused on delivery of their performance objectives including key strategic, growth and market based initiatives such as: • growing AGL's customer base; • developing and integrating new power generation, gas storage and upstream gas assets; • pursuing acquisitions such as Macquarie Generation and APG; • focusing on operational excellence; and • progressing workforce diversity and inclusion especially in the areas of gender and sexual orientation.	Individual Executives generally performed at or above expectations for their specific individual key objectives for 2013/2014.

KMP STI percentage outcomes for 2013/2014

Name	STI opportunity as a % of FR	Percentage of STI opportunity earned	Percentage of STI opportunity forgone
Michael Fraser	100%	45%	55%
Anthony Fowler	60%	46%	54%
Michael Moraza	60%	15%	85%
Stephen Mikkelsen	60%	43%	57%
Brett Redman	50%	50%	50%

The details of actual STI received for the year ended 30 June 2014 for KMP, are set out in the remuneration table in section 8.

7. Long-term incentive plan (LTI Plan)

Overview

AGL's LTI Plan is delivered through Share Performance Rights (SPRs) which are 'banked' by Executives if specific performance hurdles are met. A portion of SPRs vest annually, however the majority are held within the 'bank accounts' and remain at risk, and subject to clawback where performance is considered unacceptable.

The LTI Plan comprises three main phases:

1. Grant of SPRs

At the start of the financial year, participants are notionally granted Share Performance Rights (SPRs).

2. Performance Hurdles and Banking

At the end of the financial year:

- if applicable **performance hurdles have been met**, SPRs are **deposited** into bank accounts based on the level of performance achieved; or
- if **performance hurdles have not been met**, no SPRs are deposited; or
- unlike other plans, if performance hurdles have not been met, and **performance is at a level that is considered unacceptable**, previously banked SPRs may be **clawed back** from the participant's relevant bank accounts.

Up to twice the number of SPRs notionally granted may be banked for superior performance.

Similarly, up to twice the number of SPRs notionally granted may be clawed back from participants' bank accounts where performance is considered unacceptable.

3. Vesting

After each year's banking, 40% of any positive balance of SPRs in a participant's relevant bank accounts vest and are converted to fully paid AGL shares.

After vesting, any remaining balance in the participant's accounts (positive or negative) rolls forward to the following year and is subject to clawback in future years, depending on performance.

Why a SPR Banking System instead of a more traditional performance shares / rights plan?

The Board continues to prefer a SPR Banking System over more common performance rights or performance share schemes because, as compared to those other schemes:

- the multiplier and clawback mechanism both rewards, and penalises, Executives based on AGL's performance over the long-term (as banked awards are still held at risk);
- as banked SPRs remain subject to clawbacks for underperformance in future years, Executives think like shareholders over the longer term;
- as banked SPRs remain in the participant's relevant bank accounts until vesting, they are subject to share price changes;
- by testing annually, but retaining a large portion of SPRs within bank accounts, Executives have direct visibility over the annual performance conditions, while being encouraged to pursue sustainable growth in shareholder value.

Consequently, the Board strongly believes that the Plan aligns shareholder and Executive interests over the long-term and drives performance over extended time frames to create sustainable shareholder value.

The link to AGL's performance – operation of the LTI Plan over 5 years

AGL's LTI Plan has been in operation since 2009. Over this time, AGL's performance has resulted in both deposits and clawbacks being made to bank accounts.

GRANT		PERFORMANCE		BANKING		
Year	**SPR Allocation Price $**	**Hurdles**	**Outcomes**	**Was a deposit, clawback[1], or no allocation made?**	**Which multiplier was applied?**	**Was the maximum amount of SPRs banked?**
2010	14.58	TSR	10.2%	Deposit	1.24	No
		EBIT/Funds Employed	4.5%	Deposit	0.45	No
2011	14.23	TSR	1.6%	No allocation	0.0	No
		EBIT/Funds Employed	(7.3%)	Clawback	(0.60)	No
2012	15.03	TSR	13.9%	Deposit	1.98	No
		EBIT/Funds Employed	11.1%	Deposit	1.65	No
2013	14.25	TSR	(1.1%)	No allocation	0.0	No
		EBIT/Funds Employed	11.4%	Deposit	1.71	No
2014	15.30	TSR	11.8%	Deposit	1.56	No
		RTSR[2]	34.7%	No allocation	0.0	No
		EBIT/Funds Employed	(8.3%)	Clawback	(0.78)	No

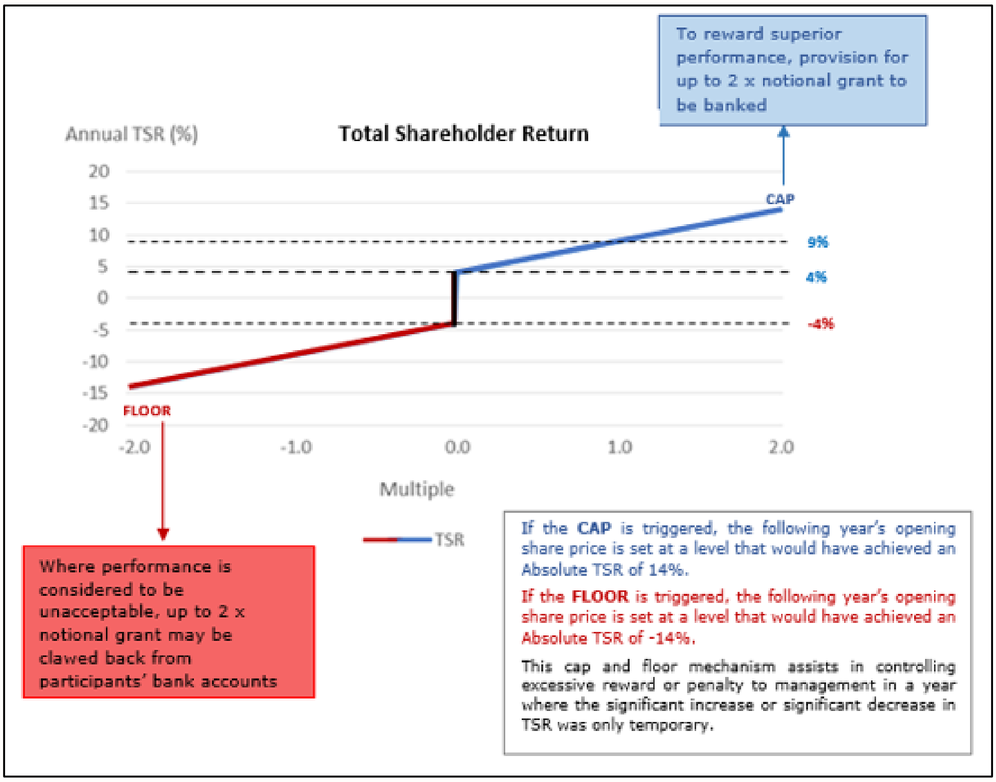
1. Clawback refers to a deduction made from participants' LTIP bank account balances as a result of underperformance.
2. Ranking against ASX100 as measured by Orient Capital Pty Ltd.

Key Features of the LTI Plan

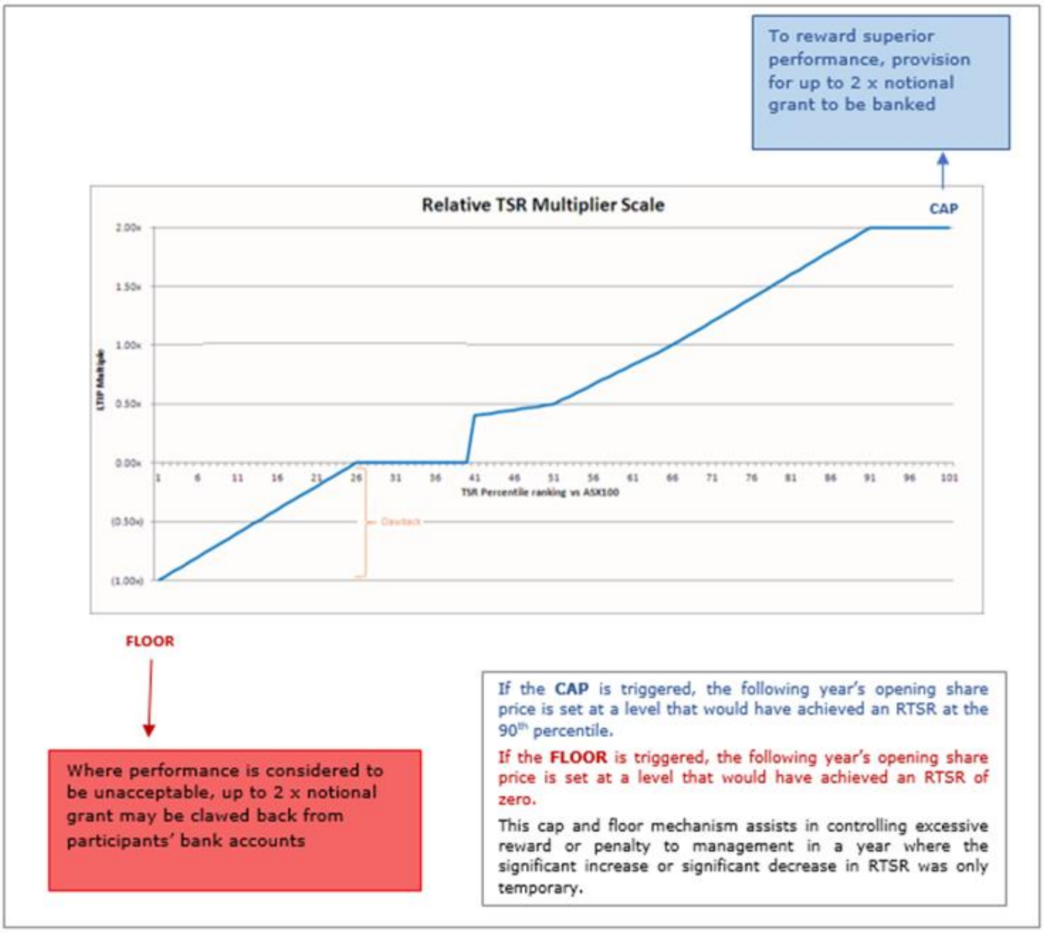
Details of how the LTI Plan operates in respect of the 2014 financial year are set out below.

Grant of SPRs	
What is a SPR?	A SPR is an entitlement to one fully-paid ordinary share in AGL. SPRs do not carry dividend or voting rights and are adjusted for the effect of any bonus issues, rights issues, and reconstructions and reorganisations of the capital of AGL.
How is the notional grant of SPRs determined?	The maximum LTI notional allocation of SPRs varies between 40% and 100% of Fixed Remuneration (FR) for Executives including the CEO. SPRs are calculated using a Volume Weighted Average Price (VWAP) of AGL shares 30 days up to and including 30 June 2013. Fractional entitlements are rounded up.
What is the performance period?	Awards are tested annually and SPRs are deposited or clawed back from bank accounts based on performance against the conditions. However, only 40% of SPRs banked in a participant's bank accounts can vest each year. The remaining SPRs banked remain at risk and subject to ongoing testing in future years.
Performance hurdles and banking: TSR and RTSR	
What are the current performance hurdles and why have they been chosen?	As noted in section one, from 1 July 2013, Relative TSR (RTSR) has replaced EBIT/Funds Employed as a performance hurdle, which applies in respect of 50% of the notional grant. The remaining 50% of the notional grant is tested against the TSR performance hurdle. AGL has chosen these hurdles because it considers TSR to closely align the interests of Executives with those of shareholders. Specifically: • the TSR measure requires AGL to deliver what the Board considers to be strong returns to shareholders; and • the RTSR condition requires AGL to outperform the returns delivered by other companies in the ASX100. This, in conjunction with the clawback mechanism, means that Executive reward is aligned with shareholder interests over both the short and long term.
How is performance under each of the	TSR is calculated by measuring a combination of change in share price, dividends and capital returns to show the total return to shareholders over the annual performance period.

performance hurdles assessed?	RTSR is calculated by ranking AGL's TSR on a relative basis against TSR performance of constituent companies in the ASX100 and independently measured by Orient Capital Pty Ltd.
How does the multiplier and clawback work?	The Board has set what it considers to be challenging, albeit achievable performance conditions which would result in 100% of the notional allocation being banked. In order to reward management for superior performance, the multiplier provides for up to 2 times the number of SPRs notionally granted to be banked where AGL delivers very strong TSR performance. Conversely, management is either not rewarded, or is financially penalised by up to 2 times the number of SPRs notionally granted to be **clawed back** from the participant's bank account, when performance against the relevant hurdle is insufficient or negative.
What are the performance hurdles?	**HURDLE 1: TSR**
	At the end of the financial year, the number of SPRs to be deposited or clawed back from a participant's TSR bank account is determined by a multiplier to be applied to the number of SPRs notionally granted according to TSR outcomes detailed in the graph below:



	HURDLE 2: RTSR
	At the end of the financial year, the number of SPRs to be deposited or clawed back from a participant's RTSR bank account is determined by a multiplier according to RTSR outcomes detailed in the graph below:



Note: Vesting of SPRs commences at the 40th percentile to enhance the effectiveness of the LTI as a genuine performance incentive. Independent analysis shows vesting at the 50th percentile is less likely than most other companies as AGL has one of the lowest price volatilities in the ASX100.

Does the board have discretion to waive performance hurdles?	The Board has no discretion to waive performance hurdles for the vesting of SPRs in the LTI plan.
Vesting	
When does vesting occur?	At the end of the financial year, 40% of any positive balance in a participant's TSR and RSTR accounts will vest and be converted and distributed to participants as AGL shares.
What happens to the remaining TSR and RTSR bank balances each year after 40% vests?	Any remaining positive balance held in the TSR and RTSR accounts for each participant is carried forward and may vest or be subject to clawback in future years. Any negative balance is also carried forward.

Closed performance hurdle: EBIT/Funds Employed

What will happen to the EBIT/Funds Employed account for each participant?

The EBIT/Funds Employed notional bank account has been closed effective 30 June 2013. No further allocations will be made to this bank account, however to ensure that performance against the EBIT/Funds Employed condition is sustained, the balance in that account will remain subject to clawback until September 2015 and will be treated as follows:

Date	Treatment of closing balance
September 2013	40% of closing positive notional bank account balance was released.
September 2014	Calculate any negative award (if applicable), clawback, and then vest 50% of remaining balance.
September 2015	Calculate any negative award (if applicable), clawback, and then vest remaining balance.

Over 2014 and 2015, clawback may apply as follows:

Annual growth in EBIT/ Funds Employed	Number of SPRs banked for this hurdle
Greater than minus 4%	No change to notional bank account balance
Less than minus 4% and greater than minus 15%	Progressive on a straight-line basis from zero to minus 2 times notional bank account balance
Equal to or less than minus 15%	Minus 2 times notional bank account balance

Note, if clawback is greater than minus 1 the bank account would reduce to zero and nothing would be paid out.

How is EBIT/Funds Employed calculated?

EBIT/Funds Employed (EBIT divided by Funds Employed) measures the return from funds invested. Refer to the AGL 2013 Remuneration Report on page 68 for a detailed description of how this hurdle is calculated.

Cessation of employment or a change of control

What happens if a participant ceases employment before the SPRs vest?

If a participant ceases employment before the SPRs vest in circumstances other than 'good leaver', any positive balance is forfeited or any negative balance is eliminated.

What happens to 'good leavers'?

In general, all 'banked' share performance rights vest and are converted into shares in AGL on retirement in 'good leaver' circumstances.

As noted in section one, during the year, the Board determined that, in the event of retirement, 50% of any positive balances in a good leaver's notional bank account will be released on retirement (to enable the Executive to fund the tax liability that arises on retirement), and the remaining 50% will remain in the account and paid out 12 months following retirement to ensure that Executives remain aligned with shareholders over this period. This will apply to all Executives appointed or promoted after 1 September 2014.

How would a change of control impact LTI entitlements?

As SPRs in each Executive's bank accounts have been earned, the Board considers it appropriate that upon a change of control all positive notional bank account balances are released and any negative balances are extinguished. The LTI Plan rules provide for this.

Example of LTI calculation

Calculation of 2014 LTI award to CEO Michael Fraser

The CEO is entitled to a notional SPR grant equal to 100% of FR. At 30 June 2013, the CEO's FR was $2,163,000 and the VWAP was $14.25. Accordingly, 151,790 SPRs were notionally granted. The below example shows how the LTI Plan worked in 2014 for the CEO.

EXISITNG ACCOUNT BALANCE	FY14 GRANT	MULTIPLIER	AMOUNT BANKED/ OR CLAWED BACK	ACCOUNT TOTAL BEFORE VESTING	AMOUNT VESTED	CLOSING BALANCE
(Balance brought forward from 2013)	(Total number of SPRs notionally granted 151,790)	(Based on 2014 performance outcomes)	(FY14 SPRs notionally granted x multiplier)	(Existing balance + amount banked or clawed back)	(40% of TSR or 50% of EBIT/Funds Employed account totals)	(Balance after vesting carried forward to 2015)
EBIT/Funds Employed Account (closed but subject to clawback)						
110,251	0	Minus 0.78	Minus 85,996	24,255	12,128	12,127
RTSR Account						
0	75,895	0.0	0	0	0	0
TSR Account						
65,212	75,895	1.56	118,396	183,608	73,443	110,165

CEO LTI allocation: 2012 - 2014

AGL obtained shareholder approval in 2011 to issue an LTI allocation to Mr Fraser with a face value equivalent of up to a maximum of 100% of his FR (fixed remuneration) in respect of each of the financial years ending 30 June 2012, 30 June 2013 and 30 June 2014. As Mr Fraser has announced his intention to retire from AGL by 30 June 2015, no further allocation under AGL's LTI will be made to Mr Fraser.

8. Remuneration disclosures: KMP

Details of the KMPs' remuneration for the financial year are set out below.

Remuneration of Key Management Personnel for the year ended 30 June 2014 (Senior Executives)

	Short-Term Benefits				Post-Employment Benefits		Other Long-Term Benefits	Termination Benefits	Share Based Payments			
Executives	Cash Salary & Fees $	Short-Term Incentives (a) $	Non-Monetary Benefits (b) $	Other Short-Term Benefits $	Super-annuation $	Retire-ment Benefits $	$	$	Share Performance Rights (c) $	Other (d) $	Total $	Value of Equity as a % of Total
Anthony Fowler	757,205	220,000	0	0	27,555 (e)	0	0	0	382,362	0	1,387,122	27.6%
Michael Fraser	1,682,814	973,350	63,420	0	480,186	0	0	0	2,110,798	0	5,310,568	39.7%
Stephen Mikkelsen	856,681	225,000	38,984	0	17,775	0	0	0	423,527	0	1,561,967	27.1%
Michael Moraza	595,555	61,000	0	0	140,918	0	0	0	329,038	0	1,126,511	29.2%
Brett Redman	632,225	162,500	0	0	17,775	0	0	0	211,707	0	1,024,207	20.7%
Total	4,524,480	1,641,850	102,404	0	684,209	0	0	0	3,457,432	0	10,410,375	

(a) Earned in respect of 2013/2014 financial year and paid in September 2014.
(b) Includes the value of benefits such as cars, representational spouse travel and entertainment and Fringe Benefits Tax.
(c) The fair value of LTI SPRs has been calculated using the Monte Carlo Simulation method.
(d) Value of shares acquired under the AGL Share Purchase Plan and other deferred share based payments.
(e) Includes salary sacrifice contributions.
All executives are entitled to four weeks annual leave and long service leave based on statutory entitlements.

In addition to the above statutory disclosures required for remuneration, AGL provides the below table detailing the actual amounts received (ie 'take-home pay') by Key Management Personnel for the year ended 30 June 2014.

Remuneration actually earned by Key Management Personnel for year ended 30 June 2014

Executives	Fixed Annual Remuneration (a) $	Short-Term Incentives (b) $	Share Performance Rights (c) $	Total $
Anthony Fowler	784,760	220,000	303,913	1,308,673
Michael Fraser	2,226,420	973,350	1,848,221	5,047,991
Stephen Mikkelsen	913,440	225,000	345,878	1,484,318
Michael Moraza	736,473	61,000	283,768	1,081,241
Brett Redman	650,000	162,500	86,015	898,515
Total	5,311,093	1,641,850	2,867,795	9,820,738

(a) Fixed Annual Remuneration is the sum of cash salary, non-monetary benefits and superannuation as set out in the Remuneration of Key Management Personnel table.
(b) Earned in respect of 2013/2014 financial year and paid in September 2014.
(c) The value of SPRs is calculated based on the number of SPRs that vested during the year and the closing share price on the vesting date.

Remuneration of Key Management Personnel for the year ended 30 June 2013 (Senior Executives)

	Short-Term Benefits				Post-Employment Benefits		Other Long-Term Benefits	Termination Benefits	Share Based Payments			
Executives	Cash Salary & Fees $	Short-Term Incentives (a) $	Non-Monetary Benefits (b) $	Other Short-Term Benefits $	Super-annuation $	Retire-ment Benefits $	$	$	Share Performance Rights (c) $	Other (d) $	Total $	Value of Equity as a % of Total
Anthony Fowler	745,267	408,000	0	0	26,250 (e)	0	0	0	413,196	0	1,592,713	25.9%
Michael Fraser	1,672,311	1,297,800	53,494	0	476,855	0	0	0	2,311,821	0	5,812,281	39.8%
Ken Hodgson(f)	503,395	281,250	0	0	12,584 (e)	0	0	0	76,356	0	873,585	8.7%
Stephen Mikkelsen	837,616	396,000	0	0	16,470	0	0	0	460,033	0	1,710,119	26.9%
Michael Moraza	591,738	121,680	7,476	0	120,213	0	0	0	359,656	0	1,200,763	30.0%
Brett Redman	550,218	276,250	0	0	16,470	0	0	0	113,859	0	956,797	11.9%
Total	4,900,545	2,780,980	60,970	0	668,842	0	0	0	3,734,921	0	12,146,258	

(a) Earned in respect of 2012/2013 financial year and paid in September 2013.
(b) Includes the value of benefits such as cars, representational spouse travel and entertainment and Fringe Benefits Tax.
(c) The fair value of LTI SPRs has been calculated using the Monte Carlo simulation method.
(d) Value of shares acquired under the AGL Share Purchase Plan and other deferred share based payments.
(e) Includes salary sacrifice contributions.
(f) Retired in February 2013.
All executives are entitled to four weeks annual leave and long service leave based on statutory entitlements.

Remuneration actually earned by Key Management Personnel for year ended 30 June 2013

Executives	Fixed Annual Remuneration (a) $	Short-Term Incentives (b) $	Share Performance Rights (c) $	Total $
Anthony Fowler	771,517	408,000	261,400	1,440,917
Michael Fraser	2,202,660	1,297,800	1,768,244	5,268,704
Ken Hodgson(d)	515,979	281,250	726,149	1,523,378
Stephen Mikkelsen	854,086	396,000	308,623	1,558,709
Michael Moraza	719,427	121,680	265,533	1,106,640
Brett Redman	566,688	276,250	77,754	920,692
Total	5,630,357	2,780,980	3,407,703	11,819,040

(a) Fixed Annual Remuneration is the sum of cash salary, non-monetary benefits and superannuation as set out in the Remuneration of Key Management Personnel table.
(b) Earned in respect of 2012/2013 financial year and paid in September 2013.
(c) The value of SPRs is calculated based on the number of SPRs that vested during the year and the closing share price on the vesting date.
(d) Retired in February 2013.

There was no increase in base NED fees for calendar 2014. The tables below reflect the full financial year effect of the last NED fee increase made on 1 January 2013.

Remuneration of Key Management Personnel for year ended 30 June 2014 (non-executive Directors)

Non-executive Directors	Short-Term Benefits	Post-Employment Benefits	Share Based Payments			
	Cash Salary & Fees $	Superannuation $	Share Performance Rights $	Other Share Plans (b) $	Total (a) $	Value of Equity as a percentage of Total
Jeremy Maycock	482,225	17,775	0	5,000	505,000	1.0%
Les Hosking	216,225	17,775	0	0	234,000	0.0%
Graeme Hunt	191,304	17,696	0	0	209,000	0.0%
Belinda Hutchinson	198,225	17,775	0	0	216,000	0.0%
Sandra McPhee	216,225	17,775	0	0	234,000	0.0%
Bruce Phillips	198,442	17,557	0	0	215,999	0.0%
John Stanhope	222,225	17,775	0	0	240,000	0.0%
Total	1,724,871	124,128	0	5,000	1,853,999	

(a) No other benefits either short-term, long-term or termination were provided to non-executive Directors.
(b) Value of shares acquired under the AGL Share Purchase Plan in lieu of remuneration non-executive Directors would have received.

Remuneration of Key Management Personnel for year ended 30 June 2013 (non-executive Directors)

Non-executive Directors	Short-Term Benefits	Post-Employment Benefits	Share Based Payments			
	Cash Salary & Fees $	Superannuation $	Share Performance Rights $	Other Share Plans (b) $	Total (a) $	Value of Equity as a percentage of Total
Jeremy Maycock	451,029	16,470	0	5,000	472,499	1.1%
Les Hosking	199,279	16,470	0	0	215,749	0.0%
Graeme Hunt(c)	156,941	13,725	0	0	170,666	0.0%
Belinda Hutchinson	202,294	16,470	0	0	218,764	0.0%
Sandra McPhee	207,295	16,470	0	0	223,765	0.0%
Max Ould(d)	60,676	4,867	0	0	65,543	0.0%
Bruce Phillips	161,524	13,725	0	0	175,249	0.0%
John Stanhope	218,779	16,470	0	0	235,249	0.0%
Total	1,657,817	114,667	0	5,000	1,777,484	

(a) No other benefits either short-term, long-term or termination were provided to non-executive Directors.
(b) Value of shares acquired under the AGL Share Purchase Plan in lieu of remuneration non-executive Directors would have received.
(c) Commenced as an AGL Director in September 2012.
(d) Ceased as an AGL Director in October 2012.

Details of Fully Paid Ordinary Shares of AGL Energy Limited held by Key Management Personnel as at 30 June 2014

	Balance at 1 July 2013	AGL Share Purchase Plan (a)	Dividend Reinvestment Plan (b)	Received on vesting of SPRs	Net change other (c)	Balance at 30 June 2014	Balance held nominally
Non-executive Directors							
Jeremy Maycock	65,626	325	-	-	-	65,951	-
Les Hosking	2,334	-	-	-	-	2,334	-
Graeme Hunt	-	-	-	-	-	-	-
Belinda Hutchinson	7,630	-	-	-	-	7,630	-
Sandra McPhee	17,121	-	-	-	-	17,121	-
Bruce Phillips	33,834	-	-	-	-	33,834	-
John Stanhope	3,586	-	152	-	-	3,738	-
Executive Director							
Michael Fraser	703,182	-	-	116,976	(56,916)	763,242	-
Executives							
Anthony Fowler	18,421	-	-	19,235	(37,656)	-	-
Stephen Mikkelsen	32,013	-	-	21,891	(15,000)	38,904	-
Michael Moraza	56,800	-	-	17,960	-	74,760	-
Brett Redman	10,418	-	-	5,444	(4,598)	11,264	-

(a) Shares acquired under the AGL Share Purchase Plan in lieu of remuneration non-executive Directors and Executives would have received. Beneficial interest held subject to the conditions of the Plan.
(b) Shares issued as a result of participation in the AGL Dividend Reinvestment Plan.
(c) Includes share purchased and disposed in the ordinary course of trading on the ASX.

Details of Share Performance Rights granted to Key Management Personnel as part of remuneration for the year ended 30 June 2014

	Balance at 1 July 2013	SPRs Deposited (deducted) during the year (a)	SPRs notionally granted during the year	Fair value per SPR at grant date (b)	SPRs vested during the year (c)	SPRs forfeited during the year	Balance at 30 June 2014
Michael Fraser							
TSR share bank account	108,687	-	-	Various	(43,475)	-	65,212
Relative TSR share bank account	-	-	-	-	-	-	-
EBIT/Funds Employed share bank account	60,707	123,045	-	Various	(73,501)	-	110,251
Notional grant 9-Oct-13	-	-	151,790	$15.88	-	-	151,790
Notional grant 27-Aug-12	143,913	(143,913)	-	$13.89	-	-	-
	313,307	(20,868)	151,790		(116,976)	-	327,253
Anthony Fowler							
TSR share bank account	15,543	-	-	Various	(6,217)	-	9,326
Relative TSR share bank account	-	-	-	-	-	-	-
EBIT/Funds Employed share bank account	9,790	22,754	-	Various	(13,018)	-	19,526
Notional grant 9-Oct-13	-	-	28,071	$15.88	-	-	28,071
Notional grant 27-Aug-12	26,614	(26,614)	-	$13.89	-	-	-
	51,947	(3,860)	28,071		(19,235)	-	56,923
Stephen Mikkelsen							
TSR share bank account	18,973	-	-	Various	(7,589)	-	11,384
Relative TSR share bank account	-	-	-	-	-	-	-
EBIT/Funds Employed share bank account	10,724	25,030	-	Various	(14,302)	-	21,452
Notional grant 9-Oct-13	-	-	30,878	$15.88	-	-	30,878
Notional grant 27-Aug-12	29,275	(29,275)	-	$13.89	-	-	-
	58,972	(4,245)	30,878		(21,891)	-	63,714
Michael Moraza							
TSR share bank account	16,387	-	-	Various	(6,555)	-	9,832
Relative TSR share bank account	-	-	-	-	-	-	-
EBIT/Funds Employed share bank account	9,285	19,228	-	Various	(11,405)	-	17,108
Notional grant 9-Oct-13	-	-	23,720	$15.88	-	-	23,720
Notional grant 27-Aug-12	22,489	(22,489)	-	$13.89	-	-	-
	48,161	(3,261)	23,720		(17,960)	-	50,660
Brett Redman							
TSR share bank account	4,811	-	-	Various	(1,924)	-	2,887
Relative TSR share bank account	-	-	-	-	-	-	-
EBIT/Funds Employed share bank account	2,648	6,152	-	Various	(3,520)	-	5,280
Notional grant 9-Oct-13	-	-	18,246	$15.88	-	-	18,246
Notional grant 27-Aug-12	7,196	(7,196)	-	$13.89	-	-	-
	14,655	(1,044)	18,246		(5,444)	-	26,413

(a) After testing the SPRs notionally granted on 27 August 2012 against the relevant performance hurdle, the SPRs are deposited into (or deducted from) the relevant share bank account for each participant.
(b) Fair value of SPRs granted is determined using Monte Carlo Simulation.
(c) SPRs vest at no cost to the recipient providing the relevant performance hurdles are satisfied.

9. Executive Service Agreements

Service Agreements

Remuneration and other terms of employment for the Executives are formalised in service agreements (Service Agreements). The Service Agreements provide for participation in the short and long-term incentives in accordance with the terms of their respective plans. The Board can vary the terms of these plans, although such variations cannot be applied retrospectively.

Specific information relating to the Service Agreements of the Executives are set out in the table below.

	Duration of Service Agreement	Notice Period		Termination Payment (1)
		By Executive	By AGL	
CEO				
Michael Fraser	No fixed term	12 months (2)	12 months	NA
Executives				
Anthony Fowler	No fixed term	6 months	3 months	9 months FR
Stephen Mikkelsen	No fixed term	6 months	3 months (3)	9 months FR
Michael Moraza	No fixed term	3 months	3 months	9 months FR
Brett Redman	No fixed term	6 months	3 months	9 months FR

(1) Maximum termination payment (exclusive of any payment in lieu of notice) payable if AGL terminates the Executive's employment other than for cause.
(2) Mr Fraser may also terminate his agreement with 3 months' notice in the event of a 'Fundamental Change', which includes circumstances where he ceases to hold the most senior management role within AGL or ceases to report directly to the Board, or if the scope of his responsibilities is materially diminished.
(3) AGL will provide 6 months' notice in circumstances of unsatisfactory performance.

Retirement of the CEO

As announced to the ASX on 14 May 2014, the Managing Director and CEO, Michael Fraser has notified the Board of his intention to retire by 30 June 2015.

While arrangements as to Mr Fraser's entitlements on cessation of employment will be finalised closer to his retirement, in light of his strong leadership and performance over his tenure as CEO, the Board's current intention is that he will be treated as a 'good leaver' under the STI and LTI plans, such that:

- Mr Fraser will be eligible to receive a pro rata payment of his STI for 2015 based upon 100% of his STI opportunity as well as the deferred component of his 2014 STI; and
- in accordance with approval previously received from shareholders and the terms of the LTI after clawback, vesting and banking for 2014 has occurred, any remaining positive SPR balances will vest on retirement.

As Mr Fraser has completed over 20 years of employment with the Company, under his Service Agreement he is entitled to payment for unused long service leave entitlements calculated at 1.3 weeks per year of service.

Under his Service Agreement, Mr Fraser is restrained, for a period of six months following termination of his appointment, from engaging with or working for a competitor, soliciting employees or clients of AGL to leave AGL or reducing the amount of business they do with AGL.

Full details of Mr Fraser's final entitlements will be disclosed in the 2015 Remuneration Report.

Of course, AGL may terminate Mr Fraser's employment for cause at any time prior to his retirement, in which instance Mr Fraser would not be entitled to any award over and above his statutory entitlements.

10. Non-executive Directors

Non-executive Directors do not receive performance-related payments.

Non-executive Directors receive a base fee. In addition, in recognition of the higher workloads and extra responsibilities of participating in a Board Committee, if applicable, they also receive a Committee fee. Chairing a Committee attracts a higher fee rate, but the Chairman of the Board receives no extra remuneration for participating in or chairing Committees.

The maximum aggregate remuneration payable to non-executive Directors is $2.5 million a year or such other amount as approved at a general meeting of shareholders.

Non-executive Directors' fees are determined by the Board based on advice from independent remuneration advisers, which involves consideration of the non-executive Directors' time commitments, and responsibilities, and fees required to attract and retain high calibre non-executive Directors.

The Board also has regard to market comparison of remuneration paid to non-executive Directors in a comparator group of ASX11 to 50 (that is similar sized) companies as well as the ASX100.

Any change in fees reflects time commitment, and responsibilities, as well as assist in ensuring AGL to attract and retain high calibre non-executive Directors.

Any changes to non-executive Directors' fees take effect from 1 January in the following year.

The market peer group used as a comparator group for the non-executive Directors is made up of companies who have a market capitalisation ranging from 20 companies below, to 20 companies above, the market capitalisation of AGL.

As the focus of the Board is the governance of and long-term strategic direction of AGL, there is no direct link between non-executive Director remuneration and AGL's short-term results.

The fee structure for non-executive Directors, effective 1 January 2014, is as follows:

	Base Fee $	Audit & Risk Management Committee Fees $	Other Committee Fees $
Chairman of Board	505,000	-	-
Chairman of Committee	175,000	48,000	35,000
Director	175,000	24,000	17,000

Non-executive Directors may choose to receive fees as a combination of one or more of:

- **Directed superannuation contributions.** Subject to minimum contributions as required under SGC legislation, and maximum tax deductible contributions under the Income Tax Assessment Act, non-executive Directors may direct that some or all of their fees be paid as contributions to a complying superannuation fund of their choice.

- **AGL shares acquired under the AGL Share Purchase Plan.** The Plan Trustee acquires AGL shares on-market at market price during permitted trading periods. Details of the trading periods are included in the AGL Securities Dealing Policy which is available on AGL's website.

- **Cash.** The balance of fee entitlements is paid in cash to the non-executive Directors in equal monthly amounts over the year.

Non-executive Directors are permitted to vary the components of their fee entitlements at any time.

No options have been granted to non-executive Directors over any securities or interests of AGL or the consolidated entity.

11. Five year financial performance

The following table shows AGL’s annual performance over the last five years.

Year ended 30 June	2010	2011	2012	2013	2014
Statutory Profit[1] ($m)	356	559	115	375	570
Statutory EPS[1] (cents)	76.8	118.5	23.8	68.2	102.2
Underlying Profit[1] ($m)	429	431	482	585	562
Underlying EPS[1] (cents)	92.5	91.4	100.0	106.3	100.8
Dividends (cents)	59.0	60.0	61.0	63.0	63.0
Increase/(decrease) in share price(%)	9.3	(0.3)	4.2	(2.0)	6.9
EBIT / Funds Employed[1] (%)	9.4	8.9	9.2	10.5	10.0
Adjusted EBIT / Funds Employed[1&2] (%)	11.3	10.5	11.6	12.7	11.6
TSR[2 & 3](%)	10.2	1.6	13.9	(1.1)	11.8
Relative TSR[2&4] (%)	-	-	-	-	34.7

Notes:
1. FY2013 restated for adoption of revised accounting standard AASB 119 Employee Benefits.
2. Used to calculate Executives’ long-term incentives.
3. Based on June VWAP in each financial year.
4. Percentile ranking against ASX100 as measured by Orient Capital Pty Ltd.

Abbreviations used in this report

Board:	AGL Board
Committee:	People and Performance Committee of the Board
Clawback:	A deduction made from participants’ LTIP bank account balances as a result of underperformance
EBIT:	Earnings before interest and tax
KMP:	Key Management Personnel (those Executives who have authority and responsibility for planning, directing and controlling the activities of AGL, either directly or indirectly)
Executive:	Executives other than the CEO who are KMP
FR:	Fixed remuneration
LTI:	Long-term incentive
Malus:	Forfeiture of unvested remuneration
PDR:	Performance and development Review
RTSR:	Relative total shareholder return
SGC:	Superannuation guarantee charge
SPR:	Share performance right
STI:	Short-term incentive
TSR:	Total shareholder return
VWAP:	Volume weighted average price

Approval of Directors' Report

This Directors' Report is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Board this 20th day of August 2014.

Jeremy Maycock
Chairman

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ABN 74 115 061 375

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AGL Energy Limited and Controlled Entities
Consolidated Statement of Profit or Loss
For the year ended 30 June 2014

	Note	2014 $m	2013 $m (Restated)
Continuing operations			
Revenue	4	**9,543**	9,716
Expenses	5	**(8,263)**	(8,806)
Share of profits of associates and joint ventures	13	**25**	26
Profit before net financing costs, depreciation and amortisation		**1,305**	936
Depreciation and amortisation		**(326)**	(287)
Profit before net financing costs		**979**	649
Finance income		**24**	41
Finance costs	6	**(243)**	(245)
Net financing costs		**(219)**	(204)
Profit before tax		**760**	445
Income tax expense	7	**(190)**	(70)
Profit for the year		**570**	375
Profit attributable to:			
Owners of AGL Energy Limited		**570**	375
Non-controlling interests		**-**	-
		570	375
Earnings per share			
Basic earnings per share	27	**102.2 cents**	68.2 cents
Diluted earnings per share	27	**102.1 cents**	68.1 cents

The statement of profit or loss should be read in conjunction with the notes to the financial statements.

AGL Energy Limited and Controlled Entities
Consolidated Statement of Comprehensive Income
For the year ended 30 June 2014

	Note	2014 $m	2013 $m (Restated)
Profit for the year		**570**	375
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement gain on defined benefit plans	35	**60**	97
Income tax relating to items that will not be reclassified subsequently	7	**(18)**	(29)
		42	68
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges			
(Loss)/gain in fair value of cash flow hedges	25	**(135)**	40
Reclassification adjustments transferred to profit or loss	25	**(6)**	(83)
Reclassification adjustments transferred to the initial carrying amounts of hedged items	25	**-**	7
Income tax relating to items that may be reclassified subsequently	7	**42**	11
		(99)	(25)
Other comprehensive income for the year, net of income tax		**(57)**	43
Total comprehensive income for the year		**513**	418
Total comprehensive income attributable to:			
Owners of AGL Energy Limited		**513**	418
Non-controlling interests		**-**	-
		513	418

The statement of comprehensive income should be read in conjunction with the notes to the financial statements.

AGL Energy Limited and Controlled Entities
Consolidated Statement of Financial Position
As at 30 June 2014

	Note	2014 $m	2013 $m (Restated)
Current assets			
Cash and cash equivalents	38	**456**	281
Trade and other receivables	9	**1,743**	1,844
Inventories	10	**191**	133
Other financial assets	11	**114**	187
Other assets	12	**318**	391
		2,822	2,836
Assets classified as held for sale	18	**430**	-
Total current assets		**3,252**	2,836
Non-current assets			
Trade and other receivables	9	**46**	47
Inventories	10	**28**	29
Other financial assets	11	**484**	338
Investments in associates and joint ventures	13	**32**	33
Exploration and evaluation assets	14	**372**	349
Oil and gas assets	15	**170**	495
Property, plant and equipment	16	**5,694**	5,332
Intangible assets	17	**3,248**	3,150
Deferred tax assets	7	**631**	729
Other assets	12	**18**	28
Total non-current assets		**10,723**	10,530
Total assets		**13,975**	13,366
Current liabilities			
Trade and other payables	19	**1,258**	1,445
Borrowings	20	**45**	45
Provisions	21	**101**	115
Current tax liabilities	7	**49**	155
Other financial liabilities	22	**477**	432
		1,930	2,192
Liabilities directly associated with assets classified as held for sale	18	**77**	-
Total current liabilities		**2,007**	2,192
Non-current liabilities			
Borrowings	20	**3,669**	3,064
Provisions	21	**106**	250
Deferred tax liabilities	7	**50**	100
Other financial liabilities	22	**280**	264
Other liabilities	23	**275**	156
Total non-current liabilities		**4,380**	3,834
Total liabilities		**6,387**	6,026
Net assets		**7,588**	7,340
Equity			
Issued capital	24	**5,437**	5,354
Reserves	25	**(99)**	(2)
Retained earnings	26	**2,249**	1,988
Total equity attributable to owners of AGL Energy Limited		**7,587**	7,340
Non-controlling interests		**1**	-
Total equity		**7,588**	7,340

The statement of financial position should be read in conjunction with the notes to the financial statements.

AGL Energy Limited and Controlled Entities
Consolidated Statement of Changes in Equity
For the year ended 30 June 2014

	Attributable to owners of AGL Energy Limited						
	Issued capital $m	**Employee equity benefits reserve $m**	**Hedging reserve $m**	**Retained earnings $m**	**Total $m**	**Non-controlling interests $m**	**Total equity $m**
Balance at 1 July 2013 (Restated)	**5,354**	**3**	**(5)**	**1,988**	**7,340**	**-**	**7,340**
Profit for the year	**-**	**-**	**-**	**570**	**570**	**-**	**570**
Other comprehensive income for the year, net of income tax	**-**	**-**	**(99)**	**42**	**(57)**	**-**	**(57)**
Total comprehensive income for the year	**-**	**-**	**(99)**	**612**	**513**	**-**	**513**
Transactions with owners in their capacity as owners:							
Issue of ordinary shares	**83**	**-**	**-**	**-**	**83**	**1**	**84**
Payment of dividends	**-**	**-**	**-**	**(351)**	**(351)**	**-**	**(351)**
Share-based payments	**-**	**2**	**-**	**-**	**2**	**-**	**2**
Balance at 30 June 2014	**5,437**	**5**	**(104)**	**2,249**	**7,587**	**1**	**7,588**
Balance at 1 July 2012	5,228	2	20	1,884	7,134	-	7,134
Adoption of the revised AASB 119 *Employee Benefits*	-	-	-	1	1	-	1
Balance at 1 July 2012 (Restated)	5,228	2	20	1,885	7,135	-	7,135
Profit for the year	-	-	-	375	375	-	375
Other comprehensive income for the year, net of income tax	-	-	(25)	68	43	-	43
Total comprehensive income for the year	-	-	(25)	443	418	-	418
Transactions with owners in their capacity as owners:							
Issue of ordinary shares	126	-	-	-	126	-	126
Payment of dividends	-	-	-	(340)	(340)	-	(340)
Share-based payments	-	1	-	-	1	-	1
Balance at 30 June 2013 (Restated)	5,354	3	(5)	1,988	7,340	-	7,340

The statement of changes in equity should be read in conjunction with the notes to the financial statements.

AGL Energy Limited and Controlled Entities
Consolidated Statement of Cash Flows
For the year ended 30 June 2014

	Note	**2014 $m**	2013 $m
Cash flows from operating activities			
Receipts from customers		**11,791**	11,297
Payments to suppliers and employees		**(10,733)**	(10,434)
Dividends received		**26**	24
Finance income received		**23**	43
Finance costs paid		**(217)**	(257)
Income taxes paid		**(191)**	(71)
Net cash provided by operating activities	38(b)	**699**	602
Cash flows from investing activities			
Payments for property, plant and equipment		**(624)**	(480)
Payments for exploration and evaluation assets		**(28)**	(41)
Payments for oil and gas assets		**(46)**	(49)
Payments for intangible assets		**(25)**	(44)
Payments for businesses and subsidiaries, net of cash acquired			
acquisitions in current period	32	**(79)**	-
acquisitions in prior periods		**(33)**	(33)
Government grants received		**190**	-
Proceeds from sale of property, plant and equipment		**2**	1
Proceeds from sale of exploration and evaluation assets		**-**	3
Loans advanced to related parties		**(126)**	(72)
Proceeds from repayment of related party loans		**-**	165
Net cash used in investing activities		**(769)**	(550)
Cash flows from financing activities			
Proceeds from issue of shares, net of transaction costs		**1**	-
Proceeds from issue of shares to non-controlling interest		**1**	-
Purchase of shares on-market for equity based remuneration		**(6)**	(6)
Proceeds from borrowings		**2,075**	285
Repayment of borrowings		**(1,547)**	(1,544)
Payments for settlement of derivative financial instruments		**-**	(105)
Dividends paid	8	**(269)**	(214)
Net cash provided by/(used in) financing activities		**255**	(1,584)
Net increase/(decrease) in cash and cash equivalents		**185**	(1,532)
Cash and cash equivalents at the beginning of the financial year		**281**	1,813
Cash and cash equivalents at the end of the financial year	38(a)	**466**	281

The statement of cash flows should be read in conjunction with the notes to the financial statements.

Note 1 - Summary of significant accounting policies

AGL Energy Limited (the Parent Entity) is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX). The address of its registered office is Level 22, 101 Miller Street North Sydney NSW 2060 Australia.

The consolidated financial statements comprise the Parent Entity and its subsidiaries (together referred to as AGL). For the purposes of preparing the consolidated financial statements, the Parent Entity is a for-profit entity.

The principal activities of AGL are described in Note 3.

(a) Statement of compliance
These consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards and Interpretations as issued by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

The consolidated financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The consolidated financial statements were authorised for issue by the Directors on 20 August 2014.

(b) Basis of preparation
The consolidated financial statements have been prepared on the basis of historical cost, except for derivative financial instruments and available-for-sale financial assets, which are measured at fair value. Historical cost is generally based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars which is the functional and presentation currency of AGL, unless otherwise noted.

The Parent Entity is a company of the kind referred to in ASIC Class Order 98/100 dated 10 July 1998, and in accordance with that Class Order, amounts in the financial statements are rounded off to the nearest million dollars, unless otherwise indicated.

(c) Adoption of new and revised accounting standards
AGL has adopted the following new and revised Standards and Interpretations that are relevant to its operations and effective for the current reporting period.

Impact of the application of AASB 10 Consolidated Financial Statements
AASB 10 replaces the parts of AASB 127 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and Interpretation 112 *Consolidation – Special Purpose Entities*.

AGL reviewed and assessed the classification of its investments in controlled entities in accordance with the requirements of AASB 10. AGL concluded that the new requirements do not change any existing control assessments and no additional entities are required to be consolidated. As a result, the adoption of AASB 10 had no effect on the financial position or performance of AGL.

Impact of the application of AASB 11 Joint Arrangements
AASB 11 replaces AASB *131 Interests in Joint Ventures* and the guidance contained in a related interpretation, Interpretation 113 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*, has been incorporated in AASB 128 (2011).

AGL reviewed and assessed the classification of its investments in joint arrangements in accordance with the requirements of AASB 11 and determined it had both joint ventures and joint operations. The accounting for AGL's joint ventures and joint operations has not changed as a result of the adoption of AASB 11 and accordingly, AASB 11 had no effect on the financial position or performance of AGL.

Impact of the application of AASB 12 Disclosure of Interests in Other Entities
AASB 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. The application of AASB 12 has resulted in additional disclosures in the consolidated financial statements.

Note 1 - Summary of significant accounting policies (cont'd)

(c) Adoption of new and revised accounting standards (cont'd)

Impact of the application of AASB 13 Fair Value Measurement
AASB 13 is a new standard and establishes a single source of guidance for fair value measurements and disclosures about fair value measurements when such measurements are required or permitted by other Standards.

In accordance with the transitional provisions of AASB 13, AGL has not made any new disclosures required by AASB 13 for the comparative period. The application of AASB 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

Impact of the other applied Standards and Interpretations
AGL has applied the following standards for the first time in the current year and there was no material impact on the disclosures or on the amounts recognised in the consolidated financial statements:

- AASB Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine*
- AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements*
- AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities*
- AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle*
- AASB 2012-9 *Amendment to AASB 1048 arising from the Withdrawal of Australian Interpretation 1039*

AASB Interpretation 20 clarifies the requirements for accounting for stripping costs. AASB 2011-4 moves certain individual key management personnel disclosures to the remuneration report, however aggregate disclosures are provided in the notes to the financial statements. AASB 2012-2 amends AASB 7 to require entities to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement. AASB 2012-5 clarifies minor points in various accounting standards including AASB 1, AASB 101, AASB 116, AASB 132 and AASB 134. AASB 2012-9 makes minor amendments following the withdrawal of AASB Interpretation 1039 *Substantive Enactment of Tax Bills in Australia.*

Impact of the application of AASB 119 Employee Benefits (2011)
In the current year, AGL has applied AASB 119 (as revised in 2011) *Employee Benefits* and the related consequential amendments for the first time.

AASB 119 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of AASB 119 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of AASB 119 are replaced with a 'net interest' amount under AASB 119 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset.

These changes have had an impact on the amounts recognised in profit or loss and other comprehensive income in prior years. In addition, AASB 119 (as revised in 2011) introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures.

Specific transitional provisions are applicable to first-time application of AASB 119 (as revised in 2011). AGL has applied the relevant transitional provisions and restated the comparative amounts on a retrospective basis.

Note 1 - Summary of significant accounting policies (cont'd)

(c) Adoption of new and revised accounting standards (cont'd)

Impact of the application of AASB 119 Employee Benefits (2011) (cont'd)
The following tables summarise the impact of AASB 119 on individual line items in AGL's financial statements:

	As previously reported	AASB 119 adjustments	As restated
Consolidated statement of profit or loss (extract)			
Year ended 30 June 2013	**$m**	**$m**	**$m**
Expenses	(8,788)	(18)	(8,806)
Profit before tax	463	(18)	445
Income tax expense	(75)	5	(70)
Profit for the year	388	(13)	375
Consolidated statement of comprehensive income (extract)			
Year ended 30 June 2013			
Profit for the year	388	(13)	375
Other comprehensive income			
Remeasurement gain on defined benefit plans	79	18	97
Income tax relating to items that will not be reclassified subsequently	(24)	(5)	(29)
Other comprehensive income for the year, net of income tax	30	13	43
Total comprehensive income for the year	418	-	418
Consolidated statement of financial position (extract)			
As at 1 July 2012			
Non-current liabilities			
Deferred tax liabilities	349	1	350
Other liabilities	249	(2)	247
Total non-current liabilities	4,996	(1)	4,995
Total liabilities	7,606	(1)	7,605
Net assets	7,134	1	7,135
Retained earnings	1,884	1	1,885
Total equity	7,134	1	7,135
Consolidated statement of financial position (extract)			
As at 30 June 2013			
Non-current liabilities			
Deferred tax liabilities	99	1	100
Other liabilities	158	(2)	156
Total non-current liabilities	3,835	(1)	3,834
Total liabilities	6,027	(1)	6,026
Net assets	7,339	1	7,340
Retained earnings	1,987	1	1,988
Total equity	7,339	1	7,340

Note 1 - Summary of significant accounting policies (cont'd)

(d) Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Parent Entity and entities (including special purpose entities) controlled by the Parent Entity (its subsidiaries). Control is achieved when the Parent Entity is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Income and expense of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss from the effective date of acquisition and up to the effective date of disposal, as appropriate.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

(e) Business combinations
Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred is measured at fair value as are the identifiable net assets acquired. Acquisition-related costs are recognised in profit or loss as incurred except if related to the issue of debt or equity securities.

Any goodwill that arises is tested annually for impairment. Any gain in a bargain purchase is recognised in profit or loss immediately. Contingent consideration is measured at fair value at the acquisition date. Subsequent changes (after 12 months) in the fair value are recognised in profit or loss.

Where a business combination is achieved in stages, AGL's previously held interest in the acquired entity is remeasured to fair value at the acquisition date (i.e. the date AGL attains control) and the resulting gain or loss, if any, is recognised in profit or loss.

(f) Segment reporting
An operating segment is a component of AGL that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with other components of AGL. Operating segments are identified on the basis of internal reports about components of AGL that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The chief operating decision maker has been identified as the Board of Directors.

(g) Investments in equity accounted investees
AGL's interests in equity accounted investees comprise interests in associates and joint ventures. Associates are those entities in which AGL has significant influence, but not control, over the financial and operating policies of the entity. A joint venture is an arrangement in which AGL has joint control and AGL has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Investments in associates and joint ventures are accounted for using the equity method, except when the investment is classified as held for sale, in which case the investment is accounted for in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations.*

Under the equity method, investments in associates and joint ventures are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise AGL's share of the profit or loss and other comprehensive income of the associates and joint ventures.

An impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss and is reversed if there has been a favourable change in estimates used to determine the recoverable amount.

Unrealised gains on transactions between AGL and an associate or a joint venture are eliminated to the extent of AGL's interest in the associate or joint venture. Unrealised losses are also eliminated, but only to the extent that there is no evidence of an impairment.

Note 1 - Summary of significant accounting policies (cont'd)

(h) Joint operations
AGL has joint operations where the entity has joint control and direct rights to the assets, liabilities, revenues and expenses. This share has been recognised in accordance with the AASB's applicable to the particular assets, liabilities, revenues and expenses.

(i) Foreign currency transactions and balances
Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate at the end of the reporting period.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the exchange rates ruling at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Foreign exchange differences arising on translation are recognised in profit or loss in the period in which they arise.

(j) Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash. The carrying amount represents fair value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(k) Trade and other receivables
Trade and other receivables are recognised at amortised cost, less an allowance for doubtful debts. Trade receivables are generally due for settlement within 30 days.

Collectibility of trade receivables is reviewed on an ongoing basis. An allowance for doubtful debts is recognised when there is objective evidence that AGL will not be able to collect all amounts due. Financial difficulties of the debtor, default payments or debts overdue are considered objective evidence of impairment. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows.

Unbilled revenue represents estimated gas and electricity services supplied to customers but unbilled at the end of the reporting period.

(l) Inventories
Inventories are measured at the lower of cost and net realisable value. Costs of inventories are determined on a first-in-first-out or weighted average basis. Net realisable value represents the estimated selling price for inventories less the estimated costs necessary to make the sale.

(m) Financial assets
Loans and receivables and all other financial assets are recognised on trade date.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss
Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Derivatives are classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in profit or loss and the related assets are classified as current assets in the consolidated statement of financial position.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Note 1 - Summary of significant accounting policies (cont'd)

(m) Financial assets (cont'd)

Impairment of financial assets
Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

For financial assets measured at amortised cost, the amount of the impairment loss recognised in profit or loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. Impairment of trade receivables is recognised in accordance with the accounting policy set out in Note 1(k). When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss.

In respect of available-for-sale equity instruments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

Derecognition of financial assets
Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or when AGL transfers substantially all the risks and rewards of the financial assets.

(n) Green commodity scheme certificates
Green commodity scheme certificates are initially recorded at cost, being the fair value of the consideration paid. Subsequent to initial recognition, they are stated at the lower of cost and net realisable value. Costs of certificates are determined on a weighted average basis.

(o) Non-current assets and disposal groups held for sale
Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Non-current assets and disposal groups classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

(p) Exploration and evaluation assets
Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. An area of interest refers to an individual geological area where the presence of oil or a gas field is considered favourable or has been proved to exist, and in most cases will comprise an individual oil or gas field.

Exploration and evaluation expenditure is recognised as an exploration and evaluation asset in the year in which it is incurred (in accordance with the criteria in AASB 6 *Exploration for and Evaluation of Mineral Resources*) and is initially measured at cost including acquisition of rights to explore, studies, exploratory drilling, trenching and sampling and associated activities. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

The carrying amounts of AGL's exploration and evaluation assets are reviewed at the end of each reporting period, in conjunction with the impairment review process to determine whether there is any indication that the assets have suffered an impairment loss.

When an oil or gas field has been approved for development, the accumulated exploration and evaluation expenditure is transferred to oil and gas assets.

Note 1 - Summary of significant accounting policies (cont'd)

(q) Oil and gas assets
The costs of oil and gas assets include past exploration and evaluation costs, development drilling and other subsurface expenditure, surface plant and equipment and any associated land and buildings. When commercial operation commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

(r) Property, plant and equipment
Property, plant and equipment is measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition or construction of the asset. Finance costs related to the acquisition or construction of qualifying assets are capitalised. Cost may also include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are capitalised when it is probable that future economic benefits associated with the item will flow to AGL and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss as incurred.

The gain or loss arising on disposal or retirement is recognised in profit or loss.

Depreciation is calculated on a straight-line or units of use basis so as to write off the cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are amortised over the period of the relevant lease or estimated useful life, whichever is the shorter. Land is not depreciated.

The estimated useful lives, residual values and depreciation method are reviewed, and adjusted if appropriate at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

Freehold buildings	- 50 years
Leasehold improvements	- lesser of lease period or 20 years
Plant and equipment	- 3 to 35 years or relevant units of use

(s) Leases
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the lessee. All other leases are classified as operating leases.

AGL as lessor
Amounts due from lessees under finance leases are recognised as receivables at the amount of AGL's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on AGL's net investment outstanding in respect of the leases.

AGL as lessee
Assets held under finance leases are initially recognised as assets of AGL at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease liability. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised immediately in profit or loss.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Lease incentives received to enter into operating leases are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Note 1 - Summary of significant accounting policies (cont'd)

(t) Intangible assets

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their estimated useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are recognised in profit or loss when the asset is derecognised.

Goodwill
Goodwill arising on an acquisition of a business is carried at cost as established at the date of the acquisition of the business less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of AGL's cash-generating units expected to benefit from the synergies of the combination, and tested for impairment at least annually.

Licences
Licences are carried at cost less any accumulated impairment losses. Licences are considered to have indefinite useful lives, as they were either granted in perpetuity, or there is evidence that the licences will be renewed beyond the initial term and the cost of renewal is not significant. Licences with indefinite useful lives are not amortised, but are tested for impairment annually, or more frequently if events or changes in circumstances indicate that they might be impaired. Any impairment loss is recognised immediately in profit or loss.

Customer relationships and contracts
Customer relationships and contracts acquired in a business combination are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is recognised as an expense on a straight-line basis over the period during which economic benefits are expected to be received.

The direct costs of establishing customer contracts are recognised as an asset when they relate to a specific customer acquisition campaign. The direct costs are amortised over the minimum contract term. Direct costs include customer acquisition fees paid to channel partners and upfront account purchase payments. All other customer acquisition costs are expensed as incurred.

(u) Impairment of non-financial assets excluding goodwill

At the end of each reporting period, AGL reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, AGL estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Note 1 - Summary of significant accounting policies (cont'd)

(u) Impairment of non-financial assets excluding goodwill (cont'd)
Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

An impairment loss is recognised in profit or loss if the carrying amount of an asset or cash generating unit exceeds its recoverable amount.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(v) Trade and other payables
Trade and other payables represent liabilities for goods and services provided to AGL prior to the end of the reporting period that are unpaid and arise when AGL becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(w) Borrowings
Borrowings are initially recognised at fair value of the consideration received, net of transaction costs incurred. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method.

(x) Employee benefits
A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of short-term employee benefits are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of long-term employee benefits are measured as the present value of the estimated future cash outflows to be made by AGL in respect of services provided by employees up to the end of the reporting period.

Defined contribution superannuation plans
Contributions to defined contribution superannuation plans are recognised as an expense when employees have rendered service entitling them to the contributions.

Defined benefit superannuation plans
For defined benefit superannuation plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Actuarial gains and losses are recognised directly in other comprehensive income, in the period in which they occur.

Changes in the net defined benefit liability, including all actuarial gains and losses that arise in calculating AGL's obligation in respect of the plan are recognised in other comprehensive income when they occur. All other expenses relating to the defined benefit plans are recognised as an expense in the profit or loss. Any defined benefit superannuation plan asset resulting from this calculation is limited to the present value of available refunds and reductions in future contributions to the plan.

Note 1 - Summary of significant accounting policies (cont'd)

(y) Share-based payments
The fair value of share performance rights (SPRs) granted to eligible employees under the AGL Long-Term Incentive Plan is recognised as an employee benefits expense, with a corresponding increase in the employee equity benefits reserve. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the SPRs. The fair value at grant date is determined by an independent valuer.

At the end of each reporting period, AGL revises its estimate of the number of SPRs expected to vest. The amount recognised as an expense is only adjusted when the SPRs do not vest due to non-market related conditions.

Under the AGL Share Reward Plan, shares are issued to eligible employees for no consideration and vest immediately on grant date. On this date, the market value of the shares issued is recognised as an employee benefits expense, with a corresponding increase in the employee equity benefits reserve.

(z) Provisions
The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. The unwinding of the discount is recognised in profit or loss as part of finance costs.

Onerous contracts
A provision for onerous contracts is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

Environmental restoration
The provision for future restoration costs is the best estimate of the present value of the expenditure required to settle the restoration obligation at the end of the reporting period, based on current legal requirements and current technology. Future restoration costs are reviewed annually and any changes in the estimate are reflected in the present value of the restoration provision at the end of each reporting period.

The initial estimate of the environmental restoration provision relating to exploration, development and production facilities is capitalised into the cost of the related asset and depreciated/amortised on the same basis as the related asset. Changes in the estimate of the provision for environmental restoration are treated in the same manner, except that the unwinding of the effect of discounting on the provision is recognised as a finance cost rather than being capitalised into the cost of the related asset.

Restructuring
A restructuring provision is recognised when AGL has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. Future operating losses are not provided for.

(aa) Derivative financial instruments and hedging
AGL enters into a variety of derivative financial instruments to manage its exposure to interest rate, foreign exchange rate and energy price risks arising in the normal course of business. The use of derivatives is subject to policies, procedures and limits approved by the Board of Directors.

Derivatives are recognised at fair value. The gain or loss on subsequent remeasurement is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Fair value hedges
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in profit or loss in the line item relating to the hedged item.

Note 1 - Summary of significant accounting policies (cont'd)

(aa) Derivative financial instruments and hedging (cont'd)
Hedge accounting is discontinued when AGL revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when AGL revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

Derivatives that do not qualify for hedge accounting - economic hedges
AGL has entered into certain derivative instruments for economic hedging purposes under the Board approved risk management policies which do not satisfy the requirements for hedge accounting under AASB 139 *Financial Instruments: Recognition and Measurement.* These derivatives are therefore required to be categorised as held for trading and are classified in the consolidated statement of financial position as economic hedges. Changes in the fair value are recognised immediately in profit or loss.

(ab) Issued capital
Ordinary shares are classified as equity. Ordinary shares issued by AGL are recorded at the proceeds received, less transaction costs directly attributable to the issue of new shares, net of any tax effects.

(ac) Revenue recognition
Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to AGL and the revenue can be reliably measured.

Revenue from gas and electricity services supplied is recognised once the gas and electricity has been delivered to the customer and is measured through a regular review of usage meters. Customers are billed on a periodic and regular basis. At the end of each reporting period, gas and electricity revenue includes an accrual for energy delivered to customers but not yet billed (unbilled revenue).

Revenue from the provision of services, including revenue from construction contracts, represents consideration received or receivable determined, where appropriate, in accordance with the percentage of completion method, with the stage of completion of each contract determined by reference to the proportion that contract costs for work performed to date bears to the estimated total contract costs.

Revenue from the sale of crude oil is recognised after each shipment is loaded and title passes to the customer.
Dividend income is recognised when AGL's right to receive the payment is established.

Note 1 - Summary of significant accounting policies (cont'd)

(ad) Net financing costs
Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, are added to the cost of those assets.

All other finance costs are recognised in profit or loss in the period in which they are incurred. Finance costs comprise interest expense on borrowings calculated using the effective interest method, amortisation of borrowing costs relating to long-term financing facilities, unwinding of the discount on provisions and deferred consideration, and gains and losses on certain hedging instruments that are recognised in profit or loss.

(ae) Goods and services tax
Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable and is recognised as part of the cost of acquisition of an asset or as part of an item of expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable or payable is included as part of receivables or payables in the consolidated statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified within operating cash flows.

(af) Income tax
Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax
The tax currently payable is based on taxable profit for the year and any adjustment to tax payable in respect of prior years. AGL's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax
Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which AGL expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only under the criteria of AASB 112 *Income Taxes*.

Current and deferred tax for the period
Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items recognised outside profit or loss (whether in other comprehensive income or directly in equity) or a business combination.

Note 1 - Summary of significant accounting policies (cont'd)

(af) Income tax (cont'd)

Tax consolidation
The Parent Entity and its wholly-owned Australian resident subsidiaries formed a tax-consolidated group under Australian taxation law with effect from 25 October 2006 and are therefore taxed as a single entity from that date. AGL Energy Limited is the head entity in the tax-consolidated group.

On 23 July 2012, AGL Generation Holdco Pty Ltd, a subsidiary 99.99% owned by AGL, and AGL Generation Pty Ltd elected to form a new tax-consolidated group with Loy Yang Marketing Holdings Pty Limited and its wholly-owned subsidiary, in addition to the existing group. On 27 July 2012, Great Energy Alliance Corporation Pty Limited (GEAC) and its wholly-owned subsidiaries joined the new tax-consolidated group. AGL Generation Holdco Pty Ltd is the head entity in the new tax-consolidated group.

Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'stand alone taxpayer' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the Parent Entity (as head entity in the tax-consolidated group).

The members of the tax-consolidated group have entered into a tax sharing and tax funding agreement. The tax funding agreement requires payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity. The payments are recorded as intercompany receivables/payables.

(ag) Carbon pricing mechanism

Compensation received from the Australian Government (in the form of cash or free carbon permits) is recorded at fair value and recognised as deferred revenue and amortised to offset the carbon emission expense in profit or loss over the period for which it intends to compensate.

Carbon emissions liability
A carbon emissions liability is recognised as emissions are generated and natural gas is supplied to customers who do not quote an Obligation Transfer Number (OTN). Carbon emissions liabilities are measured at the value of carbon permits required to extinguish the liability.

(ah) Government grants
Government grants are recognised when there is reasonable assurance that AGL will comply with the conditions attaching to the grant and the grant will be received. Government grants which require AGL to construct an asset are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systemic basis over the useful life of the related assets.

(ai) Standards and Interpretations on issue not yet adopted
A number of Australian Accounting Standards and Interpretations have been issued by the AASB but are not effective for the year ended 30 June 2014. AGL's assessment of the expected impact of these standards and interpretations is set out below.

AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) and AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures are effective for annual reporting periods beginning on or after 1 January 2018.

AASB 9 and its associated amending Standards introduce new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

AASB 9 requires all recognised financial assets that are within the scope of AASB 139 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, AASB 9 requires that the amount of change in fair value of the financial liability that is attributable to changes in the credit risk of that liability is generally presented in other comprehensive income. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under AASB 139, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

Note 1 - Summary of significant accounting policies (cont'd)

(ai) Standards and Interpretations on issue not yet adopted (cont'd)
AASB 9 will be mandatory for AGL's 30 June 2019 financial statements. AGL is currently assessing the potential changes required by this Standard.

IFRS 15 *Revenue from Contracts with Customers* was issued in May 2014 and will be effective from annual reporting periods beginning on or after 1 January 2017. AGL is currently assessing the potential impact of this Standard.

The AASB has yet to issue an Australian equivalent standard.

In addition to the above Standards which are applicable in future years, the following new and amendments to Standards are also applicable in future years. It is not expected these will materially impact AGL's financial statements upon adoption.

- Interpretation 21 *Levies*
- AASB 1031 *Materiality (2013)*
- AASB 2012-3 *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities*
- AASB 2013-3 *Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets*
- AASB 2013-4 *Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting*
- AASB 2013-5 *Amendments to Australian Accounting Standards – Investment Entities*
- AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments*
- AASB 2014-1 *Amendments to Australian Accounting Standards*
- AASB 14 *Regulatory Deferral Accounts*

Note 2 - Significant accounting judgements, estimates and assumptions

In the application of AGL's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Unbilled revenue
AGL recognises revenue from gas and electricity services once the gas and/or electricity has been consumed by the customer. Customers are billed on a periodic and regular basis. Management estimates customer consumption between the last invoice date and the end of the reporting period when determining gas and electricity revenue for the financial period. Various assumptions and financial models are used to determine the estimated unbilled consumption.

Allowance for doubtful debts
The collectability of trade receivables is reviewed on an ongoing basis. An allowance for doubtful debts is established when there is objective evidence that AGL will not be able to collect all amounts due. Management uses its judgement in determining the level of doubtful debt provisioning, taking into account the historic analysis of bad debt trends and the prevailing economic conditions.

Impairment of goodwill and other intangibles with indefinite useful lives
AGL determines whether goodwill and other intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the value in use of the recoverable amount of the cash-generating units, using a value in use discounted methodology, to which the goodwill and intangibles with indefinite useful lives are allocated.

Business combinations
Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. This method requires the application of fair values for both the consideration given and the assets and liabilities acquired. The calculation of fair values is often based on estimates and judgements including future cash flows, revenue streams and value in use calculations.

Exploration and evaluation expenditure
AGL's policy for exploration and evaluation expenditure is stated in Note 1(p). The application of this policy requires management to make certain estimates and assumptions as to future events and circumstances, particularly in relation to the assessment of whether economic quantities of reserves have been found.

Note 2 - Significant accounting judgements, estimates and assumptions (cont'd)

Fair value of financial instruments
Management uses their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices and rates. Refer to Note 39 for further details.

Provision for environmental restoration
AGL estimates the future removal and restoration costs of electricity generation assets, oil and gas production facilities, wells, pipelines and related assets at the time of installation of the assets. In most instances, removal of these assets will occur many years into the future. The calculation of this provision requires management to make assumptions regarding the removal date, application of environmental legislation, the extent of restoration activities required and available technologies.

Defined benefit superannuation plans
Various actuarial assumptions are utilised in the determination of AGL's defined benefit obligations. These assumptions and the related carrying amounts are discussed in Note 35.

Unbilled distribution costs
AGL recognises distribution costs once the gas and electricity has been delivered to the customer and is measured through a regular review of usage meters. Suppliers invoice AGL on a periodic basis dependent on trading terms. Management estimates customer consumption between the last invoice date and the end of the reporting period when determining distribution costs for the financial period. Various assumptions and financial models are used to determine the estimated unbilled consumption.

Onerous contracts
AGL's policy for onerous contracts is stated in Note 1(z). The application of this policy requires management to make certain estimates and assumptions as to future events and circumstances in relation to costs to meet contractual obligations.

Note 3 - Segment information

Operating segments
AGL reports segment information on the same basis as the internal management reporting structure. Management has determined the operating segments based on the manner in which products are sold, whether retail or wholesale, and the nature of the services provided.

AGL has four reportable operating segments as follows:

• **Retail Energy** sells natural gas, electricity and energy-related products and services to residential and small business customers.

• **Merchant Energy** develops, operates and maintains power generation assets and manages the risks associated with the procurement and delivery of gas and electricity for its wholesale portfolio and for the Retail Energy segment. Merchant Energy also sells natural gas and electricity to business customers and provides energy efficiency and carbon management services.

• **Upstream Gas** invests in, and operates gas exploration, development and production tenements and develops and operates gas storage facilities.

• **Energy Investments** includes equity accounted investments in the ActewAGL Retail Partnership and Diamantina Holding Company Pty Limited and also includes AGL's long-term investments in strategic growth opportunities.

In the segment financial results, the 'Other' category consists of the various Corporate activities which includes the head office and central support functions. Corporate is not considered a reportable segment.

Segment financial results
The measurement of segment results is in line with the basis of information presented to the Board of Directors for internal management reporting purposes. The performance of each segment is measured based on their 'Operating EBIT contribution' to AGL. Certain items of income and expense are excluded from the segment results to show a measure of underlying performance. These items include changes in fair value of financial instruments and significant items.

Transfer prices between operating segments are on an arm's-length basis consistent with methodologies adopted by regulators for determining wholesale energy costs when setting tariffs. Inter-segment revenue is eliminated on consolidation.

Note 3 - Segment information (cont'd)

	Retail Energy $m	Merchant Energy $m	Upstream Gas $m	Energy Investments $m	Other $m	Total $m
2014						
Revenue						
Total segment revenue	5,125	6,564	73	-	-	11,762
Inter-segment revenue	(18)	(2,176)	(25)	-	-	(2,219)
External revenue	5,107	4,388	48	-	-	9,543
EBITDA	404	1,093	4	23	(194)	1,330
Depreciation and amortisation	(86)	(194)	(17)	-	(29)	(326)
Operating EBIT	318	899	(13)	23	(223)	1,004
Net financing costs						(223)
Underlying profit before income tax						781
Income tax expense						(219)
Underlying profit						562
Segment assets	3,800	7,225	1,113	155	131	12,424
Segment liabilities	410	1,201	105	-	101	1,817
Other segment information						
Share of profits of associates and joint ventures	-	-	1	24	-	25
Investments in associates and joint ventures	-	-	4	28	-	32
Additions to non-current assets	238	495	134	126	34	1,027
Other non-cash expenses	(65)	(4)	-	-	(7)	(76)
Gain in fair value of financial instruments	-	42	-	-	(2)	40
Significant expense items	(49)	-	-	-	(12)	(61)

Note 3 - Segment information (cont'd)

	Retail Energy $m	Merchant Energy $m	Upstream Gas $m	Energy Investments $m	Other $m	Total $m
2013						
Revenue						
Total segment revenue	4,952	6,889	84	-	-	11,925
Inter-segment revenue	(14)	(2,166)	(29)	-	-	(2,209)
External revenue	4,938	4,723	55	-	-	9,716
EBITDA	431	1,018	24	26	(181)	1,318
Depreciation and amortisation	(75)	(165)	(24)	-	(23)	(287)
Operating EBIT	356	853	-	26	(204)	1,031
Net financing costs						(206)
Underlying profit before income tax						825
Income tax expense						(240)
Underlying profit						585
Segment assets	3,665	7,032	999	29	124	11,849
Segment liabilities	419	1,337	103	-	107	1,966
Other segment information						
Share of profits of associates and joint ventures	-	-	-	26	-	26
Investments in associates and joint ventures	-	-	4	29	-	33
Additions to non-current assets	51	408	112	-	33	604
Other non-cash expenses	(48)	(4)	-	-	(7)	(59)
Gain in fair value of financial instruments	-	114	-	-	-	114
Significant expense items	-	(99)	(395)	-	-	(494)

Note 3 - Segment information (cont'd)

	2014 $m	2013 $m (Restated)
Segment revenue reconciliation to the statement of profit or loss		
Reconciliation of segment revenue to total revenue is as follows:		
Total segment revenue for reportable segments	**11,762**	11,925
Elimination of inter-segment revenue	**(2,219)**	(2,209)
Total revenue for reportable segments	**9,543**	9,716
Other	**-**	-
Total revenue	**9,543**	9,716

Revenue from major products and services

The following is an analysis of AGL's revenue from its major products and services:

	2014 $m	2013 $m (Restated)
Electricity	**5,681**	5,790
Gas	**2,351**	2,199
Generation sales to pool	**1,178**	1,303
Other revenue	**333**	424
Total revenue	**9,543**	9,716

Segment Operating EBIT reconciliation to the statement of profit or loss

Reconciliation of segment Operating EBIT to profit before tax is as follows:

	2014 $m	2013 $m (Restated)
Operating EBIT for reportable segments	**1,227**	1,235
Other	**(223)**	(204)
	1,004	1,031
Amounts excluded from underlying results:		
- gain in fair value of financial instruments	**40**	114
- significant expense items	**(61)**	(494)
Finance income included in Operating EBIT	**(4)**	(2)
Finance income	**24**	41
Finance costs	**(243)**	(245)
Profit before tax	**760**	445

Note 3 - Segment information (cont'd)

	2014 $m	2013 $m (Restated)
Segment assets reconciliation to the statement of financial position		
Reconciliation of segment assets to total assets is as follows:		
Segment assets for reportable segments	**12,293**	11,725
Other	**131**	124
	12,424	11,849
Cash and cash equivalents	**456**	281
Cash and cash equivalents included in disposal groups held for sale	**10**	-
Deferred tax assets	**631**	729
Derivative financial instruments	**454**	507
Total assets	**13,975**	13,366
Segment liabilities reconciliation to the statement of financial position		
Reconciliation of segment liabilities to total liabilities is as follows:		
Segment liabilities for reportable segments	**1,716**	1,859
Other	**101**	107
	1,817	1,966
Borrowings	**3,714**	3,109
Current tax liabilities	**49**	155
Deferred tax liabilities	**50**	100
Derivative financial instruments	**515**	450
Deferred and contingent consideration liabilities	**242**	246
Total liabilities	**6,387**	6,026

Geographical information
AGL operates in one principal geographical area – Australia. All non-current assets and total external revenue from customers is attributed to Australia.

Information about major customers
No single customer amounts to 10% or more of AGL's total external revenue (2013: none).

Note 4 - Revenue

	2014 $m	2013 $m (Restated)
Revenue from sale of goods	**9,406**	9,563
Revenue from rendering of services	**136**	152
Other	**1**	1
	9,543	9,716

Note 5 – Expenses

	2014 $m	2013 $m (Restated)
Cost of sales	**7,227**	7,451
Administrative expenses	**209**	204
Employee benefits expense	**518**	508
Other expenses		
(Gain)/loss in fair value of financial instruments	**(40)**	(114)
Impairment loss on trade receivables (net of bad debts recovered)	**69**	52
Impairment loss on non-current assets	**-**	441
Merger and acquisition related costs	**61**	53
Operating lease rental expenses	**21**	19
Other	**198**	192
	8,263	8,806

Note 6 – Finance costs

	2014 $m	2013 $m (Restated)
Interest expense		
Other entities	**208**	218
Finance costs capitalised	**(15)**	(28)
Unwinding of discounts on provisions	**14**	18
Unwinding of discount on deferred consideration	**27**	27
Other finance costs	**9**	10
	243	245

The weighted average rate used to capitalise finance costs was 6.43% (2013: 7.07%).

Note 7 – Income tax

	2014 $m	2013 $m (Restated)
Income tax recognised in the statement of profit or loss		
The major components of income tax expense are:		
Current tax		
Current tax expense in respect of the current year	**47**	122
Adjustments in relation to current tax of prior years due to a change in income tax treatment of Southern Hydro assets	**(15)**	-
Adjustments in relation to current tax of prior years	**(23)**	(12)
Deferred tax		
Relating to the origination and reversal of temporary differences	**190**	83
Effect on deferred tax balances due to the change in income tax treatment of Southern Hydro assets	**(9)**	-
Effect on deferred tax balances due to the change in income tax treatment of unbilled revenue	**-**	(176)
Reversal of deferred tax balances relating to petroleum resource rent tax	**-**	53
Total income tax expense	**190**	70

Numerical reconciliation between tax expense and pre-tax accounting profit

The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:

	2014 $m	2013 $m (Restated)
Profit before tax	**760**	445
Income tax expense calculated at the Australian tax rate of 30% (2013: 30%)	**228**	134
Impairment loss on non-current assets	**-**	51
Non-deductible expenses	**9**	20
Effect on current tax of prior years and deferred tax balances due to the change in income tax treatment of Southern Hydro assets	**(24)**	-
Effect on deferred tax balances due to the change in income tax treatment of unbilled revenue	**-**	(176)
Reversal of deferred tax balances relating to petroleum resource rent tax	**-**	53
Adjustments in relation to current tax of prior years	**(23)**	(12)
	190	70

	2014 $m	2013 $m (Restated)
Income tax recognised in other comprehensive income		
Deferred tax		
Cash flow hedges	**(42)**	(11)
Remeasurement gain on defined benefit plans	**18**	29
	(24)	18

	2014 $m	2013 $m (Restated)
Deferred income tax recognised in the statement of profit or loss		
Temporary differences		
Allowance for doubtful debts	**15**	2
Other receivables	**1**	-
Exploration and evaluation assets	**7**	(52)
Oil and gas assets	**5**	7
Property, plant and equipment	**84**	84
Intangible assets	**(4)**	3
Defined benefit superannuation plans	**(1)**	1
Payables and accruals	**(2)**	(32)
Provisions	**34**	9
Derivative financial instruments	**55**	(8)
Deferred revenue	**-**	68
Share issue transaction costs	**1**	1
Other	**(5)**	-
	190	83

Note 7 – Income tax (cont'd)

	2014 $m	2013 $m (Restated)
Deferred tax balances		
Deferred tax assets/(liabilities) arise from the following:		
Allowance for doubtful debts	**25**	21
Other receivables	**(4)**	(2)
Joint ventures	**3**	3
Exploration and evaluation assets	**(110)**	(103)
Oil and gas assets	**(19)**	(15)
Property, plant and equipment	**(344)**	(277)
Intangible assets	**(16)**	(13)
Defined benefit superannuation plans	**20**	37
Payables and accruals	**59**	50
Provisions	**64**	98
Derivative financial instruments	**118**	126
Share issue transaction costs	**3**	4
Tax losses	**774**	700
Other	**8**	-
Net deferred tax assets	**581**	629
Recognised in the consolidated statement of financial position as follows:		
Deferred tax assets	**631**	729
Deferred tax liabilities	**(50)**	(100)
Net deferred tax assets	**581**	629
Unrecognised deferred tax assets		
Deductible temporary differences	**84**	78

Petroleum resource rent tax

A deferred tax asset of $53 million, originally recognised at 30 June 2012 in relation to the Petroleum Resource Rent Tax (PRRT) Assessment Act 1987 was de-recognised as at 30 June 2013.

Revenue authority matters

Southern Hydro assets
On 9 May 2014, AGL lodged an objection with the ATO in relation to the tax cost setting amount applied to Southern Hydro assets at the time of formation of the AGL tax consolidation group in 2006. On 11 July 2014, the ATO confirmed the allowance of AGL's objection resulting in an increase in allowable depreciation deductions in the income years ended 2010 to 2013 inclusive. AGL has recognised a $24 million credit to income tax expense in relation to this matter in the 2014 financial statements. This credit arises as a result of a refund of income tax for the 2010 to 2013 years of income as well as a reduction in the deferred tax liability previously recognised.

Unbilled revenue
During the year ended 30 June 2013, AGL and the Australian Taxation Office (ATO) agreed a revised approach to unbilled revenue whereby AGL's tax treatment would transition to an approach consistent with the accrual method used for accounting. The agreement reached with the ATO resulted in an income tax benefit of $176 million for the year ended 30 June 2013.

Note 8 – Dividends

	2014 $m	2013 $m
Recognised amounts		
Final dividend		
Final dividend for 2013 of 33.0 cents per share, fully franked at 30%, paid 27 September 2013 (2013: Final dividend for 2012 of 32.0 cents per share, fully franked at 30%, paid 27 September 2012)	**183**	175
Interim dividend		
Interim dividend for 2014 of 30.0 cents per share, fully franked at 30%, paid 4 April 2014 (2013: Interim dividend for 2013 of 30.0 cents per share, fully franked, paid 4 April 2013)	**168**	165
Total dividends	**351**	340
Dividends satisfied by the issue of shares under the AGL Dividend Reinvestment Plan	**(82)**	(126)
Dividends paid as per the statement of cash flows	**269**	214
Unrecognised amounts		
Since the end of the financial year, the Directors have declared a final dividend for 2014 of 33.0 cents per share, fully franked at 30%, (2013: 33.0 cents fully franked), payable 30 September 2014.	**185**	183

The financial effect of this dividend has not been recognised as a liability in these financial statements but will be brought to account in the 2015 financial year.

Dividend reinvestment plan

The AGL Dividend Reinvestment Plan (DRP) will be in operation and shares will be allocated at a 0% discount to the simple average of the daily weighted average market price at which AGL's ordinary shares are traded on ASX during each of the 10 trading days commencing on 8 September 2014.

	2014 $m	2013 $m
Dividend franking account		
Adjusted franking account balance	**35**	87
Impact on franking account balance of dividends proposed after the reporting date but not recognised as a liability	**(79)**	(78)

Note 9 – Trade and other receivables

	2014 $m	2013 $m
Current	**1,743**	1,844
Non-Current	**46**	47
Current:		
Trade receivables	**756**	776
Allowance for doubtful debts	**(82)**	(70)
	674	706
Unbilled revenue	**998**	1,062
Other receivables	**71**	76
	1,743	1,844
Movements in allowance for doubtful debts:		
Balance at beginning of financial year	**70**	75
Impairment losses recognised on receivables	**86**	75
Amounts written off as uncollectible	**(74)**	(80)
Balance at end of financial year	**82**	70

The ageing of trade receivables at the reporting date is detailed below:

	2014		2013	
	Total $m	**Allowance $m**	Total $m	Allowance $m
Not past due	**505**	**(12)**	531	(5)
Past due 31 - 60 days	**61**	**(12)**	62	(9)
Past due 61 - 90 days	**35**	**(8)**	34	(8)
Past 90 days	**155**	**(50)**	149	(48)
	756	**(82)**	776	(70)

AGL's policy requires customers to pay in accordance within agreed payment terms. Depending on the customer segment, settlement terms are generally less than 30 days from date of invoice. An allowance for doubtful debts is recognised when there is objective evidence that a trade receivable is impaired. Financial difficulties of the debtor, default payments or debts overdue are considered objective evidence of impairment.

At the end of the reporting period, trade receivables with a carrying amount of $181 million (2013: $180 million) were past due but not considered impaired. These trade receivables relate to customers for whom there has not been a significant change in credit quality and the amounts are considered recoverable.

Other balances within trade and other receivables are neither impaired nor past due. It is expected that these other balances will be received when due.

Unbilled revenue
Unbilled gas and electricity revenue is not collectible until such time as customers' meters are read and bills rendered.

Fair value and credit risk
Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables. Collateral is not held as security.

Note 9 – Trade and other receivables (cont'd)

Non-Current:

	2014 $m	2013 $m
Finance lease receivables	**46**	47

AGL enters into finance lease arrangements with customers in respect of generation facilities. The average term of finance leases is 15 years, with options to extend. The finance lease receivables at the end of the reporting period are neither past due nor impaired. The carrying amount of the finance lease receivables approximates to their fair value.

	Minimum lease payments		**Present value of minimum lease payments**	
	2014 $m	2013 $m	**2014 $m**	2013 $m
Finance lease receivables				
Not later than one year	**5**	5	**1**	1
Later than one year and not later than five years	**20**	20	**7**	6
Later than five years	**57**	62	**39**	41
	82	87	**47**	48
Less unearned finance income	**(35)**	(39)	**-**	-
Present value of minimum lease payments receivable	**47**	48	**47**	48
Included in the financial statements as:				
Current finance lease receivables			**1**	1
Non-current finance lease receivables			**46**	47
			47	48

Note 10 – Inventories

	2014 $m	2013 $m
Current:		
Raw materials and stores - at cost	**48**	45
Finished goods - at cost	**143**	88
	191	133
Non-current:		
Raw materials and stores - at cost	**28**	29
	28	29

Note 11 – Other financial assets

Current:		
Derivative financial instruments - at fair value		
- Interest rate swap contracts - cash flow hedges	**1**	-
- Forward foreign exchange contracts - cash flow hedges	**-**	8
- Energy derivatives - cash flow hedges	**3**	29
- Energy derivatives - economic hedges	**92**	132
	96	169
Futures deposits and margin calls	**18**	18
	114	187
Non-current:		
Derivative financial instruments - at fair value		
- Interest rate swap contracts - cash flow hedges	**5**	9
- Energy derivatives - cash flow hedges	**-**	5
- Energy derivatives - economic hedges	**353**	324
	358	338
Loans to joint ventures - at amortised cost	**126**	-
	484	338

For terms and conditions relating to loans to joint ventures refer to Note 37.

Note 12 – Other assets

	2014 $m	2013 $m
Current:		
Green commodity scheme certificates	**286**	346
Prepayments	**32**	45
	318	391
Non-current:		
Prepayments	**14**	18
Generation dispatch agreements	**4**	10
	18	28

Note 13 – Investments in associates and joint ventures

	2014 $m	2013 $m
Investments in joint ventures - unlisted	**30**	31
Investments in associates - unlisted	**2**	2
	32	33

Reconciliation of movements in investments in associates and joint ventures:		
Balance at beginning of financial year	**33**	31
Share of profits after income tax	**25**	26
Dividends received	**(26)**	(24)
Balance at end of financial year	**32**	33

		Ownership interest		Carrying value	
Name of entity	**Principal activities**	**2014 %**	2013 %	**2014 $m**	2013 $m
Associates					
CSM Energy Limited	Coal mine methane gas extraction	**35**	35	**2**	2
Joint ventures					
ActewAGL Retail Partnership	Energy and water services	**50**	50	**28**	28
Energy Infrastructure Management Pty Ltd	Pipeline management services	**50**	50	**2**	2
Central Queensland Pipeline Pty Ltd	Gas pipeline development	**50**	50	**-**	-
Diamantina Holding Company Pty Limited	Electricity generation	**50**	50	**-**	1
				32	33

All the above entities are incorporated in Australia.

Note 13 – Investments in associates and joint ventures (cont'd)

	2014 $m	2013 $m
Aggregate information of joint ventures that are not individually material		
Current assets	**259**	240
Non-current assets	**705**	526
Total assets	**964**	766
Current liabilities	**222**	174
Non-current liabilities	**693**	526
Total liabilities	**915**	700
Net assets	**49**	66
Revenue	**839**	752
Expenses	**(791)**	(699)
AGL's share of joint ventures' profit	**25**	26

Dividends received from joint ventures
During the year, AGL received dividends of $26 million (2013: $24 million) from its joint ventures.

Capital commitments and contingent liabilities
AGL's share of capital expenditure commitments and contingent liabilities of associates and joint ventures are disclosed in Notes 28 and 29 respectively.

Note 14 – Exploration and evaluation assets

	2014 $m	2013 $m
Balance at beginning of financial year	**349**	654
Additions	**28**	41
Reclassified as held for sale	**(5)**	-
Reclassified from property, plant and equipment	**-**	4
Impairment loss recognised in profit or loss	**-**	(298)
Exploration expenditure derecognised	**-**	(49)
Disposals	**-**	(3)
Balance at end of financial year	**372**	349
Cost (gross carrying amount)	**670**	647
Accumulated impairment	**(298)**	(298)
Net carrying amount	**372**	349

Impairment loss in the prior year
AGL reviews the carrying value of its exploration and evaluation assets each year. In the review completed for the year ended 30 June 2013, an impairment loss of $347 million was recognised due to the then proposed changes to exclusion zones for CSG exploration and development and an impairment charge in relation to the Galilee Gas Project joint venture.

Note 15 – Oil and gas assets

	2014 $m	2013 $m
Balance at beginning of financial year	**495**	484
Additions	**54**	61
Reclassified as held for sale	**(366)**	-
Depreciation and amortisation expense	**(13)**	(19)
Impairment loss recognised in profit or loss	**-**	(31)
Balance at end of financial year	**170**	495
Cost (gross carrying amount)	**249**	635
Accumulated depreciation, amortisation and impairment	**(79)**	(140)
Net carrying amount	**170**	495

Impairment loss in the prior year
AGL reviews the carrying value of its oil and gas assets each year. In the review completed for the year ended 30 June 2013, an impairment loss of $31 million was recognised due to the then proposed changes to exclusion zones for CSG exploration and development.

Note 16 – Property, plant and equipment

	Freehold land and buildings $m	Leasehold improvements $m	Plant and equipment $m	Total $m
Year ended 30 June 2014				
Balance at 1 July 2013	**75**	**13**	**5,244**	**5,332**
Additions	**1**	**1**	**625**	**627**
Disposals	**-**	**-**	**(11)**	**(11)**
Depreciation expense	**(1)**	**(6)**	**(247)**	**(254)**
Balance at 30 June 2014	**75**	**8**	**5,611**	**5,694**
Balance at 1 July 2013				
Cost (gross carrying amount)	**92**	**31**	**6,188**	**6,311**
Accumulated depreciation and impairment	**(17)**	**(18)**	**(944)**	**(979)**
Net carrying amount	**75**	**13**	**5,244**	**5,332**
Balance at 30 June 2014				
Cost (gross carrying amount)	**93**	**32**	**6,795**	**6,920**
Accumulated depreciation and impairment	**(18)**	**(24)**	**(1,184)**	**(1,226)**
Net carrying amount	**75**	**8**	**5,611**	**5,694**

Note 16 – Property, plant and equipment (cont'd)

	Freehold land and buildings $m	Leasehold improvements $m	Plant and equipment $m	Total $m
Year ended 30 June 2013				
Balance at 1 July 2012	99	15	5,071	5,185
Additions	-	2	537	539
Fair value adjustments on prior year acquisitions	(9)	-	(70)	(79)
Disposals	-	-	(2)	(2)
Reclassified to finance lease receivable	-	-	(48)	(48)
Reclassified to exploration and evaluation assets	-	-	(4)	(4)
Depreciation expense	(1)	(4)	(210)	(215)
Impairment loss recognised in profit or loss	(14)	-	(30)	(44)
Balance at 30 June 2013	75	13	5,244	5,332
Balance at 1 July 2012				
Cost (gross carrying amount)	101	29	5,807	5,937
Accumulated depreciation and impairment	(2)	(14)	(736)	(752)
Net carrying amount	99	15	5,071	5,185
Balance at 30 June 2013				
Cost (gross carrying amount)	92	31	6,188	6,311
Accumulated depreciation and impairment	(17)	(18)	(944)	(979)
Net carrying amount	75	13	5,244	5,332

Impairment loss in the prior year
AGL reviews the carrying value of its property, plant and equipment assets each year. In the review completed for the year ended 30 June 2013, an impairment loss of $44 million was recognised in relation to a number of power development projects and upstream gas assets.

Leased plant and equipment
The net carrying amount of plant and equipment disclosed above includes plant and equipment held under finance leases of $130 million (2013: $134 million).

Property, plant and equipment under construction
The net carrying amount of plant and equipment disclosed above includes expenditure recognised in relation to plant and equipment which is in the course of construction of $827 million (2013: $483 million).

Note 17 – Intangible assets

	Goodwill $m	Licences $m	Customer relationships and contracts $m	Other $m	Total $m
Year ended 30 June 2014					
Balance at 1 July 2013	**2,640**	**301**	**182**	**27**	**3,150**
Additions	**-**	**-**	**25**	**-**	**25**
Acquisitions through business combinations	**118**	**-**	**49**	**-**	**167**
Reclassified as held for sale	**-**	**-**	**(40)**	**-**	**(40)**
Amortisation expense	**-**	**-**	**(54)**	**-**	**(54)**
Balance at 30 June 2014	**2,758**	**301**	**162**	**27**	**3,248**
Balance at 1 July 2013					
Cost (gross carrying amount)	**2,640**	**301**	**349**	**46**	**3,336**
Accumulated amortisation and impairment	**-**	**-**	**(167)**	**(19)**	**(186)**
Net carrying amount	**2,640**	**301**	**182**	**27**	**3,150**
Balance at 30 June 2014					
Cost (gross carrying amount)	**2,758**	**301**	**359**	**46**	**3,464**
Accumulated amortisation and impairment	**-**	**-**	**(197)**	**(19)**	**(216)**
Net carrying amount	**2,758**	**301**	**162**	**27**	**3,248**
Year ended 30 June 2013					
Balance at 1 July 2012	2,640	301	186	45	3,172
Additions	-	-	43	-	43
Fair value adjustments on prior year acquisitions	-	-	-	(1)	(1)
Amortisation expense	-	-	(47)	-	(47)
Impairment loss recognised in profit or loss	-	-	-	(17)	(17)
Balance at 30 June 2013	2,640	301	182	27	3,150
Balance at 1 July 2012					
Cost (gross carrying amount)	2,640	301	306	47	3,294
Accumulated amortisation	-	-	(120)	(2)	(122)
Net carrying amount	2,640	301	186	45	3,172
Balance at 30 June 2013					
Cost (gross carrying amount)	2,640	301	349	46	3,336
Accumulated amortisation and impairment	-	-	(167)	(19)	(186)
Net carrying amount	2,640	301	182	27	3,150

Impairment loss in the prior year
AGL reviews the carrying value of its intangible assets each year. In the review completed for the year ended 30 June 2013, an impairment loss of $17 million was recognised in relation to a number of power development projects.

Note 17 – Intangible assets (cont'd)

Impairment testing for goodwill and intangibles with indefinite useful lives

Goodwill and other intangible assets deemed to have indefinite lives that are significant in comparison to AGL's total carrying amount of intangible assets with indefinite lives, have been allocated to cash-generating units (CGUs) for the purpose of impairment testing as follows:

	Goodwill $m	Licences $m	Total $m
Year ended 30 June 2014			
Cash-generating unit			
Retail Energy	**2,185**	**-**	**2,185**
Merchant Energy	**573**	**301**	**874**
	2,758	**301**	**3,059**
Year ended 30 June 2013			
Cash-generating unit			
Retail Energy	2,069	-	2,069
Merchant Energy	571	301	872
	2,640	301	2,941

The licences to operate hydro-electric power stations within the Merchant Energy CGU have been assessed as having indefinite lives. The factors considered in determining the useful lives of these licences are the long-term nature of the initial licences, the expectation that the licences will be renewed, the insignificant cost of renewal, and compliance with licensing obligations.

Impairment testing for Retail Energy and Merchant Energy

The recoverable amounts for the Retail Energy and Merchant Energy CGUs have been determined using value in use models including an appropriate terminal value. The key assumptions in the calculation of value in use are customer numbers, consumption volumes, energy procurement costs, regulatory outcomes and pricing in unregulated markets.

The estimate of regulatory outcomes is based on actual regulatory decisions for the current price reset period, which are publicly available, together with AGL's expectations of regulatory decisions beyond the current reset period and market prices in unregulated markets. Customer numbers and consumption volumes are estimated based on historical experience in various segments, together with marketing strategies for the retention and winning of customers. Energy procurement costs are estimated based on the actual hedge portfolio, together with an estimate of future hedging prices and volumes beyond the period of the actual hedge portfolio.

Cash flow forecasts are based on Board approved budgets and the most recent five-year plan. The terminal value is based on final year free cash flow capitalised in perpetuity adjusted for inflation of 2.5%. Discount rates used are the pre-tax weighted average cost of capital of 13.4% (2013: 13.4%).

No impairment loss has been recognised for the Retail Energy or the Merchant Energy CGUs for the year ended 30 June 2014 (2013: $nil).

Note 18 – Assets classified as held for sale

	2014	2013
	$m	$m
Assets of disposal groups held for sale	**430**	-
Liabilities directly associated with assets held for sale	**77**	-

Disposal groups held for sale

Moranbah Gas Project and North Queensland Energy joint venture operations

In January 2014, the Directors approved a plan to dispose of AGL's 50% interests in the Moranbah Gas Project (MGP) and North Queensland Energy (NQE) joint venture operations. AGL is actively seeking a buyer for its MGP/NQE joint venture operations and expects to complete the sale by June 2015. No impairment loss was recognised on reclassification of the assets and liabilities as held for sale nor at the end of the reporting period.

MGP/NQE are reported in the Upstream Gas and Merchant Energy segments.

The major classes of assets and liabilities of the disposal groups held for sale as at 30 June 2014 were as follows:

	MGP/NQE	**Other**	**Total**
	$m	**$m**	**$m**
Assets of disposal groups held for sale			
Cash and cash equivalents	9	1	**10**
Trade and other receivables	8	1	**9**
Exploration and evaluation assets	-	5	**5**
Oil and gas assets	365	1	**366**
Intangible assets	40	-	**40**
	422	8	**430**
Liabilities directly associated with assets classified as held for sale			
Trade and other payables	21	1	**22**
Provisions	37	-	**37**
Other liabilities	18	-	**18**
	76	1	**77**
Net assets classified as held for sale	346	7	**353**

Note 19 – Trade and other payables

	2014 **$m**	2013 $m
Current:		
Trade payables and accrued expenses	**1,106**	1,281
Carbon emissions liability	**139**	145
Other	**13**	19
	1,258	1,445

Trade payables are generally settled within 30 days of the date of recognition.

Note 20 – Borrowings

	2014	2013
Current - at amortised cost:		
Bank loans - secured	**34**	33
Other loans - unsecured	**11**	11
Finance lease liabilities - secured	**-**	1
	45	45
Non-current - at amortised cost:		
USD senior notes - unsecured	**339**	348
Subordinated notes - unsecured	**650**	650
Bank loans - secured	**1,255**	1,281
Bank loans - unsecured	**1,250**	600
Other loans - unsecured	**178**	189
Finance lease liabilities - secured	**16**	15
Deferred borrowing costs	**(19)**	(19)
	3,669	3,064

	Total Facility		**Amounts used**	
	2014 **$m**	2013 $m	**2014** **$m**	2013 $m
USD senior notes – unsecured	**338**	338	**338**	338
Subordinated notes – unsecured	**650**	650	**650**	650
Bank loans – secured	**1,289**	1,314	**1,289**	1,314
Bank loans – unsecured	**1,250**	1,150	**1,250**	600
Other loans – unsecured	**189**	200	**189**	200
Bank guarantees - unsecured	**615**	665	**293**	451
	4,331	4,317	**4,009**	3,553

USD senior notes
On 8 September 2010, AGL issued US$300 million of fixed rate unsecured senior notes in the US private placement market, comprising two tranches of 12 year and 15 year maturities for US$165 million and US$135 million, respectively. To manage the foreign exchange risk arising from the future principal and interest payments required on the US$300 million, the notes were converted back to A$338 million through cross currency interest rate swaps.

Subordinated notes
On 4 April 2012, AGL issued $650 million of unsecured AGL Energy Subordinated Notes in the Australian retail bond market. The notes have a 27 year maturity with a non-recall period of seven years. The notes will generally be redeemed for their face value plus any outstanding interest. Interest on these notes is charged at market rates plus a margin of 3.80% and is paid on a quarterly basis.

Bank loans – secured
At 30 June 2014, AGL had $1,289 million of secured bank debt from the acquisition of Great Energy Alliance Corporation Pty Limited on 29 June 2012. This amount comprises amortising facilities with the following maturities: Amortiser A and B in November 2015 and the CPI bonds in May 2027.

Note 20 – Borrowings (cont'd)

Bank loans – unsecured
On 20 July 2011, AGL entered into a $1 billion syndicated loan facility, comprising a $600 million three year term loan tranche and a $400 million five year revolving tranche. During the year the facility was amended as follows:

On 14 February 2014, AGL executed an amendment to the syndicated loan facility to add an additional $650 million term facility for a further four years. In June 2014, the facility was partially utilised to repay the $600 million term facility that was due to mature on 20 July 2014. As at 30 June 2014, the facility was fully utilised.

On 4 June 2014, AGL executed a further amendment to the syndicated loan facility to increase the revolving facility to $450 million and to extend the facility until June 2017. As at 30 June 2014, the facility was fully utilised.

On 18 December 2012, AGL entered into a $150 million two year revolving facility. In November 2013, the facility was extended for a further two years until December 2016. As at 30 June 2014, the facility was fully utilised.

Other loans
On 5 July 2011, AGL entered into a $200 million loan facility with EKF, the Danish export credit agency. The funds were used to partially fund the AGL's 50% interest in the construction of the Macarthur Wind Farm. Amortising over 18 years, the loan matures in 2031. As at 30 June 2014, the facility was fully utilised.

Note 21 – Provisions

	2014	2013
	$m	$m
Current:		
Employee benefits	**85**	77
Other (refer below)	**16**	38
	101	115
Non-current:		
Employee benefits	**33**	36
Other (refer below)	**73**	214
	106	250

Movements in other provisions are set out below:

	Environmental restoration	**Onerous contracts**	**Total**
	$m	**$m**	**$m**
Balance at 1 July 2013	**119**	**133**	**252**
Provisions utilised	**(2)**	**(37)**	**(39)**
Remeasurement credited to profit or loss	**-**	**(80)**	**(80)**
Remeasurement credited to non-current assets	**(21)**	**-**	**(21)**
Liability included in a disposal group classified as held for sale	**(37)**	**-**	**(37)**
Unwinding of discount	**5**	**9**	**14**
Balance at 30 June 2014	**64**	**25**	**89**

Derecognition of onerous contract provision
A price reset clause activated in a contract on January 1, 2014 resulted in the contract no longer meeting the definition of an onerous contract from that date. The associated provision of $80 million was therefore de-recognised to profit or loss. The overall benefit to profit or loss for the year associated with movements in the onerous contract provision was $68 million, with the $80 million benefit from the price reset offset by $12 million in lower utilisation of another contract provision.

Environmental restoration provision review
A review of AGL's various restoration provisions and rehabilitation obligations was completed during the year. As a result of this review a number of changes to the discount rate applied in calculating the provisions were made with an offsetting adjustment to the associated asset book value. There was no effect on profit or loss from this change.

Note 22 – Other financial liabilities

	2014 $m	2013 $m
Current:		
Derivative financial instruments - at fair value		
- Interest rate swap contracts - cash flow hedges	**30**	30
- Energy derivatives - cash flow hedges	**75**	8
- Energy derivatives - economic hedges	**340**	362
	445	400
Deferred consideration	**32**	31
Contingent consideration	**-**	1
	477	432
Non-current:		
Derivative financial instruments - at fair value		
- Cross currency swap contracts - cash flow and fair value hedges	**12**	3
- Interest rate swap contracts - cash flow hedges	**43**	40
- Energy derivatives - cash flow hedges	**15**	7
	70	50
Deferred consideration	**210**	214
	280	264

Note 23 – Other liabilities

	2014 $m	2013 $m
Non-current:		
Deferred revenue - government grants	**190**	-
Defined benefit superannuation liability	**67**	123
Other	**18**	33
	275	156

Deferred revenue – government grants

During the period, AGL received $190 million (2013: $nil) in funding from the Australian Renewable Energy Agency and the New South Wales Government to support the construction of two large-scale solar photovoltaic (PV) projects. The grants will be transferred to profit or loss on a systematic basis over the expected useful life of the related assets.

Note 24 – Issued capital

	2014 $m	2013 $m
559,719,746 fully-paid ordinary shares (2013: 554,210,005)	**5,437**	5,354

	2014		2013	
	Number of shares	**$m**	Number of shares	$m
Balance at 1 July	**554,210,005**	**5,354**	545,861,083	5,228
Shares issued under AGL Dividend Reinvestment Plan (a)(b)	**5,433,903**	**82**	8,348,922	126
Shares issued to shareholders with unpresented or unclaimed dividend payments (c)	**75,838**	**1**	-	-
Balance at 30 June	**559,719,746**	**5,437**	554,210,005	5,354

(a) On 27 September 2013, 4,175,148 ordinary shares were issued at $15.12 per share to participating shareholders under the AGL Dividend Reinvestment Plan.

(b) On 4 April 2014, 1,258,755 ordinary shares were issued at $15.09 per share to participating shareholders under the AGL Dividend Reinvestment Plan.

(c) On 4 April 2014, 75,838 ordinary shares were issued at $15.09 per share to shareholders with unpresented or unclaimed dividend payments.

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding-up of the Parent Entity in proportion to the number of shares held. Every ordinary Shareholder present at a meeting of the Parent Entity, in person or by proxy, is entitled to one vote per share.

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Parent Entity does not have a limited amount of authorised capital and issued shares do not have a par value.

Note 25 – Reserves

	2014 **$m**	2013 $m
Employee equity benefits	**5**	3
Hedging	**(104)**	(5)
	(99)	(2)

	2014 **$m**	2013 $m
Employee equity benefits reserve		
Balance at 1 July	**3**	2
Share-based payment plans expense	**8**	7
Purchase of shares on-market under AGL Share Reward Plan	**(2)**	(1)
Purchase of shares on-market under AGL Long-Term Incentive Plan	**(4)**	(5)
Balance at 30 June	**5**	3

The employee equity benefits reserve is used to record the value of share-based payments to employees, including key management personnel, as part of their remuneration.

	2014 **$m**	2013 $m
Hedging reserve		
Balance at 1 July	**(5)**	20
Gain/(loss) arising on changes in fair value of cash flow hedges	**(135)**	40
Income tax related to gains/(losses) recognised in other comprehensive income	**40**	(12)
Cumulative loss arising on changes in fair value of cash flow hedges reclassified to profit or loss	**(6)**	(83)
Income tax related to amounts reclassified to profit or loss	**2**	25
Transferred to initial carrying amount of hedged item	**-**	7
Income tax related to amounts transferred to initial carrying amount of hedged item	**-**	(2)
Balance at 30 June	**(104)**	(5)

The hedging reserve represents the cumulative effective portion of gains and losses arising on changes in fair value of hedging instruments entered into for cash flow hedges. The cumulative gain or loss on changes in fair value of the hedging instruments will be reclassified to profit or loss only when the hedged transaction affects the profit or loss, or is included as a basis adjustment to the non-financial hedged item.

Note 26 – Retained earnings

	2014 **$m**	2013 $m
Balance at 1 July	**1,988**	1,884
Adoption of the revised AASB 119 *Employee Benefits* (Note 1)	**-**	1
Restated balance at 1 July	**1,988**	1,885
Profit for the year attributable to owners of AGL Energy Limited	**570**	375
Dividends paid or provided	**(351)**	(340)
Remeasurement gain on defined benefit plans, net of tax	**42**	68
Balance at 30 June	**2,249**	1,988

Note 27 – Earnings per share (EPS)

	2014	2013 (Restated)
Statutory earnings per share		
Basic earnings per share	**102.2 cents**	68.2 cents
Diluted earnings per share	**102.1 cents**	68.1 cents
Underlying earnings per share		
Basic earnings per share	**100.8 cents**	106.3 cents
Diluted earnings per share	**100.7 cents**	106.3 cents
Earnings used in calculating basic and diluted earnings per share	**$m**	$m
Profit for the year attributable to owners of AGL Energy Limited	**570**	375
Statutory earnings used to calculate basic and diluted EPS	**570**	375
Significant expense items after income tax	**20**	290
Gain in fair value of financial instruments after income tax	**(28)**	(80)
Underlying earnings used to calculate basic and diluted EPS	**562**	585

Weighted average number of ordinary shares	**Number of shares**	
Number of ordinary shares used in the calculation of basic EPS	**557,700,307**	550,104,613
Effect of dilution - LTIP share performance rights	**445,893**	443,510
Number of ordinary shares used in the calculation of diluted EPS	**558,146,200**	550,548,123

EPS for the year ended 30 June 2013 has been restated from 70.7 cents to 68.2 cents due to the adoption of *AASB 119 Employee Benefits (2011)* as discussed in detail in Note 1(c). Underlying EPS has been similarly restated from 108.8 cents to 106.3 cents.

Note 28 – Commitments

(a) Capital expenditure commitments

	2014 $m	2013 $m
Property, plant and equipment		
Not later than one year	**308**	74
Later than one year and not later than five years	**93**	33
Later than five years	**-**	-
	401	107
AGL's share of joint operations capital commitments		
Not later than one year	**5**	29
Later than one year and not later than five years	**-**	7
Later than five years	**-**	-
	5	36
AGL's share of associates' and joint ventures' capital commitments		
Not later than one year	**29**	60
Later than one year and not later than five years	**-**	-
Later than five years	**-**	-
	29	60

Note 28 – Commitments (cont'd)

(b) Lease commitments

	Minimum lease payments		Present value of minimum lease payments	
	2014	2013	**2014**	2013
	$m	$m	**$m**	$m
Finance lease liabilities				
Not later than one year	**-**	1	**-**	1
Later than one year and not later than five years	**1**	2	**1**	2
Later than five years	**178**	178	**15**	13
Minimum future lease payments *	**179**	181	**16**	16
Less future finance charges	**(163)**	(165)	**-**	-
Present value of minimum lease payments	**16**	16	**16**	16
Included in the financial statements as:				
Current borrowings (Note 20)			**-**	1
Non-current borrowings (Note 20)			**16**	15
			16	16

* Minimum future lease payments include the aggregate of all lease payments and any guaranteed residual.

Finance leases primarily relate to the land and property, plant and equipment affixed to that land at the Kiewa and Rubicon hydro electric schemes. These leases have terms of 60 years and payments are not required under the lease agreements until the year 2028.

	2014	2013
Operating leases	**$m**	$m
Non-cancellable operating lease rentals are payable as follows:		
Not later than one year	**18**	16
Later than one year and not later than five years	**58**	64
Later than five years	**68**	77
	144	157

AGL has entered into operating leases on property, plant and equipment. Leases vary in contract period depending on the assets involved.

Note 29 – Contingent liabilities and contingent assets

Contingent liabilities
Details of contingent liabilities which Directors consider should be disclosed are set out below. Provisions are not required in respect of these matters, as it is either not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

- Certain entities in AGL are party to various legal actions and claims which have arisen in the ordinary course of business. Any liabilities arising from such legal actions and claims are not expected to have a material adverse effect on AGL.

Contingent assets
AGL has no contingent assets as at 30 June 2014 (2013: Nil).

Note 30 – Remuneration of auditors

	2014	2013
	$'000	$'000
Auditor of the Parent Entity		
Audit and review of financial reports	**1,385**	1,847
Other regulatory audit services	**309**	347
Other assurance services	**148**	159
Other services	**612**	107
	2,454	2,460

The auditor of AGL Energy Limited is Deloitte Touche Tohmatsu.

Note 31 – Subsidiaries

	Note	Country of Incorporation	Ownership interest and voting power held 2014 %	2013 %
AGL Energy Limited		Australia		
Subsidiaries				
AGL Limited		New Zealand	**100**	100
AGL ACT Retail Investments Pty Limited	(a)	Australia	**100**	100
AGL Corporate Services Pty Limited	(a)	Australia	**100**	100
AGL DPS Pty Limited	(a)	Australia	**100**	100
AGL Electricity (VIC) Pty Limited	(a)	Australia	**100**	100
Victorian Energy Pty Limited	(a)	Australia	**100**	100
AGL Sales Pty Limited	(a)	Australia	**100**	100
AGL Sales (Queensland) Pty Limited	(a)	Australia	**100**	100
AGL Sales (Queensland Electricity) Pty Limited	(a)	Australia	**100**	100
AGL Torrens Island Holdings Pty Limited	(a)	Australia	**100**	100
AGL SA Generation Pty Limited	(a)	Australia	**100**	100
AGL Torrens Island Pty Limited	(a)	Australia	**100**	100
AGL South Australia Pty Limited	(a)	Australia	**100**	100
AGL APG Holdings Pty Limited	(a)	Australia	**100**	100
(formerly AGL Utility Services Pty Limited)				
Australian Power and Gas Company Limited	(a)(b)	Australia	**100**	-
Australian Power and Gas Pty Limited	(a)(b)	Australia	**100**	-
APG Operations Pty Ltd	(a)(b)	Australia	**100**	-
Australian Power and Gas (NSW) Pty Ltd	(a)(b)	Australia	**100**	-
Ignition Energy Pty Ltd	(a)(b)	Australia	**100**	-
Greentricity Pty Limited	(a)(b)	Australia	**100**	-
IQ Energy Services Pty Ltd	(a)(b)	Australia	**100**	-
AGL Energy Limited		New Zealand	**100**	100
AGL Energy Sales & Marketing Limited	(a)	Australia	**100**	100
AGL Energy Services Pty Limited	(a)	Australia	**100**	100
AGL Gas Developments (Hunter) Pty Limited	(a)	Australia	**100**	100
AGL Gas Developments (PNG) Pty Limited	(a)	Australia	**100**	100
AGL Gas Developments (Sydney) Pty Limited	(a)	Australia	**100**	100
AGL Generation Holdco Pty Ltd		Australia	**99.99**	99.99
AGL Generation Proprietary Limited		Australia	**100**	100
Great Energy Alliance Corporation Pty Limited	(d)	Australia	**100**	100
GEAC Operations Pty Limited	(d)	Australia	**100**	100
AGL LYP 1 Pty Ltd	(d)	Australia	**100**	100
AGL Loy Yang Partnership		Australia	**25**	25
AGL Loy Yang Pty Ltd		Australia	**25**	25
Loy Yang Projects Pty Ltd		Australia	**25**	25
AGL LYP 2 Pty Ltd	(d)	Australia	**100**	100
AGL Loy Yang Partnership		Australia	**25**	25
AGL Loy Yang Pty Ltd		Australia	**25**	25
Loy Yang Projects Pty Ltd		Australia	**25**	25
AGL LYP 3 Pty Ltd	(d)	Australia	**100**	100
AGL Loy Yang Partnership		Australia	**24.63**	24.63
AGL Loy Yang Pty Ltd		Australia	**24.63**	24.63
Loy Yang Projects Pty Ltd		Australia	**24.63**	24.63
AGL LYP 4 BV		Netherlands	**100**	100
AGL Loy Yang Partnership		Australia	**25.37**	25.37
AGL Loy Yang Pty Ltd		Australia	**25.37**	25.37
Loy Yang Projects Pty Ltd		Australia	**25.37**	25.37
Loy Yang Marketing Holdings Pty Limited	(d)	Australia	**100**	100
AGL Loy Yang Marketing Pty Ltd	(d)	Australia	**100**	100
AGL Macquarie Pty Limited	(c)	Australia	**100**	-

Note 31 – Subsidiaries (cont'd)

	Note	Country of Incorporation	Ownership interest and voting power held 2014 %	2013 %
AGL Gloucester MG Pty Ltd	(a)	Australia	**100**	100
AGL HP1 Pty Limited	(a)	Australia	**100**	100
AGL Hydro Partnership		Australia	**49.5**	49.5
AGL Southern Hydro (NSW) Pty Limited	(a)	Australia	**100**	100
AGL HP2 Pty Limited	(a)	Australia	**100**	100
AGL Hydro Partnership		Australia	**20.0**	20.0
AGL HP3 Pty Limited	(a)	Australia	**100**	100
AGL Hydro Partnership		Australia	**30.5**	30.5
AGL Power Generation Pty Limited	(a)	Australia	**100**	100
AGL Power Generation (Wind) Pty Limited	(a)	Australia	**100**	100
Australia Plains Wind Farm Pty Ltd	(a)	Australia	**100**	100
Barn Hill Wind Farm Pty Ltd	(a)	Australia	**100**	100
Ben Lomond Wind Farm Pty Ltd	(a)	Australia	**100**	100
Box Hill Wind Farm Pty Limited	(a)	Australia	**100**	100
Crows Nest Wind Farm Pty Ltd	(a)	Australia	**100**	100
Highfields Wind Farm Pty Limited	(a)	Australia	**100**	100
Worlds End Wind Farm Pty Ltd	(a)	Australia	**100**	100
AGL PV Solar Holdings Pty Limited		Australia	**95**	95
AGL PV Solar Developments Pty Limited		Australia	**100**	100
AGL Retail Energy Limited	(a)	Australia	**100**	100
AGL Share Plan Pty Limited		Australia	**100**	100
AGL (SG) (Camden) Operations Pty Limited	(a)	Australia	**100**	100
AGL (SG) (Hunter) Operations Pty Limited	(a)	Australia	**100**	100
AGL (SG) Operations Pty Limited	(a)	Australia	**100**	100
AGL Upstream Gas (Mos) Pty Limited	(a)	Australia	**100**	100
AGL Cooper Basin Pty Ltd	(a)	Australia	**100**	100
AGL Gas Storage Pty Ltd	(a)	Australia	**100**	100
Mosaic Oil NZ Limited		New Zealand	**100**	100
AGL Upstream Infrastructure Investments Pty Limited	(a)	Australia	**100**	100
AGL Upstream Investments Pty Limited	(a)	Australia	**100**	100
AGL Wholesale Gas Limited	(a)	Australia	**100**	100
AGL Wholesale Gas (SA) Pty Limited	(a)	Australia	**100**	100
Coopers Gap Wind Farm Pty Ltd	(a)	Australia	**100**	100
Dual Fuel Systems Pty Limited	(a)	Australia	**100**	100
Geogen Victoria Pty Ltd	(a)	Australia	**100**	100
H C Extractions Pty Limited	(a)	Australia	**100**	100
Macarthur Wind Farm Pty Ltd	(a)	Australia	**100**	100
Powerdirect Pty Ltd	(a)	Australia	**100**	100
Silverton Wind Farm Holdings Pty Limited	(a)	Australia	**100**	100
Silverton Wind Farm Developments Pty Limited	(a)	Australia	**100**	100
Silverton Wind Farm Transmission Pty Limited	(a)	Australia	**100**	100
The Australian Gas Light Company	(a)	Australia	**100**	100

Names inset indicate that shares are held by the company immediately above the inset.

(a) Parties to a Deed of Cross Guarantee with AGL Energy Limited as detailed in Note 34.
(b) Acquired during the financial year and became parties to the Deed of Cross Guarantee with AGL Energy Limited on 22 May 2014.
(c) Incorporated during the financial year.
(d) Entered into a Deed of Cross Guarantee with AGL Generation Proprietary Limited on 20 May 2014 as detailed in Note 34.

There were no disposals of subsidiaries made during the year ended 30 June 2014 (2013: none).

Note 32 – Business combinations

2014
Acquisition of Australian Power and Gas Company Limited

On 25 October 2013, AGL completed the acquisition of 100% of the voting shares in Australian Power and Gas Company Limited (APG) by way of an off-market takeover. For consolidation purposes, AGL obtained control of APG on 16 September 2013. The purchase consideration of $102 million was paid in cash.

APG was an energy retailer, with its principal activity being the sale of electricity and gas to residential customers in Victoria, New South Wales and Queensland. The acquisition of APG increased AGL's total customers by approximately 350,000 and is expected to create value by leveraging AGL's lower cost-to-serve across the APG customer base.

Acquisition-related costs amounting to $4 million have been excluded from the consideration paid and have been recognised as an expense in profit or loss in the year, within the 'other expenses' line item.

The fair value of the identifiable assets acquired and liabilities assumed at the respective dates of acquisition were as follows:

	APG $m	Other $m	Total $m
Assets acquired and liabilities assumed			
Current assets			
Cash and cash equivalents	24	-	24
Trade and other receivables (a)	69	-	69
Inventories	2	-	2
Other assets	10	-	10
Total current assets	105	-	105
Non-current assets			
Intangible assets	49	-	49
Deferred tax assets	31	-	31
Total non-current assets	80	-	80
Total assets	185	-	185
Current liabilities			
Trade and other payables	106	-	106
Borrowings	72	-	72
Provisions	1	-	1
Other financial liabilities	20	-	20
Total current liabilities	199	-	199
Total liabilities	199	-	199
Fair value of identifiable net assets acquired	(14)	-	(14)
Goodwill arising on acquisition	116	2	118
Purchase consideration	102	2	104
Purchase consideration			
Cash paid	102	1	103
Deferred consideration	-	1	1
Total consideration	102	2	104

(a) Trade and other receivables acquired with a fair value of $69 million had gross contractual amounts of $118 million. The best estimate at acquisition date of the contractual cash flows not expected to be collected is $49 million.

The goodwill arising on the acquisition of APG is attributable to the synergies and cost savings expected to be achieved from integrating the company into AGL's Retail Energy business. None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

2013
There were no acquisitions made during the year ended 30 June 2013.

	2014 $m	2013 $m
Net cash outflow on acquisitions		
Cash paid	**103**	-
Less: cash and cash equivalent balances acquired	**(24)**	-
	79	-

Note 33 – Joint operations

Joint operation	Principal activities	Interest 2014 %	Interest 2013 %
Bowen Basin - Queensland			
Moranbah Gas Project – PL 191, PL 196, PLA 222, PL 223, PL 224 & ATP 1103	Gas production and exploration	**50**	50
Spring Gully Project – ATP 592P, PL 195, PL 203 & PL 417	Gas production and exploration	**0.75**	0.75
Spring Gully Project - PL 204	Gas production	**0.0375**	0.0375
Galilee Basin - Queensland			
Galilee Gas Project - ATP 529P	Gas exploration	**50**	50
Surat Basin - Queensland			
ATP 471P (Bainbilla Block)	Oil and gas exploration	**75.252**	75.252
ATP 471P (Spring Grove #2 sole risk)	Oil and gas exploration	**52.752**	52.752
ATP 471P (Weribone)	Oil and gas exploration	**28.71**	28.71
PL 1 (Cabawin)	Oil production	**15**	15
PL 15	Gas production	**75**	75
PL 30 (Riverslea)	Oil production	**10**	10
PL 56	Oil production	**-**	16
PL 74 (Major)	Gas production	**16**	16
Cooper / Eromanga Basin - Queensland			
ATP 934P (under application)	Oil and gas exploration	**20**	20
ATP 1056P	Oil exploration	**40**	40
Others			
North Queensland Energy Joint Venture	Sale of gas and electricity	**50**	50
Macarthur Wind Farm Joint Venture	Wind farm owner	**50**	50
Lytton Joint Venture	Crude oil storage terminal	**33.333**	33.333

AGL's interest in assets employed in the above joint operations is detailed below. The amounts are included in the consolidated financial statements under their respective asset categories.

	2014 $m	2013 $m
Current assets		
Cash and cash equivalents	**14**	30
Trade and other receivables	**1**	10
Inventories	**2**	2
Other assets	**-**	1
Assets classified as held for sale	**390**	-
Total current assets	**407**	43
Non-current assets		
Exploration and evaluation assets	**8**	11
Oil and gas assets	**1**	336
Property, plant and equipment	**492**	491
Total non-current assets	**501**	838
Total assets	**908**	881

AGL's share of capital expenditure commitments and contingent liabilities of joint operations are disclosed in Notes 28 and 29 respectively.

Note 34 – Deeds of cross guarantee

Set out below is the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of financial position and a summary of movements in retained earnings of the entities that are party to a Deed of Cross Guarantee. The Deed of Cross Guarantee with AGL Generation Pty Ltd was entered into on 20 May 2014 so no comparative information is required.

	With AGL Energy Limited		**With AGL Generation Pty Ltd**
	2014 $m	2013 $m (Restated)	**2014 $m**
Statement of profit or loss			
Revenue	**8,001**	8,029	**4**
Expenses	**(7,383)**	(7,609)	**(4)**
Share of profits of associates and joint ventures	**25**	26	**322**
Profit before net financing costs, depreciation and amortisation	**643**	446	**322**
Depreciation and amortisation	**(225)**	(195)	**-**
Profit before net financing costs	**418**	251	**322**
Finance income	**123**	152	**14**
Finance costs	**(143)**	(148)	**(10)**
Net financing costs	**(20)**	4	**4**
Profit before tax	**398**	255	**326**
Income tax expense	**(97**	(17)	**(86)**
Profit for the year	**301**	238	**240**
Statement of comprehensive income			
Profit for the year	**301**	238	**240**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement gain on defined benefit plans	**33**	47	**20**
Income tax relating to items that will not be reclassified subsequently	**(10)**	(14)	**(6)**
	23	33	**14**
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges	**(132)**	(48)	**10**
Income tax relating to items that may be reclassified subsequently	**39**	12	**(3)**
	(93)	(36)	**7**
Other comprehensive income for the year, net of income tax	**(70)**	(3)	**21**
Total comprehensive income for the year	**231**	235	**261**

Note 34 – Deeds of cross guarantee (cont'd)

	With AGL Energy Limited		With AGL Generation Pty Ltd
	2014	2013	**2014**
	$m	$m (Restated)	**$m**
Consolidated statement of financial position			
Current assets			
Cash and cash equivalents	**80**	164	**120**
Trade and other receivables	**1,633**	1,634	**57**
Inventories	**164**	110	**-**
Other financial assets	**133**	3	**60**
Other assets	**46**	64	**3**
Assets classified as held for sale	**430**	-	**-**
Total current assets	**2,486**	1,975	**240**
Non-current assets			
Trade and other receivables	**46**	47	**627**
Other financial assets	**3,712**	3,442	**1,645**
Investments in associates and joint ventures	**32**	33	**-**
Exploration and evaluation assets	**372**	349	**-**
Oil and gas assets	**170**	495	**-**
Property, plant and equipment	**2,340**	2,175	**-**
Intangible assets	**2,411**	2,312	**-**
Other assets	**-**	-	**14**
Total non-current assets	**9,083**	8,853	**2,286**
Total assets	**11,569**	10,828	**2,526**
Current liabilities			
Trade and other payables	**1,010**	1,172	**108**
Borrowings	**11**	5	**-**
Provisions	**56**	74	**-**
Current tax liabilities	**48**	155	**-**
Other financial liabilities	**844**	424	**-**
Liabilities directly associated with assets classified as held for sale	**77**	-	**-**
Total current liabilities	**2,046**	1,830	**108**
Non-current liabilities			
Borrowings	**2,398**	1,643	**-**
Provisions	**47**	165	**-**
Deferred tax liabilities	**51**	99	**116**
Other financial liabilities	**271**	245	**103**
Other liabilities	**22**	77	**-**
Total non-current liabilities	**2,789**	2,229	**219**
Total liabilities	**4,835**	4,059	**327**
Net assets	**6,734**	6,769	**2,199**
Equity			
Issued capital	**5,437**	5,354	**1,836**
Reserves	**(94)**	(3)	**13**
Retained earnings	**1,391**	1,418	**350**
Total equity	**6,734**	6,769	**2,199**
Summary of movements in retained earnings			
Retained earnings at beginning of financial year	**1,418**	1,485	**96**
Adoption of revised AASB 119 *Employee Benefits*	**-**	2	**-**
Restated balance at beginning of financial year	**1,418**	1,487	**96**
Profit for the year	**301**	238	**240**
Dividends paid or provided	**(351)**	(340)	**-**
Remeasurement gain on defined benefit plans, net of tax	**23**	33	**14**
Retained earnings at end of financial year	**1,391**	1,418	**350**

Note 35 – Defined benefit superannuation plans

AGL operates three superannuation plans that provide defined benefits members a lump sum on retirement, death, disablement and withdrawal. Some defined benefit members are eligible for pension benefits in some cases. Lump sum benefits are calculated based on years of service and final average salary. The defined benefit plans are closed to new members. All new members receive accumulation benefits only.

The Superannuation Industry (Supervision) (SIS) legislation governs the superannuation industry and provides the framework within which superannuation plans operate. The SIS Regulations require an actuarial valuation to be performed for each defined benefit plan every three years, or every year if the plan pays defined benefit pensions.

The plans trustees are responsible for the governance of the plans, including investment decisions and plan rules. The trustees have a legal obligation to act solely in the best interests of plan beneficiaries.

The three plans are the SuperSolution Master Trust - AGL Division (SSMT), Equipsuper Fund (EF) and Electricity Industry Superannuation Scheme (EISS).

The plans expose AGL to various risks, including investment risk, salary growth risk, inflation risk, interest rate risk and changes in the life expectancy for members.

AGL also contributes to defined contribution superannuation plans for employees, which are also provided by these plans. Contributions made to these defined contribution plans are expensed as incurred.

	2014 $m	2013 $m (Restated)
Amounts recognised in profit or loss		
Current service cost	**21**	22
Net interest cost	**4**	5
Expense recognised in profit or loss as part of employee benefits expense	**25**	27
Amounts recognised in other comprehensive income		
Remeasurements		
Return on plan assets (excluding amounts included in net interest expense)	**(46)**	(51)
Actuarial (gain)/loss arising from changes in demographic assumptions	**16**	-
Actuarial (gain)/loss arising from changes in financial assumptions	**(27)**	(64)
Actuarial (gain)/loss arising from experience	**(3)**	18
Remeasurement gain	**(60)**	(97)
Amounts included in the consolidated statement of financial position		
Defined benefit obligations	**593**	583
Fair value of plan assets	**(526)**	(460)
Net defined benefit liability	**67**	123
Net liability at 1 July	**123**	222
Expense recognised in profit or loss	**25**	27
Amount recognised in other comprehensive income	**(60)**	(97)
Employer contributions	**(21)**	(29)
Net liability at 30 June	**67**	123
Movements in the defined benefit obligations		
Opening balance	**583**	618
Current service cost	**21**	22
Interest expense	**22**	17
Contributions by plan participants	**7**	6
Actuarial (gain)/loss arising from changes in demographic assumptions	**16**	-
Actuarial (gain)/loss arising from changes in financial assumptions	**(27)**	(64)
Actuarial (gain)/loss arising from experience	**(3)**	18
Benefits paid	**(23)**	(28)
Taxes, premiums and expenses paid	**(5)**	(6)
Transfers in	**2**	-
Closing balance	**593**	583

Note 35 – Defined benefit superannuation plans (cont'd)

	2014 $m	2013 $m (Restated)
Movements in the fair value of plan assets		
Opening balance	**460**	396
Interest income	**18**	12
Return on plan assets (excluding amounts included in net interest expense)	**46**	51
Employer contributions	**21**	29
Contributions by plan participants	**7**	6
Benefits paid	**(23)**	(28)
Taxes, premiums and expenses paid	**(5)**	(6)
Transfers in	**2**	-
Closing balance	**526**	460

Categories of plan assets
The major categories of plan assets as a percentage of the fair value of total plan assets at the end of the reporting period are as follows:

	SSMT 2014 %	SSMT 2013 %	EF 2014 %	EF 2013 %	EISS 2014 %	EISS 2013 %
Australian equities	**29.2**	29.5	**30.0**	29.0	**26.0**	27.0
International equities	**30.2**	29.3	**24.0**	30.0	**22.0**	22.0
Fixed interest securities	**8.5**	11.0	**11.0**	12.0	**15.0**	13.0
Property	**4.0**	4.0	**9.0**	9.0	**13.0**	12.0
Cash	**7.5**	6.5	**8.0**	5.0	**5.0**	6.0
Other	**20.6**	19.7	**18.0**	15.0	**19.0**	20.0

All plan assets are held within investment funds which do not have a quoted market price in an active market.

The fair value of plan assets includes no amounts relating to any of AGL's own financial instruments; or any property occupied by, or other assets used by AGL.

Principal actuarial assumptions

The principal actuarial assumptions at the end of the reporting period (expressed as weighted averages) were as follows:

	SSMT 2014 %	SSMT 2013 %	EF 2014 %	EF 2013 %	EISS 2014 %	EISS 2013 %
Discount rate active members	**3.5**	3.8	**3.6**	4.0	**4.0**	3.8
Expected salary increase rate	**3.5**	4.0	**4.0**	5.0	**4.0**	4.0
Expected pension increase rate	**-**	-	**2.5**	3.0	**2.8**	2.8

Sensitivity analysis

The sensitivity analysis below has been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

2014	Defined benefit obligation Increase $m	Defined benefit obligation Decrease $m
Discount rate (0.5% movement)	**(34)**	**37**
Expected salary increase rate (0.5% movement)	**17**	**(17)**
Expected pension increase rate (0.5% movement)	**12**	**(11)**

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

Note 35 – Defined benefit superannuation plans (cont'd)

Funding arrangements and employer contributions
Employer contributions are determined based on actuarial advice and are set to target the assets of the plans exceeding the total of members' vested benefits. Funding levels are reviewed regularly. Where assets are less than vested benefits, a management plan must be established to restore the coverage to at least 100%.

AGL expects to contribute $14 million (2013: $23 million) to the defined benefit plans during the next financial year. The weighted average duration of the defined benefit obligation as at 30 June 2014 was SSMT: 8 years, EF: 8 years and EISS: 15 years.

Defined contribution superannuation plans
AGL makes contributions to a number of defined contribution superannuation plans. The amount recognised as an expense for the financial year ended 30 June 2014 was $17 million (2013: $18 million).

Valuation of defined benefit liabilities under AASB 119 and AAS 25

Defined benefit liabilities are measured using two different methods:

• AAS 25 *Financial Reporting by Superannuation Plans* - this actuarial standard is used by superannuation funds to determine the funding arrangements and employer contribution rates required to pay the defined benefit obligations to members.

• AASB 119 *Employee Benefits* - this accounting standard is used by employers to measure the defined benefit liabilities for financial statement reporting purposes.

Under AAS 25, accrued benefits are determined as the value of future benefits payable to members (allowing for future salary increases), discounted using the expected rate of return on the assets to fund the benefits.

Under AASB 119, AGL determines the present value of defined benefit obligations by discounting future benefits payable to members at the yield on Commonwealth Government bonds of similar maturity at the end of the reporting period.

The two measurement methods can produce significantly different results mainly due to the application of different discount rates. Under the current low interest rate environment, the method under AASB 119 usually results in a higher liability.

Note 36 – Share-based payment plans

AGL has the following share-based payment plans:

- AGL Share Reward Plan
- AGL Share Purchase Plan; and
- AGL Long Term Incentive Plan

AGL Share Reward Plan

The AGL Energy Limited Board of Directors approved the AGL Share Reward Plan (SRP) on 5 October 2006. Under the SRP, eligible employees may be invited on an annual basis to acquire up to $1,000 worth of fully-paid ordinary shares in AGL for no consideration. The Board determines whether to make an offer of shares based on AGL's performance measured against specific performance hurdles set by the Board each financial year.

Eligible employees include full-time or permanent part-time employees who have completed 12 months continuous service. Employees participating in the AGL Long-Term Incentive Plan and the Directors of AGL are not eligible to participate.

SRP shares may not be disposed before the earlier of three years after the date of acquisition or the date on which the participating employee ceases to be employed by AGL.

Details of share movements in the AGL Share Reward Plan during the year are set out below:

Grant date	Balance at 1 July Number	Granted during the year Number	Fair value per share $	Distributed during the year Number	Balance at 30 June Number
2014					
27 September 2013	**-**	**146,304**	**$15.46**	**(16,128)**	**130,176**
28 September 2012	**96,064**	**-**	**-**	**(14,464)**	**81,600**
30 September 2011	**59,535**	**-**	**-**	**(7,840)**	**51,695**
22 September 2010	**61,793**	**-**	**-**	**(61,793)**	**-**
	217,392	**146,304**		**(100,225)**	**263,471**
2013					
28 September 2012	-	103,808	$14.75	(7,744)	96,064
30 September 2011	66,787	-	-	(7,252)	59,535
22 September 2010	68,747	-	-	(6,954)	61,793
22 September 2009	65,627	-	-	(65,627)	-
	201,161	103,808		(87,577)	217,392

During the year, there were 2,286 eligible employees (2013: 1,622) who were each granted 64 ordinary shares in AGL (2013: 64). All shares granted were purchased on-market and the fair value per share is market value.

The expense recognised in profit or loss as part of employee benefits expense during the year in relation to the AGL Share Reward Plan was $2 million (2013: $1 million).

Note 36 – Share-based payment plans (cont'd)

AGL Share Purchase Plan

The AGL Energy Limited Board of Directors approved the AGL Share Purchase Plan (SPP) on 5 October 2006. Under the SPP, the Board may in its discretion, from time to time invite any eligible employees to acquire fully-paid ordinary shares in AGL with funds provided in lieu of remuneration they would have received. The Directors of AGL may also participate in the SPP. The total amount that can be allocated to the purchase of shares under the SPP in any financial year commencing on or after 1 July 2009 is $5,000.

SPP shares may not be disposed before the earlier of seven years after the date of acquisition (or, in the case of SPP shares acquired on or before 31 May 2010, 10 years), the date on which the participating employee ceases to be employed by AGL, and the Board or the trustee determines that the shares should be freed from this restriction following the written request of the participating employee.

Details of share movements in the AGL Share Purchase Plan during the year are set out below:

	Balance at 1 July	Purchased during the year	Fair value per share	Distributed during the year	Balance at 30 June
Share movements	**Number**	**Number**	**$**	**Number**	**Number**
2014					
Non-executive Directors	**19,166**	**325**	**$15.38**	**-**	**19,491**
Managing Director and Chief Executive Officer	**169,300**	**-**	**-**	**-**	**169,300**
Employees	**147,196**	**118,294**	**$15.45**	**(92,841)**	**172,649**
	335,662	**118,619**		**(92,841)**	**361,440**
2013					
Non-executive Directors	27,061	336	$14.83	(8,231)	19,166
Managing Director and Chief Executive Officer	169,300	-	-	-	169,300
Employees	124,511	113,793	$15.32	(91,108)	147,196
	320,872	114,129		(99,339)	335,662

At the end of the reporting period, there was one Non-executive Director (2013: one) and 294 employees including the Managing Director (2013: 227) participating in the SPP. All shares were purchased on-market and the fair value per share is market value.

No expense is recognised in profit or loss in relation to shares purchased under the SPP as they are acquired out of salary sacrificed remuneration.

AGL Long-Term Incentive Plan

The AGL Energy Limited Board of Directors approved the AGL Long-Term Incentive Plan (LTIP) on 5 October 2006 and it was amended by the Board on 19 August 2009 and 24 September 2013. The LTIP is an integral part of AGL's remuneration policy.

Participants are granted Share Performance Rights (SPRs), which vest over time if specific applicable hurdles are met. A SPR is an entitlement to one fully-paid ordinary share in AGL. On vesting, SPRs are exercised and converted to fully-paid ordinary shares in AGL. SPRs do not carry dividend or voting rights. SPRs participate in bonus issues, rights issues and reconstructions and reorganisations of the capital of AGL in the same manner as AGL ordinary shares.

If a participant ceases employment before the expiry of the vesting period as a result of total and permanent disablement, redundancy, retirement, death or any other exceptional circumstances determined by the Board from time to time, any positive balance of SPRs in a participant's bank account will vest or any negative balance is eliminated.

If a participant ceases employment before the expiry of the vesting period in other circumstances, any positive balance is forfeited or any negative balance is eliminated.

AGL may issue shares or purchase shares in the ordinary course of trading on the ASX to satisfy SPRs which have vested.

Note 36 – Share-based payment plans (cont'd)

AGL Long-Term Incentive Plan (cont'd)

Managing Director and Senior Executives

Grants of SPRs to eligible participants are made on an annual basis or such other times as the Board in its discretion may determine. Eligible participants are employees of AGL who are determined by the Board in its discretion to be eligible to participate in the LTIP.

At the 2011 Annual General Meeting, shareholder approval was obtained for the grant of SPRs under the LTIP to Mr Fraser (Managing Director and Chief Executive Officer) in respect of the financial years ending 30 June 2012, 30 June 2013 and 30 June 2014.

On 9 October 2013, Mr Fraser received an initial notional grant of 151,790 SPRs in respect of the year ended 30 June 2014. The number of SPRs notionally granted was determined by dividing Mr Fraser's Total Fixed Remuneration (TFR) as at 1 September 2013 of $2,163,000 by $14.25 (being the volume weighted average price (VWAP) at which AGL's shares traded on the ASX during the 30 calendar days up to and including 30 June 2013).

On 9 October 2013, 23 executives received an initial notional grant of 240,347 SPRs in respect of the year ended 30 June 2014. The number of SPRs notionally granted was determined by taking the participant's TFR as at 1 September 2013 multiplied by their pre-agreed percentage LTI component, and divided by $14.25 (being the volume weighted average price (VWAP) at which AGL's shares traded on the ASX during the 30 calendar days up to and including 30 June 2013).

The SPRs notionally granted are subject to two performance hurdles based on:

- Annual Total Shareholder Return (TSR); and

- Relative Total Shareholder Return measured against the ASX 100 (Relative TSR).

The number of SPRs to be deposited or deducted from a participant's TSR bank account and Relative TSR bank account is determined by a multiplier to be applied to the number of SPRs notionally granted according to the TSR and Relative TSR outcomes as indicated in the tables below.

Annual TSR	Number of SPRs awarded
Equal to or greater than 14%	2 times SPRs notionally granted
Greater than 4% and less than 14%	Progressive on a straight-line basis from zero times to 2 times SPRs notionally granted
Between 4% and minus 4%	Zero times SPRs notionally granted
Less than minus 4% and greater than minus 14%	Progressive deduction on a straight-line basis from zero times to minus 2 times SPRs notionally granted
Equal to or less than minus 14%	Minus 2 times SPRs notionally granted

In the event the TSR outcome is greater than 14%, the opening share price for measuring the following year's TSR is set at a level that would have achieved 14%. In the event the TSR outcome is less than minus 14%, the opening share price for measuring the following year's TSR is set at a level that would have achieved minus 14%.

Relative TSR	Number of SPRs awarded
Equal to or greater than 90th percentile	2 times SPRs notionally granted
Greater than 65th percentile and less than 90th percentile	Progressive on a straight-line basis from 1 times to 2 times SPRs notionally granted
Equal to 65th percentile	1 times SPRs notionally granted
Greater than 50th percentile and less than 65th percentile	Progressive on a straight-line basis from 0.5 times to 1 times SPRs notionally granted
Equal to 50th percentile	0.5 times SPRs notionally granted
Greater than 40th percentile and less than 50th percentile	Progressive on a straight-line basis from 0.4 times to 0.5 times SPRs notionally granted
Equal to 40th percentile	0.4 times SPRs notionally granted
Equal to or greater than 25th percentile and less than 40th percentile	Zero times SPRs notionally granted
Greater than zero and less than 25th percentile	Progressive deduction on a straight-line basis from minus 1 times to zero times SPRs notionally granted
Equal to zero	Minus 1 times SPRs notionally granted

Note 36 – Share-based payment plans (cont'd)

AGL Long-Term Incentive Plan (cont'd)

If there is a positive balance in a participant's TSR and Relative TSR accounts, 40% of that balance will vest and be converted and distributed to participants as AGL shares.

Any remaining positive balance held in the TSR and Relative TSR accounts for each participant is carried forward and may vest or be deducted in future years. Any negative balance is also carried forward.

The following table sets out details of SPRs notionally granted to executives during the year:

SPRs grant	Number of SPRs	Performance period	Vesting date	Weighted average fair value
2014				
9 October 2013	**392,137**	**1 July 2013 to 30 June 2014**	**1 September 2014**	**$15.88**
2013				
27 August 2012	363,279	1 July 2012 to 30 June 2013	1 September 2013	$13.89

Closed Performance Hurdle: EBIT / Funds Employed
The EBIT/Funds Employed notional bank account has been closed effective 30 June 2013. No further allocations will be made to this bank account, however to ensure that performance against the EBIT/Funds Employed condition is sustained, the balance in that account will remain subject to deduction until September 2015 and will be treated as follows:

Date	Treatment of closing balance
September 2013	40% of closing positive notional bank account balance was released.
September 2014	Calculate any negative award (if applicable), deduct, and then vest 50% of remaining balance.
September 2015	Calculate any negative award (if applicable), deduct, and then vest remaining balance.

Over 2014 and 2015, deductions may apply as follows:

Annual growth in EBIT/Funds Employed	Number of SPRs banked for this hurdle
Greater than minus 4%	No change to notional bank account balance
Less than minus 4% and greater than minus 15%	Progressive on a straight-line basis from zero to minus 2 times notional bank account balance
Equal to or less than minus 15%	Minus 2 times notional bank account balance

Note, if clawback is greater than minus 1, the bank account would reduce to zero and no shares will vest.

Details of SPR movements in the AGL Long-Term Incentive Plan during the year are set out below:

SPRs grant	Balance at 1 July	Deposited (deducted) during the year (a)	Notionally granted during the year	Vested during the year	Forfeited during the year	Balance at 30 June
	Number	Number	Number	Number	Number	Number
2014						
TSR share bank account	**237,953**	**-**	**-**	**(95,182)**	**-**	**142,771**
Relative TSR share bank account	**-**	**-**	**-**	**-**	**-**	**-**
EBIT/Funds Employed share bank account	**140,349**	**289,262**	**-**	**(171,847)**	**-**	**257,764**
Notional grant 9 October 2013	**-**	**-**	**392,137**	**-**	**-**	**392,137**
Notional grant 27 August 2012	**338,328**	**(338,328)**	**-**	**-**	**-**	**-**
	716,630	**(49,066)**	**392,137**	**(267,029)**	**-**	**792,672**

a) After testing the SPRs notionally granted on 27 August 2012 against the relevant performance hurdle for the 2013 financial year, SPRs were deposited into (or deducted from) the relevant share bank account for each participant.

There were no SPRs vested but not exercisable at 30 June 2014.

Note 36 – Share-based payment plans (cont'd)

AGL Long-Term Incentive Plan (cont'd)

SPRs grant	Balance at 1 July Number	Deposited (deducted) during the year (a) Number	Notionally granted during the year Number	Vested during the year Number	Forfeited during the year Number	Balance at 30 June Number
2013						
TSR share bank account	52,910	373,115	-	(188,072)	-	237,953
EBIT/Funds Employed share bank account	(60,756)	310,927	-	(109,822)	-	140,349
Notional grant 27 August 2012	-	-	363,279	-	(24,951)	338,328
Notional grant 22 June 2012	376,887	(376,887)	-	-	-	-
Old LTIP grant 27 October 2008	4,019	-	-	(3,564)	(455)	-
	373,060	307,155	363,279	(301,458)	(25,406)	716,630

a) After testing the SPRs notionally granted on 22 June 2012 against the relevant performance hurdle for the 2012 financial year, SPRs were deposited into (or deducted from) the relevant share bank account for each participant.

There were no SPRs vested but not exercisable at 30 June 2013.

The fair value of services received in return for SPRs granted are measured by reference to the fair value of SPRs granted. The estimate of the fair value of services received is measured based on the Binomial Tree and Monte Carlo simulation methods. The contractual life of the SPRs is used as an input into this model. Expected volatility is based on the historical share price volatility over the past two years.

SPRs grant	**2014** **9 October 2013**	2013 27 August 2012
Weighted average fair value at grant date	**$15.88**	$13.89
Share price at grant date	**$15.63**	$15.35
Expected volatility	**20.0%**	-
SPR life	**0.9 to 4.9 years**	1 to 5 years
Expected dividend yield	**4.2%**	4.1%
Risk free interest rate (based on government bonds)	**2.5%**	Not applicable

The expense recognised in profit or loss as part of employee benefits expense during the year in relation to SPRs granted to the Managing Director and executives under the AGL Long-Term Incentive Plan was $6 million (2013: $6 million).

Note 37 – Related party disclosures

Key management personnel remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of AGL, directly or indirectly, including the Directors of the Parent Entity.

The aggregate compensation made to key management personnel is set out below:

	2014 $'000	2013 $'000
Short-term employee benefits	**7,994**	9,400
Post-employment benefits	**808**	784
Share-based payments	**3,462**	3,740
	12,264	13,924

Further details are contained in the Remuneration Report attached to and forming part of the Directors' Report.

Loans to joint ventures

As at 30 June 2014 AGL had a loan outstanding from the Diamantina Holding Company Pty Limited of $126,336,000 (2013: Nil). The loan is disclosed in the financial statements as a non-current asset consistent with the terms of the agreement.

	2014 $'000	2013 $'000
Amounts owing by joint ventures		
ActewAGL Retail Partnership	**50,113**	48,433
Diamantina Power Station Pty Limited	**9,930**	16,653
	60,043	65,086
Amounts owing by joint operations		
Macarthur Wind Farm Joint Venture	**-**	960
Galilee Gas Project Joint Venture	**376**	131
	376	1,091

The amounts owing are unsecured, interest free and will be settled in cash. No expense has been recognised in the current or the prior period for bad or doubtful debts in respect of the amounts owed by joint ventures and joint operations.

	2014 $'000	2013 $'000
Amounts owing to joint ventures		
ActewAGL Retail Partnership	**4,540**	1,817

Trading transactions with joint ventures

	2014 $'000	2013 $'000
ActewAGL Retail Partnership		
AGL provided management and retail services to the ActewAGL Retail Partnership on normal commercial terms and conditions.	**7,432**	8,649
AGL sold gas and electricity to the ActewAGL Retail Partnership on normal commercial terms and conditions.	**271,910**	277,835
Diamantina Power Station Pty Limited		
On 6 October 2011, AGL entered into a gas supply agreement with Diamantina Power Station Pty Limited, a wholly owned subsidiary of Diamantina Holding Company Pty Limited, to supply DPS with 138 petajoules of natural gas from May 2013 through to 2023 on normal commercial terms and conditions.	**99,915**	15,139

Note 38 – Cash and cash equivalents

a) Reconciliation of cash balances

Cash and cash equivalents at the end of the reporting period as shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated statement of financial position as follows:

	2014	2013
	$m	$m
Cash at bank and on hand	**301**	167
Short-term deposits	**155**	114
	456	281
Cash and cash equivalents included in disposal groups held for sale	**10**	-
	466	281

Restricted cash balances

Great Energy Alliance Corporation Pty Limited, a wholly-owned subsidiary, has cash and cash equivalents at 30 June 2014 of $189 million (2013: $69 million) which are held in reserve accounts which may only be used for the purposes specified under the project financing documents.

b) Reconciliation of profit for the year to net cash flows from operating activities

	2014	2013
Profit for the year	**570**	375
Share of profits of associates and joint ventures	**(25)**	(26)
Dividends received from joint ventures	**26**	24
Depreciation and amortisation	**326**	287
Impairment loss on non-current assets	**-**	441
Share-based payments expense	**8**	7
Gain in fair value of financial instruments	**(40)**	(114)
Net loss on disposal of property, plant and equipment	**9**	1
Non-cash finance costs	**45**	34
Capitalised finance costs	**(15)**	(28)
Deferred borrowing costs	**(4)**	-
Changes in assets and liabilities:		
(Increase)/decrease in trade and other receivables	**164**	(307)
(Increase)/decrease in inventories	**(54)**	21
(Increase)/decrease in derivative financial instruments	**-**	22
(Increase)/decrease in other financial assets	**-**	8
(Increase)/decrease in other assets	**86**	(81)
Increase/(decrease) in trade and other payables	**(287)**	255
Increase/(decrease) in provisions	**(113)**	(63)
Increase/(decrease) in other liabilities	**5**	(253)
Increase/(decrease) in tax assets and liabilities	**(2)**	(1)
Net cash provided by operating activities	**699**	602

c) Non-cash financing and investing activities

Dividends satisfied by the issue of shares under the AGL DRP	**82**	126

Note 39 – Financial instruments

a) Capital risk management

AGL's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an appropriate capital structure of debt and equity.

In order to maintain or adjust the capital structure, AGL may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. AGL's overall capital management strategy remains unchanged from 2013.

The capital structure of AGL consists of net debt (borrowings offset by cash and cash equivalents) and total equity (comprising issued capital, reserves and retained earnings).

AGL monitors capital using a number of metrics including the gearing ratio. Other metrics utilised include funds from operations (FFO) to interest expense cover.

The gearing ratio is calculated as net debt divided by adjusted total capital. Net debt is calculated as total borrowings, adjusted for cross currency swap hedges and deferred borrowing costs, less cash and cash equivalents. Adjusted total capital is calculated as total equity less the hedging reserve plus net debt. The gearing ratio at the end of the reporting period was as follows:

	2014	2013
	$m	$m
Current borrowings	**45**	45
Non-current borrowings	**3,669**	3,064
Total borrowings	**3,714**	3,109
Adjustment for cross currency swap hedges and deferred borrowing costs	**17**	9
Adjusted total borrowings	**3,731**	3,118
Cash and cash equivalents	**(456)**	(281)
Cash and cash equivalents included in disposal groups held for sale	**(10)**	-
Net debt	**3,265**	2,837
Total equity	**7,588**	7,340
Less: hedging reserve	**(104)**	(5)
Adjusted equity	**7,692**	7,345
Net debt	**3,265**	2,837
Adjusted total capital	**10,957**	10,182
Gearing ratio	**29.8%**	27.9%

b) Financial risk management

AGL's activities expose it to a variety of financial risks, including market risk (interest rate risk, foreign currency risk and energy price risk), credit risk and liquidity risk. AGL's overall risk management program focuses on the unpredictability of markets and seeks to manage the impact of these risks its financial performance. AGL uses a range of derivative financial instruments to hedge these risk exposures.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management policy and framework. The Board has established the Audit and Risk Management Committee, which is responsible for approving AGL's risk management policy and framework for identifying, assessing and managing risk. The Committee is also responsible for reviewing and updating the risk profile, monitoring the effectiveness of the risk management framework and reviewing at least annually the implementation of the risk management policy and framework. The Committee reports regularly to the Board of Directors on its activities.

AGL has written policies covering specific areas, such as interest rate risk, foreign currency risk, energy price risk, credit risk, liquidity risk, and the use of derivative and non-derivative financial instruments. Compliance with policies and exposure limits is reviewed on a continuous basis.

Note 39 – Financial instruments (cont'd)

c) Interest rate risk management

AGL is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swap contracts or other hedging instruments.

AGL regularly analyses its interest rate exposure, by taking into consideration forecast debt positions, refinancing, renewals of existing positions, alternative financing, hedging positions and the mix of fixed and floating interest rates.

At the end of the reporting period, AGL had the following financial assets and liabilities exposed to floating interest rate risk:

	2014	2013
	$m	$m
Financial assets		
Cash and cash equivalents	**456**	281
Cash and cash equivalents included in disposal groups held for sale	**10**	-
	466	281
Financial liabilities		
USD senior notes (after effect of cross currency swaps)	**338**	338
Subordinated notes	**650**	650
Bank loans	**2,539**	1,914
Other loans	**189**	200
Interest rate swap contracts	**(1,380)**	(1,525)
	2,336	1,577

Interest rate swap contracts – cash flow hedges
The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding at the end of the reporting period:

	Average contracted fixed interest rate		**Notional principal amount**		**Fair value**	
Outstanding receive floating, pay fixed contracts	**2014 %**	2013 %	**2014 $m**	2013 $m	**2014 $m**	2013 $m
Less than 1 year	**5.46**	5.57	**260**	205	**(3)**	(2)
1 to 2 years	**5.04**	5.46	**815**	260	**(26)**	(11)
2 to 3 years	**3.85**	5.04	**440**	815	**(8)**	(39)
3 to 4 years	**6.14**	5.21	**150**	70	**(12)**	(4)
4 to 5 years	**3.86**	5.49	**80**	220	**(4)**	(12)
5 years or more	**4.22**	3.91	**505**	430	**(14)**	7
			2,250	2,000	**(67)**	(61)

The aggregate notional principal amount of the outstanding interest rate swap contracts at 30 June 2014 was $2,250 million (2013: $2,000 million). Included in this amount are $870 million (2013: $475 million) of forward interest rate swap contracts, of which $425 million commences in the 2015 financial year, $385 million commences in the 2016 financial year and $60 million commences in the 2017 financial year.

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is the Australian BBSW. AGL will settle the difference between the fixed and floating interest rate on a net basis. During the year, no hedges were de-designated and all underlying forecast transactions remain highly probable to occur as per original forecast.

Note 39 – Financial instruments (cont'd)

c) Interest rate risk management (cont'd)

Interest rate sensitivity
The following sensitivity analysis has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the end of the reporting period and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period.

At the end of the reporting period, if interest rates had been 50 basis points higher or lower and all other variables were held constant, AGL's profit after tax and other comprehensive income would have been affected as follows:

	Profit after tax Increase/(decrease)		Other comprehensive income Increase/(decrease)	
	2014	2013	**2014**	2013
	$m	$m	**$m**	$m
Interest rates +0.5% (50 basis points)	**(6)**	(5)	**18**	19
Interest rates -0.5% (50 basis points)	**6**	5	**(18)**	(19)

d) Foreign currency risk management

AGL undertakes certain transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Foreign currency risk arises primarily from overseas term borrowings and firm commitments for the purchase of plant and equipment which are denominated in foreign currencies. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts and cross currency swap contracts.

Forward foreign exchange contracts – cash flow hedges

AGL's Corporate Treasury policy requires the hedging of foreign currency risk using forward foreign exchange contracts. The Corporate Treasury's policy is to hedge currency exposures of anticipated cash flows in excess of $0.5 million and to not enter into forward foreign exchange contracts until a firm commitment is in place.

AGL has entered into contracts to purchase plant and equipment denominated in United States dollars and Euros. AGL has entered into forward foreign exchange contracts to hedge the exchange rate risk arising from these anticipated future purchases, which are designated as cash flow hedges. During the year, no hedges were de-designated and all underlying forecast transactions remain highly probable to occur as per original forecast.

There were no material forward foreign exchange contracts outstanding at the end of the reporting period (2013: nil).

Cross currency swap contracts

Under cross currency swap contracts, AGL has agreed to exchange specified foreign currency loan principal and interest amounts at agreed future dates at fixed exchange rates. Such contracts enable AGL to eliminate the risk of movements in foreign exchange rates related to foreign currency denominated borrowings.

The fair value of cross currency swaps at 30 June 2014 was a liability of $12 million (2013: $3 million), of which $13 million (2013: $13 million) is in a cash flow hedge relationship and ($1) million (2013: ($10) million) is in a fair value hedge relationship.

The following table details the cross currency swap contracts outstanding at the end of the reporting period:

	Average interest rate		Average exchange rate		Contract value		Fair value	
Outstanding contracts	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
	%	%			**$m**	$m	**$m**	$m
Buy US dollars 5 years or more	**5.31**	5.80	**0.888**	0.888	**338**	338	**(12)**	(3)

Note 39 – Financial instruments (cont'd)

d) Foreign currency risk management (cont'd)

Foreign currency sensitivity

At the end of the reporting period, if the Australian dollar had been 10% higher or lower and all other variables were held constant, AGL's profit after tax and other comprehensive income would have been affected as follows:

	Profit after tax Increase/(decrease)		Other comprehensive income Increase/(decrease)	
	2014	2013	**2014**	2013
	$m	$m	**$m**	$m
US dollar +10%	**-**	-	**-**	(5)
US dollar -10%	**-**	-	**-**	14

The movement in other comprehensive income in the prior year is due to an increase/decrease in the fair value of forward foreign exchange contracts designated as cash flow hedges.

e) Energy price risk management

AGL is exposed to energy price risk associated with the purchase and/or sale of electricity, gas and environmental products. AGL manages energy risk through an established risk management framework consisting of policies to place appropriate risk limits on overall energy market exposures and transaction limits for approved energy commodities, requirements for delegations of authority on trading, regular reporting of exposures and segregation of duties.

It is AGL's policy to actively manage the energy price exposure arising from both forecast energy supply and retail customer energy load. AGL's risk management policy for energy price risk is to hedge forecast future positions for up to five years into the future.

Exposures to fluctuations in the wholesale market energy prices are managed through the use of various types of hedge contracts including derivative financial instruments.

The following table details the fair value of energy derivatives outstanding at the end of the reporting period:

	2014	2013
	$m	$m
Energy derivative financial assets - current		
Energy derivatives - cash flow hedges	**3**	29
Energy derivatives - economic hedges	**92**	131
	95	160
Energy derivative financial assets - non-current		
Energy derivatives - cash flow hedges	**-**	5
Energy derivatives - economic hedges	**353**	324
	353	329
Energy derivative financial liabilities - current		
Energy derivatives - cash flow hedges	**75**	8
Energy derivatives - economic hedges	**340**	362
	415	370
Energy derivative financial liabilities - non-current		
Energy derivatives - cash flow hedges	**15**	7
	15	7

Energy derivatives – cash flow hedges
Derivative financial instruments are used by AGL in the normal course of business in order to hedge exposure to fluctuations in energy prices. The aggregate notional volumes of the outstanding energy derivatives at 30 June 2014 were 15 million MWh (2013: 15 million MWh). Energy derivatives are either designated in cash flow hedge relationships or remain non-designated.

Note 39 – Financial instruments (cont'd)

e) Energy price risk management (cont'd)

Energy derivatives – economic hedges
AGL has entered into certain derivative instruments for economic hedging purposes under the Board-approved risk management policies, which do not satisfy the requirements for hedge accounting under AASB *139 Financial Instruments: Recognition and Measurement*. These derivatives are therefore required to be categorised as held for trading and are classified in the consolidated statement of financial position as economic hedges. Changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognised immediately in profit or loss as part of gain/(loss) in fair value of financial instruments.

Energy price sensitivity
The following table details the sensitivity to a 10% increase or decrease in the energy contract market forward prices. A sensitivity of 10% has been used as this is considered reasonably possible, based on historical data relating to the level of volatility in market prices.

At the end of the reporting period, if the forward prices had been 10% higher or lower and all other variables were held constant, AGL's profit after tax and other comprehensive income would have been affected as follows:

	Profit after tax Increase/(decrease)		**Other comprehensive income Increase/(decrease)**	
	2014	2013	**2014**	2013
	$m	$m	**$m**	$m
Energy forward price +10%	**(31)**	12	**19**	60
Energy forward price -10%	**30**	(15)	**(19)**	(60)

The movement in profit after tax is mainly attributable to an increase/decrease in the fair value of certain energy derivative instruments which are economic hedges but do not satisfy the requirements for hedge accounting. The movement in other comprehensive income is due to an increase/decrease in the fair value of energy hedging instruments designated as cash flow hedges.

f) Hedging

Cash flow hedges
The following table details the movements in the hedging reserve from cash flow hedges:

	2014	2013
	$m	$m
Hedging reserve		
Balance at beginning of financial year	**(5)**	20
(Loss)/gain in fair value of cash flow hedges	**(135)**	40
Reclassified to cost of sales	**(21)**	(104)
Reclassified to finance costs	**15**	21
Transferred to plant and equipment	**-**	7
Income tax on items taken directly to or transferred from equity	**42**	11
Balance at end of financial year	**(104)**	(5)

Note 39 – Financial instruments (cont'd)

g) Credit risk management

AGL manages its exposure to credit risk using credit risk management policies which provide credit exposure limits and contract maturity limits based on the credit worthiness of counterparties. AGL's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread among approved counterparties.

Trade and other receivables consist of over 3.8 million residential, small business and large commercial and industrial customers, in New South Wales, Victoria, South Australia and Queensland. Ongoing credit evaluation is performed on the financial condition of customers and, where appropriate, an allowance for doubtful debts is raised. AGL does not have any significant credit risk exposure to any single customer or any group of customers.

AGL limits its exposure to credit risk by investing surplus funds and entering into derivative financial instruments only with approved financial institutions that have a credit rating of at least A from Standard & Poor's and within credit limits assigned to each financial institution. Derivative counterparties are limited to high creditworthy financial institutions and other organisations in the energy industry. AGL also utilises International Swaps and Derivative Association (ISDA) agreements with derivative counterparties in order to limit exposure to credit risk through the netting of amounts receivable from and amounts payable to individual counterparties.

At the end of the reporting period, there was a significant concentration of credit risk with certain counterparties in relation to energy derivatives undertaken in accordance with the AGL's hedging and risk management activities. The carrying amount of the financial assets recognised in the financial statements, which is net of impairment losses, represents the maximum exposure to credit risk.

AGL does not hold any collateral or other credit enhancements to cover this credit risk.

h) Liquidity risk management

Liquidity risk is the risk that AGL will not be able to meet its financial obligations as they fall due. Ultimate responsibility for liquidity risk management rests with the Board of Directors, who have established an appropriate liquidity risk management framework for the management of AGL's short, medium and long term funding and liquidity management requirements.

AGL manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following table details AGL's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The amounts are based on the undiscounted cash flows of financial liabilities on the earliest date on which AGL can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are at floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.

	Less than 6 months $m	6 - 12 months $m	1 - 2 years $m	2 - 5 years $m	More than 5 years $m	Total $m
2014						
Non-derivative financial liabilities						
Trade and other payables	**1,119**	**139**	**-**	**-**	**-**	**1,258**
USD senior notes	**8**	**8**	**16**	**49**	**492**	**573**
Subordinated notes	**21**	**22**	**45**	**143**	**1,017**	**1,248**
Bank loans	**67**	**68**	**1,075**	**799**	**286**	**2,295**
Other loans	**10**	**10**	**20**	**53**	**189**	**282**
Finance lease liabilities	**-**	**-**	**-**	**1**	**178**	**179**
Deferred consideration	**-**	**32**	**32**	**102**	**311**	**477**
	1,225	**279**	**1,188**	**1,147**	**2,473**	**6,312**

Note 39 – Financial instruments (cont'd)

h) Liquidity risk management (cont'd)

	Less than 6 months $m	6 - 12 months $m	1 - 2 years $m	2 - 5 years $m	More than 5 years $m	Total $m
2013						
Non-derivative financial liabilities						
Trade and other payables	1,300	145	-	-	-	1,445
USD senior notes	8	9	17	51	438	523
Subordinated notes	21	21	43	139	1,784	2,008
Bank loans	145	143	872	1,251	381	2,792
Other loans	10	10	20	59	204	303
Finance lease liabilities	1	1	1	-	178	181
Deferred consideration	-	31	32	99	346	508
Contingent consideration	2	-	-	-	-	2
	1,487	360	985	1,599	3,331	7,762

The following table details AGL's liquidity analysis for its derivative financial instruments. The amounts are based on the undiscounted net cash inflows and outflows on those derivatives instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. For interest rate swaps, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves at the end of the reporting period.

	Less than 6 months $m	6 - 12 months $m	1 - 2 years $m	2 - 5 years $m	More than 5 years $m	Total $m
2014						
Derivative financial instruments						
Gross settled						
- Cross currency swap contracts - pay leg	**(9)**	**(9)**	**(18)**	**(63)**	**(451)**	**(550)**
- Cross currency swap contracts - receive leg	**8**	**8**	**16**	**49**	**418**	**499**
Net pay	**(1)**	**(1)**	**(2)**	**(14)**	**(33)**	**(51)**
Net settled						
- Interest rate swap contracts	**(23)**	**(23)**	**(46)**	**(97)**	**(36)**	**(225)**
- Energy derivatives	**(124)**	**(109)**	**(113)**	**(107)**	**-**	**(453)**
	(148)	**(133)**	**(161)**	**(218)**	**(69)**	**(729)**
2013						
Derivative financial instruments						
Gross settled						
- Cross currency swap contracts - pay leg	(9)	(9)	(19)	(69)	(488)	(594)
- Cross currency swap contracts - receive leg	8	9	17	51	438	523
Net pay	(1)	-	(2)	(18)	(50)	(71)
Net settled						
- Interest rate swap contracts	(16)	(17)	(28)	(15)	12	(64)
- Forward foreign exchange contracts	8	-	-	-	-	8
- Energy derivatives	(108)	(104)	(75)	(125)	-	(412)
	(117)	(121)	(105)	(158)	(38)	(539)

Note 39 – Financial instruments (cont'd)

i) Fair value measurements

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no material transfers between Level 1 and Level 2 during the year.

	Carrying amount $m	Level 1 $m	Level 2 $m	Level 3 $m	Total Fair Value $m
2014					
Financial assets					
Derivative financial instruments					
- Interest rate swap contracts - cash flow hedges	**6**	**-**	**6**	**-**	**6**
- Energy derivatives - cash flow hedges	**3**	**-**	**3**	**-**	**3**
- Energy derivatives - economic hedges	**445**	**5**	**87**	**353**	**445**
	454	**5**	**96**	**353**	**454**
Financial liabilities					
Derivative financial instruments					
- Cross currency swap contracts - cash flow and fair value hedges	**(12)**	**-**	**(12)**	**-**	**(12)**
- Interest rate swap contracts - cash flow hedges	**(73)**	**-**	**(73)**	**-**	**(73)**
- Energy derivatives - cash flow hedges	**(90)**	**-**	**(90)**	**-**	**(90)**
- Energy derivatives - economic hedges	**(340)**	**(13)**	**(198)**	**(129)**	**(340)**
	(515)	**(13)**	**(373)**	**(129)**	**(515)**
2013					
Financial assets					
Derivative financial instruments					
- Interest rate swap contracts - cash flow hedges	9	-	9	-	9
- Forward foreign exchange contracts - cash flow hedges	8	-	8	-	8
- Energy derivatives - cash flow hedges	34	-	34	-	34
- Energy derivatives - economic hedges	456	4	124	328	456
	507	4	175	328	507
Financial liabilities					
Derivative financial instruments					
- Cross currency swap contracts - cash flow and fair value hedges	(3)	-	(3)	-	(3)
- Interest rate swap contracts - cash flow hedges	(70)	-	(70)	-	(70)
- Energy derivatives - cash flow hedges	(15)	-	(15)	-	(15)
- Energy derivatives - economic hedges	(362)	(10)	(248)	(104)	(362)
	(450)	(10)	(336)	(104)	(450)

Management have assessed that the carrying value of financial assets (excluding derivative financial assets) and financial liabilities (excluding derivative financial liabilities) to be comparable to fair value.

Note 39 – Financial instruments (cont'd)

i) Fair value measurements (cont'd)

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments:

a) Receivables / payables with a remaining life of less than 6 months, the notional amount is deemed to reflect the fair value. All other receivables / payables are discounted to determine the fair value if the effect of discounting is material.

b) The fair value of forward foreign exchange contracts and energy derivatives is calculated as the present value of expected future cash flows relating to the difference between the contracted rates and the market forward rates at the end of the reporting period. Interest rate and cross currency swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates that reflect the credit risk of various counterparties.

c) The fair value of borrowings is determined as the present value of future contracted cash flows and credit adjustments. Cash flows are discounted using standard valuation techniques at applicable market yield having regard to timing of cash flows.

d) The fair value of energy derivatives is determined as the present value of future contracted cash flows and credit adjustments. Cash flows are discounted using standard valuation techniques at applicable market yield having regard to timing of cash flows.

e) The fair value of lease liabilities is estimated as the present value of future cash flows discounted where the effect of discounting is material.

f) The fair value of deferred consideration is determined as the present value of future contracted cash flows and credit adjustments. Cash flows are discounted using standard valuation techniques at applicable market yield having regard to timing of cash flows.

The following table provides a reconciliation of fair value movements in Level 3 financial instruments.

Energy Derivatives	**2014** **$m**	2013 $m
Opening balance	**224**	347
Total gains and losses recognised in profit or loss		
- Settlements during the year	**22**	22
- Changes in fair value	**(15)**	(25)
Purchases	**(7)**	-
Fair value adjustments on prior year acquisitions	**-**	(120)
Closing balance	**224**	224

The total gains or losses for the year included a gain of $8 million relating to energy derivative contracts held at the end of the reporting period (2013: a gain of $6 million). Fair value gains or losses on energy derivatives are included in other expenses in the line item "(gain)/loss in fair value of financial instruments" in Note 5.

The sensitivity of level 3 contracts with significant unobservable inputs, where the inputs are higher by 10% is $(66) million and lower by 10% is $78 million (profit after tax increase/(decrease)). Input changes were applied to WACC and indexes in cost plus models and to unpublished future market prices in market based contracts.

Note 40 – Parent Entity

The accounting policies of the Parent Entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements. Refer to Note 1 for a summary of the significant accounting policies.

	2014 **$m**	2013 $m
Financial position		
Assets		
Current assets	**598**	348
Non-current assets	**11,386**	10,724
Total assets	**11,984**	11,072
Liabilities		
Current liabilities	**391**	443
Non-current liabilities	**5,607**	4,987
Total liabilities	**5,998**	5,430
Equity		
Issued capital	**5,437**	5,354
Reserves:		
Employee equity benefits	**5**	3
Hedging	**(39)**	(21)
Retained earnings	**583**	306
Total equity	**5,986**	5,642
Financial performance		
Profit/(loss) for the year	**622**	(70)
Other comprehensive income	**(12)**	27
Total comprehensive income for the year	**610**	(43)

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries
The Parent Entity has entered into a Deed of Cross Guarantee with the effect that it guarantees the debts in respect of its wholly-owned Australian subsidiaries. Further details of the Deed of Cross Guarantee and the subsidiaries subject to the deed, are disclosed in Notes 31 and 34 respectively.

Contingent liabilities
The Directors are of the opinion that provisions are not required in respect of the following matters, as it is either not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

The Parent Entity is a party to various legal actions and claims which have arisen in the ordinary course of business. Any liabilities arising from such legal actions and claims are not expected to have a material adverse effect on the Parent Entity.

The Parent Entity has provided warranties and indemnities to certain third parties in relation to the performance of contracts by various wholly-owned subsidiaries.

Capital expenditure commitments
As at 30 June 2014, the Parent Entity had commitments for the acquisition of property, plant and equipment of $nil (2013: $nil) and its share of joint operations capital commitments was $5 million (2013: $36 million).

Note 41 – Subsequent events

There has not been any other matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of AGL, the results of those operations, or the state of affairs of AGL in future financial periods other than:

Macquarie Generation

On 12 February 2014, AGL announced that it had entered into an agreement with the New South Wales Government to acquire Macquarie Generation (Macgen) assets for a consideration of $1,505 million. The acquisition was conditional on approval by the Australian Competition and Consumer Commission (ACCC).

On 4 March 2014, the ACCC announced that it would oppose the proposed acquisition of Macgen by AGL. On 24 March 2014, AGL made an application to the Australian Competition Tribunal (ACT) requesting authorisation for the proposed acquisition.

On 25 June 2014, ACT granted conditional authorisation for AGL's proposed acquisition, the ACCC had 28 days to apply for a review of the decision. On 24 July 2014, the ACCC announced that it would not apply for a judicial review of the ACT's decision to grant AGL conditional approval for its proposed acquisition of Macgen assets.

On 20 August 2014, AGL announced the acquisition of Macgen assets for $1,505 million. The acquisition will be funded by a combination of equity and debt with an equity raising launched on the day of the announcement.

Carbon tax repeal

On 17 July 2014, the Federal Government passed legislation to repeal the Carbon Tax. The expected impact on AGL's earnings for the year ending 30 June 2015 is outlined in section 7.2 of the AGL Operating and Financial Review attached to and forming part of the Directors' Report.

Final dividend

On 20 August 2014, the Directors of AGL resolved to pay a fully franked final dividend of 33.0 cents per share, amounting to $185 million. The record date for the final dividend is 4 September 2014 with payment to be made on 30 September 2014. Shares will commence trading ex-dividend on 2 September 2014.

The AGL Dividend Reinvestment Plan (DRP) will be in operation and shares will be allotted at a 0% discount to the simple average of the daily weighted average market price at which AGL's ordinary shares are traded on ASX during each of the 10 trading days commencing on 8 September 2014.

Directors' Declaration
For the year ended 30 June 2014

The Directors of AGL Energy Limited declare that:

(a) in their opinion, there are reasonable grounds to believe that the Parent Entity will be able to pay its debts as and when they become due and payable;

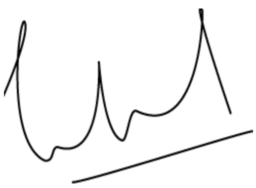
(b) in their opinion, the financial statements and notes thereto are in compliance with International Financial Reporting Standards, as stated in Note 1(a) to the financial statements;

(c) in their opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of AGL;

(d) in their opinion, there are reasonable grounds to believe that the Parent Entity and the subsidiaries identified in Note 31 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee between the Parent Entity and those subsidiaries pursuant to ASIC Class Order 98/1418; and

(e) the Directors have been given the declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the Directors



Jeremy Maycock
Chairman

Sydney, 20 August 2014

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The Board of Directors
AGL Energy Limited
101 Miller Street
North Sydney NSW 2060

20 August 2014

Dear Board Members

AGL Energy Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of AGL Energy Limited.

As lead audit partner for the audit of the financial statements of AGL Energy Limited for the financial year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

DELOITTE TOUCHE TOHMATSU

G Couttas
Partner
Chartered Accountants

Deloitte Touche Tohmatsu
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Independent Auditor's Report to the Members of AGL Energy Limited

Report on the Financial Report

We have audited the accompanying financial report of AGL Energy Limited, which comprises the Consolidated Statement of Financial Position as at 30 June 2014, the Consolidated Statement of Profit or Loss, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Cash Flows and the Consolidated Statement of Changes in Equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' Declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 3 to 75 of the AGL Financial Report 2014.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Deloitte.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of AGL Energy Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of AGL Energy Limited is in accordance with the *Corporations Act 2001*, including:

  i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

  ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 40 to 61 of the Directors' Report for the year ended 30 June 2014. The Directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of AGL Energy Limited for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

G. Couttas

G Couttas
Partner
Chartered Accountants
Sydney, 20 August 2014