Energy in action.®

Since 1837

AGL

Annual Report 2015

Contents

Annual General Meeting Details

AGL's Annual General Meeting will be held at the Melbourne Recital Centre, commencing at 10.30am on Wednesday, 30 September 2015. Full details are available in the Notice of Meeting or on AGL's website **agl.com.au/investorcentre**

About this Report

This report is intended to provide AGL shareholders with information on the environmental, social, governance and risk matters that affect your company, alongside the financial performance for the year, in one easy-to-read document.

Our 2015 Annual Report includes the concise Financial Report of AGL and its consolidated entities for the financial year ending 30 June 2015. Copies of the AGL full Financial Report for the year can be downloaded from AGL's online Investor Centre at agl.com.au/investorcentre or shareholders can contact AGL's Share Registry to request a copy. See page 92 for contact details.

AGL Financial Calendar

12 August 2015
2015 full year result and final dividend announced

25 August 2015
Ex-dividend trading commences

27 August 2015
Record date for 2015 final dividend

24 September 2015
Final dividend payable

30 September 2015
Annual General Meeting

10 February 2016
2016 interim result and interim dividend announced (indicative)

10 August 2016
2016 full year result and final dividend announced (indicative)

We're focused on delivering new, innovative and integrated offerings to meet the changing needs of our customers.

In May 2015, AGL was the first major Australian retailer to launch a battery storage product for customers.

Our first battery is capable of storing 6kWh of energy and will suit an average family home with 3–4.5kW of solar PV. The battery can provide consumers with backup for essential home services such as lighting, refrigeration and communications.

Our Customers

Providing innovative products and services for our customers is at the core of AGL.

Smartphone app
A free app to give customers greater visibility and control over their energy use.

My AGL IQ
A free online energy monitoring tool.

AGL Community
For people interested in finding out more about energy related topics.

AGL Anytime 24/7
An around the clock customer service line.

Energy affordability is a challenge for the community.

AGL has an important role to play in working with governments and community groups to deliver effective support for vulnerable energy consumers. That's why, in December 2014, we launched our Affordability Initiative.

In consultation with community and consumer group leaders, AGL has committed to:

> Invest $6 million over three years to support hardship customers
> Target early intervention to support vulnerable customers
> Support policies which enhance competition of offers
> Deliver clear customer choice
> Offer direct contact for financial counsellors and community workers
> Provide easy to find assistance.

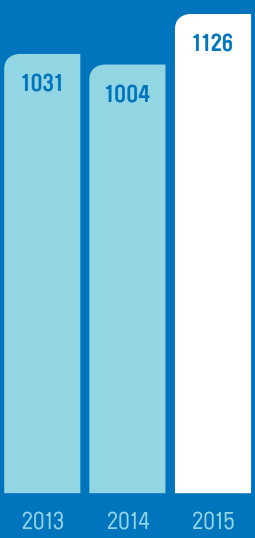
Our Highlights

Statutory earnings were affected by significant items including the costs associated with the acquisition of the Macquarie Generation assets and the impairment of upstream gas assets. Underlying earnings increased with a strong contribution from Macquarie Generation and wholesale gas sales in Queensland.

Operating EBIT ($ million)

1,126

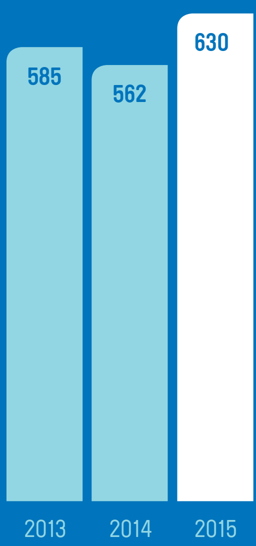
12.2% INCREASE



Underlying profit ($ million)

630

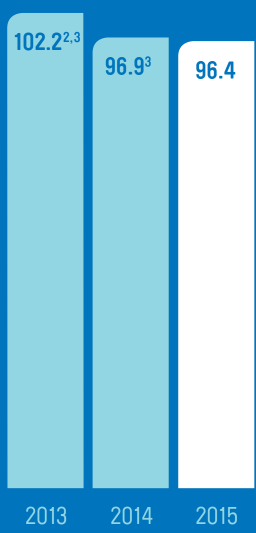
12.1% INCREASE



Earnings per share – underlying (cents)

96.4

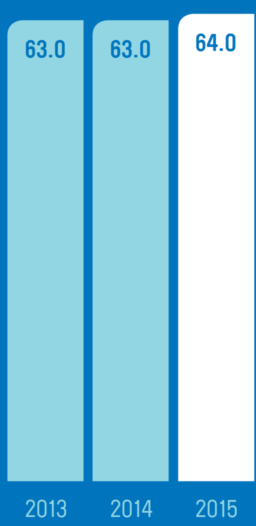
0.5% DECREASE



Dividends per share (cents)

64.0

1.6%[1] INCREASE



Total Injury Frequency Rate

2.5[4]

17% DECREASE

Employees (FTE)

3,537

32% INCREASE

Dual Fuel Customers

1.92M

1.3% DECREASE

Customers

3.7M

1.7% DECREASE

1 Effectively a 3.7% increase after taking into account the bonus element of the rights issue in September 2014.
2 FY2013 restated for adoption of revised accounting standard AASB119 Employee Benefits.
3 Statutory and underlying EPS for the prior corresponding period have been restated to reflect the bonus element of the rights issue completed in September 2014.
4 Rate per million hours worked, excludes the performance of AGL Macquarie. 2.5 represents a 17% reduction on the re-stated rate for FY2014 of 3.0.

Five Year Financial Summary

Year ended 30 June		2015	2014	2013	2012	2011
			(Restated)			
Profitability						
Revenue	$m	10,678	10,445	9,716	7,456	7,073
Statutory Profit	$m	218	570	375	115	559
Underlying Profit	$m	630	562	585	482	431
Financial position and cash flow						
Total assets	$m	15,833	14,134	13,366	14,738	9,696
Gearing (Net Debt / Net Debt + Equity)	%	28.6	29.8	27.9	26.3	6.9
Operating cashflow before interest, tax and significant items	$m	1,527	1,149	1,179	751	715
Shareholder value						
Statutory EPS[1]	cents	33.3	98.2	65.5	22.9	113.9
Underlying EPS[1]	cents	96.4	96.9	102.2	96.1	87.9
Dividends	cents	64.0	63.0	63.0	61.0	60.0
Operating EBIT/Funds Employed	%	9.5	10.0	10.5	9.2	8.9
Adjusted EBIT/Funds Employed	%	11.0	11.7	12.7	11.6	10.5
Absolute Total Shareholder Return	%	14.8	11.8	(1.1)	13.9	1.6
Employee						
Total injury frequency rate[2]		2.5	2.8	5.9	6.6	5.0
Employee engagement score	%	76.0	77.0	77.0	70.0	54.0
General information						
2P reserves	PJ	1,817	1,891	1,729	2,070	2,089
3P reserves	PJ	3,498	3,526	3,326	3,812	3,640
Capital expenditure	$m	825	708	631	768	523
Generation capacity	MW	10,508	5,847	5,847	5,456	3,246
Customer Numbers						
– Electricity	"000	2,280	2,316	2,146	2,084	1,925
– Gas	"000	1,455	1,484	1,371	1,390	1,369
– Total	"000	3,735	3,800	3,517	3,474	3,294
– Dual fuel	"000	1,917	1,942	1,676	1,623	1,472
Electricity sales volumes						
– Consumer	GWh	14,180	14,839	15,276	15,410	14,674
– Business	GWh	12,798	12,963	14,714	17,374	18,090
– Total	GWh	26,978	27,802	29,990	32,784	32,764
Gas sales volumes						
– Consumer	PJ	63.0	57.6	60.6	60.1	62.6
– Business	PJ	79.1	80.6	85.5	81.9	89.1
– Wholesale & Generation	PJ	92.0	66.0	55.0	48.8	64.5
– Total	PJ	234.1	204.2	201.1	190.8	216.2

Notes:

1. Restated for the bonus element of the one-for-five share rights issue completed in September 2014.
2. Excluding performance of AGL Macquarie.

Chairman's Report

AGL's statutory profit after tax for the year ended 30 June 2015 was $218 million. Underlying profit increased to $630 million, allowing AGL to increase the final dividend to 34 cents per share.

New Chief Executive Officer

After an extensive global search, the Board was delighted to announce the appointment of Andy Vesey as Managing Director and CEO to succeed Michael Fraser, who retired from the role in February 2015.

Michael served AGL for almost 31 years in a wide variety of progressively more senior roles, latterly as Managing Director and CEO for seven years. The Board records its appreciation of Michael's long commitment and significant contribution to the Company.

Andy Vesey joined AGL from The AES Corporation, a global power generation utility company listed on the New York Stock Exchange, where he had been Chief Operating Officer. He has more than 30 years' experience in the energy sector, including strategic and commercial leadership of large energy companies and deep experience in complex regulatory and political environments. His skills and experience extend across the energy supply chain and includes power development and electricity generation, distribution and retail businesses. He has a strong understanding of generation technologies and operational excellence programs across the full spectrum of thermal and renewable generation assets.

Andy has already made a substantial impression on AGL in the short time he has been with the Company. He has conducted a full review of AGL's strategic direction and organisational capabilities culminating in presentations to the market in May. These advised of changes in strategic objectives to promote improved efficiency from the existing asset base, while facing head-on the challenges from new technology and of developing new earnings streams.

The Board is fully supportive of the changes, including initiatives to reduce AGL's cost structure and to sell a number of surplus assets. We are confident that these will result in improved return on equity, and increased cash flow, which will open options for AGL to invest in new growth assets or to otherwise increase cash returns to shareholders.

Statutory Financial Results

AGL's statutory profit after tax for the year was $218 million, 62 percent lower than last year. The reduction is mainly due to the inclusion of a number of significant items totalling $808 million before tax (or $590 million after tax).

By far the largest of the significant items is the impairment of approximately $600 million (pre-tax) in the value of AGL's upstream gas assets at Gloucester in New South Wales, at Moranbah in Queensland, and in the Cooper Basin in South Australia. The revaluation of the Gloucester Gas Project reflects the effects of delays in commencing gas production, lower future gas price expectations, and a reduction in reserves as a result of more recent independent technical assessments. Production testing at Gloucester is underway and will inform a final investment decision to be made in 2016.

Whilst these impairments are disappointing, they partly reflect the evolving political realities of coal seam gas exploration in New South Wales which led AGL to announcing in June this year that it would be defining a narrower scope for its future upstream gas activities. Nevertheless, as a result of earlier upstream gas transactions in Queensland, there has been a very substantial net increase in shareholder value from AGL's overall upstream gas investment during the past decade. There is also a potential future profit on sale of another prospective gas field, ATP 1103 near Moranbah, which has zero value in AGL's accounts.

The other notable components of the significant items this year include the transaction costs of acquiring Macquarie Generation of $152 million (pre-tax), which are no longer eligible to be capitalised under accounting standards, and a reduction in valuation of a cluster of assets at Moranbah which stems from the poor production performance of the Moranbah Gas Project (operated by Arrow Energy) in turn resulting in shortfalls of gas supply to the Yabulu power station near Townsville.

Lastly, we have brought to account the anticipated costs of $30 million (pre-tax) incurred in undertaking the substantial restructuring required to align AGL's organisational structure with AGL's evolving strategic objectives. These are designed to achieve future earnings growth for our shareholders in a period of unprecedented change, and to operate our existing asset base as efficiently as possible.

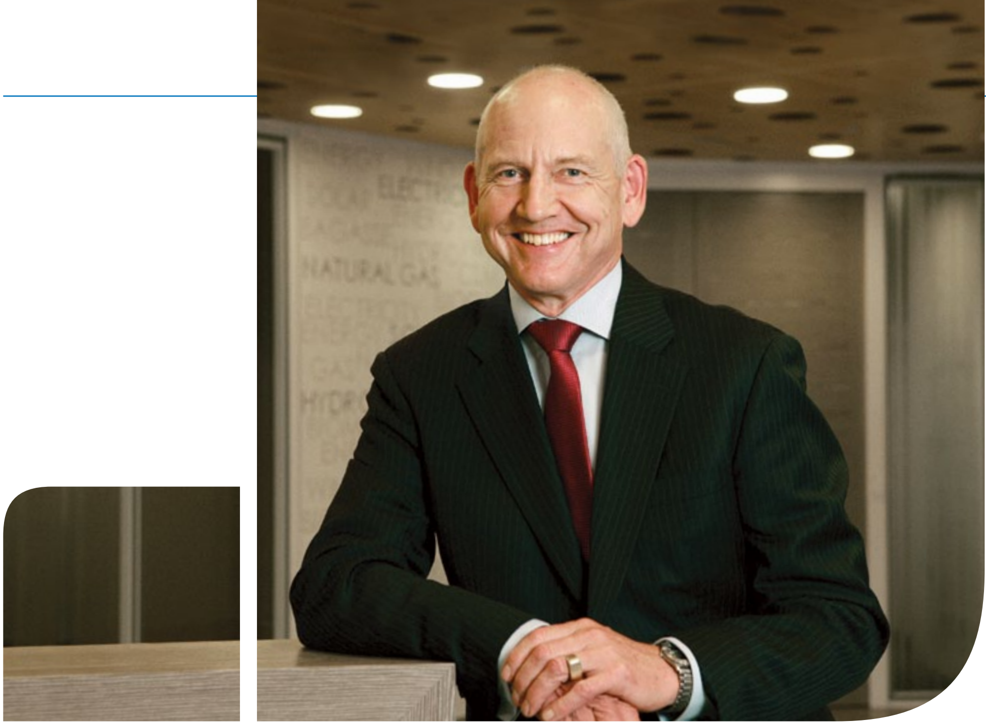
Underlying Financial Results

For many years AGL has reported underlying profit as a more useful measure of the financial performance of the company. Underlying profit is statutory profit adjusted to remove significant items and the effect of revaluing certain electricity hedge contracts used to manage the wholesale cost of buying electricity in the National Electricity Market (NEM).

AGL's underlying profit in 2015 was $630 million, an increase of 12.1 percent on last year's result. The main reason for the increase was the contribution from AGL Macquarie. The Board considers the improvement in underlying profit to be a good result for shareholders in an environment which has seen market demand for gas and electricity continue to fall. Gas and electricity markets also continue to be highly competitive, causing higher costs to AGL to retain existing customers and acquire new customers.

The Board has declared a fully franked final dividend of 34 cents per share. Together with the interim dividend, this brings the full year dividend to 64 cents per share, an increase of one cent on last year. I am sure that shareholders will also be pleased that the payment date for both dividends is earlier than it has been in previous years – two weeks in the case of the interim dividend and one week for the final dividend.

AGL has a policy of maintaining an above investment grade balance sheet – in fact for some time we have been aiming to fully satisfy the credit criteria required by the rating agency. This year we believe we have achieved that target. Balance sheet strength is important not only to give us



Jeremy Maycock
Chairman

resilience and enable us to be a robust counterparty in trading in the NEM, but also to allow flexibility for future transactions.

The Board remains determined to improve AGL's return on shareholder's equity and earnings per share through heightened focus on productivity and efficiency, and better capital allocation. This goal has been firmly in mind as our strategic roadmap has been refined.

The challenge of climate change

AGL's investments in coal fired generation in the last three years have resulted in your Company being not only the largest electricity producer in the NEM, but also having 'in-house' the lowest cost production in the key markets of New South Wales and Victoria to better serve our very large number of domestic consumers as well as our many commercial and industrial clients.

This strong position in 'conventional' generation complements AGL's position as Australia's largest private sector operator of renewable energy assets.

Societal expectations of energy producers are evolving rapidly in response to global concerns about climate change. The realities in Australia are that fossil fuelled electricity generation accounts for more than 80% of the market and in the medium term is critical to maintaining a secure, reliable and affordable electricity supply. It is important to manage the transition away from fossil fuel dependency over a period of time that balances the need for change with these realities. AGL continues to play an important role in this progressive transition away from fossil fuel dependency, and will continue to take a pro-active role in promoting public policy and designing its own investment strategy accordingly.

Consistent with this direction we recently updated our publicly stated policy, which sets out very clear goals for decarbonisation of our own electricity generation assets.

AGL's annual Sustainability Report includes comprehensive information about initiatives the Company is taking to monitor and improve sustainability performance across a number of areas. AGL's 2014 Sustainability Report recently won the award for best private sector sustainability report at the Australasian Reporting Awards.

Conclusion

In last year's Annual Report I referred to emerging trends in the energy industry including advances in technologies such as solar energy and battery storage, a steadily declining demand for centralised grid based energy, a shifting and uncertain regulatory framework, and more active and engaged customers. Regardless of the actual pace and nature of future changes to energy markets, AGL's revised strategic objectives and organisational structure will allow the Company to maintain its position as a leader in the Australian energy market, and to remain at the forefront in shaping both market and government policy responses. As a practical example, this year AGL will invest some $40 million in the development of capabilities and taking to market a range of customer solutions in home electricity generation, storage and control systems. AGL's strong position as a vertically integrated energy retailer leaves the Company well placed to manage the transition to the new business model required to satisfy the changing needs of our customer base.

On behalf of the Board, I congratulate and thank all AGL employees for their contribution over the last 12 months.

$630M
AGL's underlying profit in FY2015 an increase of 12.1%.

64CPS
Annual dividend

Managing Director's Report

I am pleased to deliver the 2015 Financial Year Annual Report, the first since taking over as Managing Director in February 2015.

AGL's business has many strengths, including a strong, well-recognised energy brand with over 3.7 million customer accounts, a stable, world-class customer relationship management platform with advanced analytic capability, the largest and lowest cost thermal electricity generation portfolio in the NEM, a large renewable energy portfolio, and a large, low cost wholesale gas book to support retail gas customers.

However the industry, both in Australia and around the world, is undergoing significant change. Consumers are now more aware of their energy consumption and digital technologies have enabled and increased customer expectations for price transparency and control. The progressive deregulation of retail energy markets has also resulted in Australia having some of the most competitive energy markets in the world.

The energy industry is heavily influenced by public policy and regulation. AGL has consistently promoted competitive neutrality and pro-competitive outcomes in the formulation of energy policies.

In terms of our business, the existing centralised energy supply market is expected to provide opportunities over the near to medium term with wholesale electricity prices expected to increase, although there are challenges in the long-term from the need to reduce carbon emissions, as well as from increasing penetration of decentralised generation and digital technologies.

In the long-term, energy markets will be transformed by new decentralised products and services, including solar PV, battery storage, connected appliances and smart grids.

It is against this backdrop that we have undertaken a strategic review of our operations, activities, and core business.

Over recent years, AGL has pursued a strategy of vertical integration. This has been particularly successful in relation to electricity, with AGL now owning or operating generation capacity of more than 10,000 MW. The vertical integration strategy has allowed AGL to successfully transform from being a mid-sized gas retail and infrastructure company to being one of the largest gentailers in the NEM.

However the categorisation of a gentailer is not something that should define AGL. Rather, our new business definition is to 'Harness insights to enrich the customer's energy experience.' In this way, everything we do is centred on the customer and the interaction they have with AGL around their energy use. All of our employees are now focussed on fulfilling this business focus every day.

The following pages provide further detail on AGL's strategic roadmap, which was presented to investors in May 2015. This follows the comprehensive review of the Company's strategy and organisational capabilities. It is now being implemented to improve returns from our existing assets, deliver sustainable earnings growth, provide improved products and services for our customers and drive world-class productivity and capability across the organisation.

Important areas of policy reform where AGL is currently focussing include consumer pricing and affordability frameworks, competitive and efficient retail energy markets, and carbon reduction policies.

One of my key concerns, and therefore priorities, is that we must do all of this while also addressing the needs of vulnerable customers. This is why we launched our Affordability Initiative, which is detailed further under the Year in Review as part of a summary of our key achievements over the past year.

It has been a year of significant change for our Company. I believe we are well placed to deal with the challenges ahead – we have the right plan and the right people in place to navigate the future.

I'd like to thank all AGL employees for their significant commitment and contribution over the past year.

Andy Vesey
Managing Director & CEO

Operating Cash Flow

$1,527M

Operating cash flow – up $378 million on FY2014

Revenue

23%

Increase in revenue from Solar PV installations

AGL's underlying profit for the year ended 30 June 2015 increased by 12.1 percent to $630 million. This is a solid result in a competitive and difficult operating environment, with market demand for gas and electricity continuing to fall.

A significant achievement for the year was the acquisition of the Macquarie Generation assets, the funding of which was well supported by many shareholders who participated in the rights entitlement offer. The assets have now been fully integrated into AGL's operations portfolio and have already made a substantial contribution to AGL's earnings. Another key achievement was the completion of the 102 MW Nyngan Solar Plant in western NSW in June 2015. This, together with the 53 MW Broken Hill Solar Plant which is under construction and due for completion by the end of 2015, demonstrates AGL's commitment to invest in new renewable assets while also efficiently managing existing coal-fired generation assets until the end of their engineering lifetimes.

Divisional Highlights

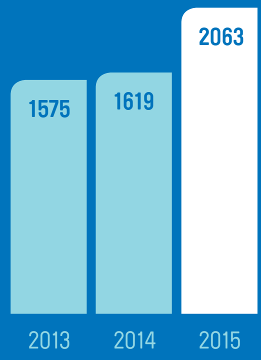
Operating EBIT ($million)

Energy Markets

$2,063M

27.4% INCREASE

The increase in Energy Markets' Operating EBIT is due mainly to the contribution from AGL Macquarie and an increase in wholesale gas sales, mainly in Queensland.

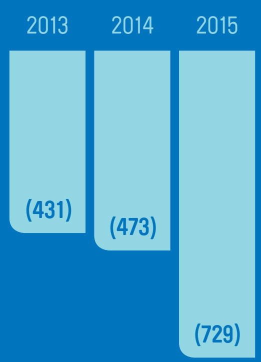


Group Operations

$(729)M

54.1% DECREASE

The decrease in Group Operations Operating EBIT is largely attributed to the higher operating costs from the addition of AGL Macquarie, lower sales revenue from natural gas, higher depreciation and general CPI increase.

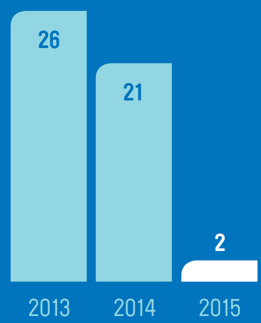


New Energy

$2M

90.5% DECREASE

The decrease in New Energy Operating EBIT is predominantly due to operating costs for the creation of the division and investment to unlock growth, including new resources, increased solar marketing, and costs relating to the digital metering business establishment. This investment is forecast to increase in FY2016 as new revenue streams are explored and developed.



Strategic Roadmap

The strategic roadmap builds on AGL's strengths, and provides a platform for increasing business productivity, driving retail profit growth and positioning AGL for success as the energy industry transforms. Importantly, it acknowledges that an organisational transformation will be required, including the creation of an anticipatory culture and a commitment to an orderly transition to a carbon constrained future.

The strategic roadmap comprises three key components – organise for transformation, drive productivity and unlock growth.

1. Organise for transformation

We have aligned our structure to the achievement of this strategy. Operations functions are now grouped together to achieve greater efficiencies and share expertise, and customer functions are grouped together under Energy Markets. Due to the challenges facing our industry from disruptive and emerging technologies, we have also formed a business unit, New Energy, which is focussed on building expertise and capability and positioning AGL to benefit from the growth that this area is poised to deliver.

Create anticipatory culture

AGL will build agile business processes and systems able to anticipate, adapt and position it to take advantage of opportunities as they emerge. This will enable AGL to act entrepreneurially, put in place lean business processes, rigorously and quickly evaluate investment opportunities, employ scenario planning analysis, and build adaptive business partnerships and supply chains.

2. Drive productivity

The low growth in centralised energy demand and increasing industry competitiveness requires an increased focus on productivity improvements to deliver improved returns. As a result, our plan is to:

Improve capital allocation

AGL is conducting a thorough review of its asset portfolio and targeting around $1 billion of non-strategic and under-performing assets by the end of FY17. Working capital reductions of around $200 million by the end of FY17 are also targeted.

AGL is committed to competing in retail gas markets which will require us to secure cost-competitive gas supplies. This includes, for example, gas supply agreements such as that with Esso/BHP, as well as investment in gas storage and production.

Improve operational productivity

AGL will drive an improvement in operational efficiency targeting around $170 million real reduction in its normalised operating cost base, and around $100 million real reduction in sustaining capital expenditure by FY17. AGL commits to achieve below-CPI increases in electricity generation costs over FY16 and FY17.

3. Unlock growth

AGL has significant growth opportunities both in its core retail business and in new closely-related businesses as new energy technologies become increasingly economic.

Grow retail energy's share of value

The retail energy market in the NEM is highly competitive, but remains relatively unsophisticated compared with other retail industries, such as telecommunications and banking. AGL has been successfully executing its retail growth strategy since June 2014 and will continue differentiating its consumer business through initiatives which include:

> Applying sophisticated customer segmentation to focus customer acquisition, retention, loyalty and product and service innovation to drive higher customer value

> Digital solutions to better meet customers' needs in a low-cost way

> Differentiating with new capabilities, such as AGL's digital meter capability and battery storage business, ahead of major retail competitors.

Invest in business models which exploit new technology

AGL's New Energy business has been established to embrace the major changes transforming the energy industry and to create new business models to meet customers' needs.

AGL intends to create one million 'smart' connections to consumers and businesses by 2020 by scaling to become one of the leading providers of metering services, rooftop solar, commercial energy services, energy storage and electric vehicle services.

AGL is well-placed to succeed in this new and changing environment given its large customer base, intimate knowledge of its customers' needs, its strong brand, sound balance sheet, and highly motivated and committed employees.

Year in Review

Customer focus

Customers are AGL's lifeblood and must be a central part of the way we run our business. During the year, we introduced a number of new and innovative initiatives ahead of our major competitors to provide our customers with better service.

These initiatives include 24 hour, seven-days-a-week service for residential and small business customers, an optimised mobile e-bill and a free smartphone app to give customers greater visibility and control over their energy usage. In Victoria, AGL leveraged smart meter technology to introduce 'Free Power Saturdays', an innovative electricity plan which gives customers 100 percent free electricity on Saturdays, including all consumption and supply charges.

Our New Energy business has stepped up its plans to meet changing consumer needs. It has invested in the growing suite of technologies that customers desire and launched a digital metering business. We have also expanded our solar business, offering more flexible methods of financing and payment to make solar panels more affordable for more people. In May, AGL was the first major energy retailer to launch a battery storage device into the Australian market. AGL has also introduced a solar plan where households can have a 3kW solar system installed for free and pay only for the solar energy that they consume from the panels.

In December AGL announced that it would commit $6 million over three years as part of a program of improvements to provide greater support for our customers who are facing economic hardship or struggling to pay for basic energy needs. Developed following engagement with our Customer Council and three months of intensive consultation with 35 consumer, financial counselling and community groups across Australia, AGL is proudly leading the industry with this energy affordability initiative. We've committed to enhancements to our existing programs as well as some new initiatives to provide our vulnerable customers with greater support, such as payment incentives, independent financial counselling and energy audit services. Much more can of course be done, and we will seek to identify possible future activities.

Our people

Providing a safe, diverse and healthy workplace for our employees and contractors is a priority for AGL. Embracing diversity and inclusion leads to a better understanding of, and engagement with, the customers we serve, the people we work with and the communities in which we work.

This year AGL was recognised as one of the inaugural recipients of the prestigious Employer of Choice for Gender Equality citation, awarded by the Workplace Gender Equality Agency. The new citation supersedes the Employer of Choice for Women citation, which AGL has held since 2012, and reflects the change in focus of the Workplace Gender Equality Act to promote and improve gender equality outcomes for both women and men, while recognising the historically disadvantaged position of women in the workplace.

Specifically, AGL has an objective to increase the representation of women in our senior leadership pipeline. This is a challenging target for a company with a large industrial asset base as many of the roles that would offer critical experiences and career pathways for future leaders of energy companies are non-traditional occupations for women.

This year also marked AGL's focus on support for Lesbian, Gay, Transgender and Intersex (LGBTI) employees. Given that almost eight percent of our employees identify as LGBTI we've set up an internal support network, 'AGL Shine', for LGBTI employees and others who are looking for a way to support co-workers who identify as LGBTI. Educational sessions for employees have also been held to create awareness, drive understanding, and engender a workplace in which LGBTI employees feel they can achieve their full potential.

AGL has also provided its support for the Australian Marriage Equality national campaign.

Commitment to decarbonisation

In April we released our Greenhouse Gas Policy, providing a pathway to decarbonisation of our electricity generation by 2050. AGL has a key role to play in gradually reducing greenhouse gas emissions while providing secure and affordable electricity for our customers.

AGL Greenhouse Gas Policy

To support the Commonwealth Government's commitment to work towards its climate change goals, companies such as AGL need to take the lead. Australia currently relies significantly on coal and gas to power its homes and industries, with more than 80 percent of electricity produced from fossil fuels.

Our policy recognises that there needs to be a measured process of decarbonisation. AGL remains the nation's largest privately owned renewable energy investor and we will continue to invest in low-emissions technologies to reduce the emissions intensity of Australia's electricity supply. However, decarbonisation and modernisation of Australia's electricity system are important goals requiring effective policy. It is important that government policy incentivise investment in lower-emitting technology while at the same time ensuring that older, less efficient and less reliable power stations are removed from Australia's energy mix.

AGL needs to efficiently manage the operations of our assets while looking to the future and how we transition into new generation technologies and capabilities.

Specifically, the Greenhouse Gas (GHG) Policy states that AGL will:

- Continue to provide the market with safe, reliable, affordable and sustainable energy options
- Not build, finance or acquire new conventional coal-fired power stations in Australia (i.e. without carbon capture and storage)[1]
- Not extend the operating life of any of its existing coal-fired power stations
- Close, by 2050, all existing coal-fired power stations in its portfolio
- Improve the GHG efficiency of its operations, and those over which it has influence
- Continue to invest in new renewable and near-zero emission technologies
- Make available innovative and cost-effective solutions for its customers, such as distributed renewable generation, battery storage, and demand management solutions
- Incorporate a forecast of future carbon pricing in to all generation capital expenditure decisions
- Continue to be an advocate for effective long-term government policy to reduce Australia's emissions in a manner that is consistent with the long-term interests of consumers and investors.

Following the release of our policy, we continued to engage with all of our key stakeholders. AGL is in the process of joining the 'We Mean Business' initiative led by WWF and the Carbon Disclosure Project. The initiative allows companies all over the world to be recognised for their commitment to constructively engage on the issue of climate change. Through the initiative, AGL will commit to important activities such as placing an internal price on carbon and discussing emissions performance in our corporate reporting.

1 The term conventional is used to refer to coal-fired power plants that have a higher lifecycle emissions intensity than a combined cycle gas turbine (CCGT).

Sustainable Business Strategy

At AGL, sustainability means thinking about the responsibilities we have to all our stakeholders – our employees, our customers, our investors, the community and the environment in which we all work and live.

Our future success and reputational standing is shaped and measured by more than just our economic performance. It is also influenced by the social and environmental consequences that our decisions and actions have for all our stakeholders.

As a retailer of electricity and gas, AGL is the provider of an essential service to over 3.7 million residential and business customers across Australia. Our customers want competitively priced, reliable and innovative energy solutions delivered with minimal environmental impact.

AGL's sustainability framework helps us manage these complex and often competing priorities. It provides a set of parameters by which AGL can measure and report on how it is addressing the interests and concerns of key stakeholders.

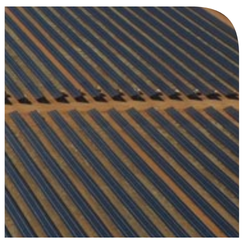
FY2015 saw some significant changes to AGL's business. In September 2014, AGL purchased the assets of Macquarie Generation from the New South Wales Government, adding 4,640 MW of low cost, coal-fired generation to our portfolio which is used to provide competitively priced electricity for our customers. This purchase resulted in AGL becoming Australia's largest scope 1 greenhouse gas[1] generating business. While the acquisition caused no change in the overall amount of greenhouse gases being emitted in Australia, this change in 'ownership' of emissions requires AGL to engage continuously with all our stakeholders about a pathway to longer-term decarbonisation of the electricity sector.

In April 2015, AGL released a revised Greenhouse Gas Policy which acknowledges the key role AGL will play in responsibly reducing greenhouse gas emissions while maintaining the supply of reliable, secure and affordable electricity to customers. AGL has made a commitment to responsibly decarbonise our generation portfolio by 2050.

AGL's investment in small and large-scale solar energy continued during FY2015. We paid over 260,000 customers a solar PV feed-in tariff, and commenced generation from our newly constructed 102 MW Nyngan Solar Plant.

AGL continues to participate in the energy policy reform agenda. Our most important areas of focus over the past year are set out in the Energy Policy Uncertainty section on page 16 of this report.

AGL's 102 MW solar plant in Nyngan, New South Wales



1. Greenhouse gas (GHG) emission types can be explained as follows: **Scope 1** – all direct GHG emissions; **Scope 2** – indirect GHG emissions from the consumption of purchased electricity, heat or steam; and **Scope 3** – other indirect emissions, such as the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity-related activities (e.g. transportation and distribution losses) not covered in Scope 2, outsourced activities, waste disposal, etc.

Reporting sustainability performance

AGL publishes an annual sustainability report to provide an account of our performance in relation to the social, environmental and economic challenges facing AGL and the industry.

AGL's FY2015 Sustainability Report will be available online later in 2015 at **agl.com.au/sustainability**

The Sustainability Report will provide accessible information about our most material sustainability issues in an interactive online format, with comprehensive performance data across a broad range of issues available to view and export from a centralised data centre. The Global Reporting Initiative's (GRI) 'G4' Sustainability Reporting Guidelines, as well as G4 Sector Disclosures for both the 'Electric Utilities' and 'Oil & Gas' sectors will be applied to the Sustainability Report at a 'Core' level. Deloitte will provide assurance over key data sets within the report and the way in which the GRI guidelines have been applied.

A summary of AGL's performance against each of the 12 strategic sustainability targets for FY2015 is available on pages 17–19.

Recognising that reporting on our sustainability performance is not an annual, one-way process, AGL engages with our stakeholders and keeps them up to date with our performance and initiatives through regular posts on the AGL Blog **(aglblog.com.au)**. In February, AGL also launched a monthly economic policy and sustainability newsletter – AGL's Energy Current – to provide a summary of key news, submissions and economic research to subscribing stakeholders.

ARA Sustainability Reporting Award

In June 2015, AGL's FY2014 Sustainability Report won the Special Award for Sustainability Reporting at the 2015 Australasian Reporting Awards, affirming AGL's delivery of comprehensive and transparent information about our business performance.

Material issues

In early 2014, AGL undertook an independent materiality review to determine the issues that were most important to our internal and external stakeholders. As described in last year's Annual Report, the 12 most material issues formed the focus of our FY2014 Sustainability Report and the strategic sustainability targets that were set for FY2015. To maintain consistency, comparability, and internal focus on our sustainability priorities, the material issues identified during FY2014 have been retained for FY2015. However, based upon informal stakeholder feedback in relation to the acquisition of the Bayswater and Liddell coal-fired power stations in September 2014, AGL has explicitly incorporated climate change within the list of material issues for FY2015. These issues are:

- Legislative compliance
- Ethical conduct
- Customer satisfaction
- Employee engagement
- Corporate governance
- Energy policy uncertainty and climate change
- Health and safety
- Talent attraction and retention
- Public policy
- Community engagement
- Profitability
- Water management

It is our intention to revisit the materiality review during FY2016 to confirm AGL's sustainability priorities in line with the re-defined AGL strategy.

AGL needs to balance the demand for reliable energy supply with a responsibility to conserve our environment. We are engaging with all our stakeholders to develop a shared understanding of the best ways for AGL to contribute to responsibly reducing Australia's greenhouse gas emissions, while maintaining the supply of reliable, secure and affordable electricity.

- In June 2015, AGL's 102 MW Nyngan Solar Plant achieved full generation.
- In April 2015, AGL announced a partnership with Air Liquide to recover carbon dioxide at our Torrens Island power station.
- AGL is investing in projects that deliver the most efficient outcomes from our power stations as well as exploring technologies with potential to reduce emissions, including recovery of waste energy and coal drying technologies.

Our Environment

AGL's Greenhouse Gas Policy provides a pathway to decarbonisation of its electricity generation by 2050.

Energy Policy Uncertainty

Long-term and integrated energy policies are required if energy markets are to continue to deliver reliable, and affordable energy while contributing to Australia's climate change objectives and facilitating innovation in products and services for energy consumers. AGL continues to advocate for constructive public policy at a time of significant energy market transformation.

For any area of policy reform to be effective, it must be designed with a sufficiently long-term outlook to remain relevant as industry and economic conditions change. In the past, market design and energy policy have focussed on providing reliable supplies of energy at the lowest cost. Increasingly, communities expect policy makers to deliver energy security, affordability and environmental sustainability. Coordinated and integrated policies are required to jointly pursue these objectives and the energy sector requires clear and stable policy direction to support investments that typically operate for several decades. At the same time, energy consumers are taking charge of their energy use more than ever before through the use of distributed generation and new technologies. The following are key aspects of the energy market and policy reform agenda.

Climate change policies and electricity market design

A long-term and sustainable climate change policy framework will be critical to making investments in electricity supply infrastructure to achieve a transformation to a decarbonised energy sector.

Unfortunately, current energy market and policy settings are inhibiting investment in new large-scale renewable electricity generation projects as projects are unlikely to receive sufficient revenue over their lives to be economically sustainable. Electricity markets are substantially oversupplied due to both a decline in electricity demand and government policies incentivising new capacity to enter the market. Despite recent developments, uncertainty persists in relation to new investment to meet the Renewable Energy Target, which has been the subject of numerous reviews in recent years. Complementary policies will be required to address barriers to exit for ageing emission-intensive power stations to facilitate the transition to a clean, modern power system.

AGL's Greenhouse Gas Policy, outlines a renewed commitment for AGL to contribute to achievement of Australia's climate change objectives. AGL has committed that it will not extend the operating life of any of its coal-fired power stations, and that by 2050, AGL will close all existing coal-fired power stations in its portfolio. AGL will also continue to advocate for effective long-term government policy to reduce Australia's emissions and enable further investment in renewable and low-emissions power generation.

Energy affordability and vulnerable customers

Electricity is an essential service. AGL acknowledges the need to meet community expectations in relation to the support of vulnerable customers. AGL supports a shared responsibility approach to energy hardship, where energy suppliers, governments and the community sector work together to deliver sustainable improvements.

During FY2015, AGL consulted extensively with over 35 community groups to develop a program of improvements to provide greater support for vulnerable energy customers. These are outlined in AGL's $6 million Affordability Initiative, publically launched with community leaders in December 2014. This initiative includes: a focus on early intervention for customers that are struggling financially; special training for relevant staff; the introduction of a dedicated phone line and email address for financial counsellors and community workers to access AGL hardship specialists; and the allocation of funding over three years for payment incentives, independent financial counselling services and energy audit services.

New energy technologies

New technologies such as smart meters, distributed generation and battery storage (along with the products and services that are enabled by these technologies) have the potential to unlock benefits in Australia's energy markets such as reducing customers' energy bills, increasing energy efficiency, and improving the utilisation and productivity of existing energy infrastructure. To realise these benefits, regulatory frameworks should provide competitive neutrality, so that existing and emerging business models can compete on their merits and consumers are able to choose products and services that suit their circumstances.

AGL is a supporter of customer choice in relation to new energy technologies. Our aspirational target is to establish a presence in one million Australian homes by 2020.

FY2015 Sustainability Performance

AGL established targets and commitments to drive performance, behaviours and transparency around each of our top 12 material issues for FY2015. Performance against each of these targets is outlined below, along with new targets to guide our performance in FY2016.

Customer satisfaction

Provide a superior experience that meets the needs of our customers.

FY2015 Target	FY2015 Performance	FY2016 Target
Annual mean customer satisfaction score: > major competitors[1]	Annual mean customer satisfaction score: 7.01, which was higher than that of our major competitors[2].	Annual mean customer satisfaction score: > major competitors

Employee engagement

Maintain an engaged workforce in order to optimise business results.

FY2015 Target	FY2015 Performance	FY2016 Target
Employee engagement score: ≥ 75%	Employee engagement score: 76%, which is within the ORC International Best Performing Zone	Employee engagement score: ≥ 75%

Health and safety

Provide a safe and healthy workplace and eliminate work related injuries and illnesses.

FY2015 Target	FY2015 Performance	FY2016 Target
Total injury frequency rate[3]: ≤ 2.8	Total injury frequency rate: 2.5	Total injury frequency rate ≤ 2.8

Profitability

Drive value and earnings growth.

FY2015 Target	FY2015 Performance	FY2016 Target
Total Shareholder Return: outcomes consistent with AGL's long-term incentive plan (LTIP) performance hurdles[4]	Absolute Total Shareholder Return: 14.8%. This result is consistent with AGL's long-term incentive plan (LTIP) performance hurdles.	Absolute Total Shareholder Return[5]: ≥ 9%

Notes

Sustainability performance data outlined on pages 17–19 covers the activities and facilities over which AGL had operational control for all, or part of, the financial year ended 30 June 2015.

Deloitte has undertaken limited assurance of AGL's performance against these sustainability targets in accordance with the Australian Standards on Assurance Engagement ASAE 3000 Assurance Engagement other than Audits or Reviews of Historical Financial Information (ASAE 3000).

1. Calculated by comparing the average of four quarterly scores to those of both Origin Energy and EnergyAustralia.
2. AGL's average of four quarterly surveys prepared by an independent third party provider was 7.01. AGL's score at the end of Q4FY2015 was 7.11.
3. Total injury frequency rate (TIFR) – for injuries that arise from a single event/shift. TIFR involves the number of lost time and medical treatment injuries classified as TIFR-related in a 12 month period, per million hours worked in that period. The target and performance for FY2015 excludes AGL Macquarie.
4. Per AGL's 2014 Annual Report, benefits commence accruing to executives under the LTIP if total shareholder return exceeds 4 percent. However, an Absolute TSR of 9 percent is required to be achieved if executives are to receive in their notional bank accounts 100 percent of their entitlement to share performance rights. Full details of the operation of the LTIP are set out in the Remuneration Report commencing on page 57 of the Annual Report.
5. In the FY2015 Remuneration Report, changes to the long-term incentive plan (LTIP) for AGL Executives have been foreshadowed. While the Absolute TSR target may cease to be a performance measure under the next LTIP, it will continue to be a target in relation to the transition from the current LTIP to the new LTIP.

Legislative compliance

Comply with legislative requirements across the organisation.

FY2015 Target	FY2015 Performance	FY2016 Target
AGL's aspiration is to comply with legislative requirements across the organisation.	AGL has comprehensive compliance management systems in place to meet legislative requirements and enable instances of non-compliance to be identified and appropriately addressed. The FY2015 Sustainability Report will list incidents that have led to AGL paying court or regulatory-imposed fines or civil penalties; or situations that have led to AGL being subject to non-monetary, court-imposed sanctions arising from the failure to comply with a regulatory or legal obligation during FY2015[6].	Number of adverse court findings in relation to Australian Consumer Law[7]: 0 Number of fines or penalties in relation to environmental licenses[8]: 0

Ethical conduct

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

FY2015 Target	FY2015 Performance	FY2016 Target
AGL's aspiration is to act ethically in its activities, in accordance with the AGL Code of Conduct.	AGL has a framework in place to ensure that ethical standards of behaviour are employed in all of our business dealings; and that there are appropriate avenues through which behaviours that fall short of the standards required by AGL's Code of Conduct can be reported and investigated.[9]	Reduction in the rate[10] of substantiated issues relating to unacceptable behaviour in the workplace: ≥ 33%.

Corporate governance

Adopt best practice corporate governance principles.

FY2015 Target	FY2015 Performance	FY2016 Target
AGL's aspiration is to adopt best practice corporate governance principles.	AGL's FY2015 Corporate Governance Statement discloses the extent to which AGL has adopted and met the Australian Securities Exchange (ASX) Corporate Governance Council's 'Corporate Governance Principles and Recommendations – 3rd Edition'.[11]	Governance score achieved in the DJSI Corporate Sustainability Assessment[12]: ≥ previous year score

Talent attraction and retention

Attract and retain the right people to meet strategic objectives.

FY2015 Target	FY2015 Performance	FY2016 Target
AGL will continue to develop an industry leading Employee Value Proposition.	AGL has comprehensive talent management, diversity, reward and recognition and employee engagement programs in place, holds the WGEA Employer of Choice for Gender Equality citation for 2014 and has a leading employee engagement score.[13]	Key talent retention: ≥ 80%

6. Instances reported in accordance with Global Reporting Initiative (GRI) indicators G4-EN29, G4-SO8 and G4-PR9.
7. Based on the number of court findings in relation to issues that occurred during FY2016.
8. Based on the number of fines or penalties received in relation to incidents that occurred during FY2016.
9. AGL's Code of Conduct identifies the appropriate avenues for reporting inappropriate behaviour. AGL's Workplace Issues Resolution Guidelines outline the process for investigating inappropriate behaviour. Complaints are reported and logged centrally and allocated to the appropriate responsible person to investigate. A record of disciplinary actions and outcomes is provided quarterly to the People and Culture Leadership Team and annually to the Ethics Panel.
10. Rate is defined as the number of substantiated issues relating to unacceptable behaviour in the workplace per number of FTE employees.
11. ASX Corporate Governance Council's 'Corporate Governance Principles and Recommendations – 3rd Edition' are considered to outline best practice corporate governance in Australia.
12. Score achieved in RobecoSAM corporate sustainability assessment for the Corporate Governance section. FY2016 score is released in September 2016, and will be compared to the score received in September 2015.
13. The Employee Value Proposition defines AGL as an employer in the marketplace and is what sets us apart from our competitors. It encompasses the entire employment experience including our vision and values, career opportunities, culture, benefits and rewards. AGL's recent diversity initiatives, talent management program and engagement initiatives will be listed in the FY2015 Sustainability Report.

Energy policy uncertainty and climate change

Pursue sensible industry outcomes that deliver an orderly transition to a carbon constrained future.

FY2015 Target
AGL will continue to produce the AGL Applied Economic and Policy Research Working Paper Series.

FY2015 Performance
During FY2015, AGL released seven papers, providing critical analysis of energy market trends and policy settings, bringing the total number of papers released to 38 over the past six years.

FY2016 Target
Compliance with the AGL Greenhouse Gas Policy: 100%

Public policy

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

FY2015 Target
AGL will continue to regularly and transparently engage with its key stakeholders on significant issues of public policy.

FY2015 Performance
AGL continues to maintain proactive dialogue and consultations with governments, industry, and stakeholder groups to influence sensible public policy outcomes. Copies of most material AGL submissions are made publicly available on the AGL Blog. All political donations are disclosed on an ongoing basis (quarterly) via our website in accordance with the AGL Political Donations Policy.

FY2016 Target
AGL will undertake a stakeholder engagement survey during FY2016 and publish the results.

Community engagement

Work side by side with the community to develop mutually beneficial energy projects.

FY2015 Target
AGL will continue to measure investment in local businesses, including an analysis of job creation and financial contributions to the local community.

FY2015 Performance
AGL has measured the economic contribution of its significant coal seam gas projects throughout FY2015, including tracking levels of community investment, the total and percentage spend on local suppliers, and the contributions of projects to local employment.[14]

FY2016 Target
AGL will host at least four community events at each operational/ development site to allow for community views to be raised and discussed in public.

Water management

Manage water resources sustainably.

FY2015 Target
AGL will continue to make publicly available material data relating to water at AGL sites.

FY2015 Performance
AGL makes material water data available through the AGL Water Portal as well as the AGL website and will also make it available in the FY2015 Sustainability Report.[15]

We acknowledge that the community had some concerns about the timeliness of water-related disclosures during FY2015, as will be outlined in the FY2015 Sustainability Report.

FY2016 Target
AGL will continue to make publicly available AGL site water data which is material to the community.

14. Across AGL's coal seam gas projects in the Camden, Gloucester and Hunter regions of New South Wales, during FY2015 AGL has spent over $7,630,700 on local suppliers, (representing 30%, 10% and 61% respectively of the supplier spend for each individual project during FY2015), invested over $101,500 in local community projects, and had local employment rates of 71%, 36% and 100% (respectively) with a combined salary spend on local employees of $5,366,156.
15. Refer to the AGL Water Portal (http://www.agl.com.au/about-agl/how-we-source-energy/natural-gas/water-portal), and the AGL website (http://www.agl.com.au/about-agl/how-we-source-energy/monitoring-data).

Executive Team

AGL's Executive Team has been revitalised to deliver on the new Strategic Roadmap announced in May 2015.

Andy Vesey
BA(Econ), BSc(MecEng), MS
Managing Director and Chief Executive Officer

Andy has over 30 years' experience in the energy industry including strategic and commercial leadership of large energy organisations, and working in complex regulatory and political environments. His experience extends across the energy supply chain, including power development, generation, distribution and retail businesses. Andy commenced with AGL in January 2015, officially taking over as MD and CEO on 12 February 2015.

Brett Redman
BCom, FCA, GAICD
Chief Financial Officer

Brett joined AGL in 2007 and variously led finance in Merchant Energy, Upstream Gas, Corporate and Group Strategy before being appointed CFO in 2012. He was also Chairman of Loy Yang Power and led its acquisition by AGL. Brett has previously worked locally and internationally for BOC, Email and CSR, having originally qualified with Deloitte.

Marc England
MEng(Hons), MBA
Executive General Manager New Energy

Marc joined AGL in July 2013 as Group Head of Strategy. He has more than 18 years' experience in strategy, finance and general management in the energy and automotive industries, including time at British Gas and Ford. Marc became Executive General Manager New Energy in May 2015 focusing on developing new business models in distributed energy. Marc has a Mechanical Engineering degree and an MBA.

Doug Jackson
MBA Global Energy
Acting Executive General Manager Group Operations

Doug has over 35 years' experience in the power generation industry in North America and Australia. He joined AGL in early 2013. Doug is responsible for 2000 employees and AGL's operational assets including wind, solar, hydro, coal and gas power stations, natural gas and mining operations, along with Health, Safety and Environment, Procurement, Facilities and Security.

Prior to joining AGL, Doug worked in the United States and Canada as a Vice President with TransAlta and has an extensive career in the power generation industry, leading the operations and construction of electricity generation and mining assets.

Jeni Coutts

BA, LLB

Executive General Manager
Stakeholder Relations

Jeni has more than 30 years' experience in corporate affairs and stakeholder relations across a broad range of industries including utilities, rail and road infrastructure, chemicals and pharmaceuticals in major corporations such as CitiPower, Transurban, Siemens and Hoechst. Prior to commencing at AGL, she was the Principal of a boutique consultancy specialising in stakeholder management on bids for some of Australia's largest road and rail infrastructure projects.

Dan Cram

BCom(HR & IR), MBus(IR), GradDip AICD

Executive General Manager
People & Culture

Dan has more than 20 years' experience in human resources at large organisations. This experience encompasses industrial and employee relations, business strategy execution, remuneration and organisational change including merger and acquisition, organisational transformation and outsourcing activities. Since joining AGL in 2007 he has supported the Merchant Energy, Upstream Gas and Corporate business units as well as leading the employee relations function.

Stephen Mikkelsen

CA, BBS

Executive General Manager
Energy Markets

Stephen has over 18 years' experience in senior positions in the Australian and New Zealand electricity markets. Prior to being appointed to his current role, Stephen was Group General Manager Retail Energy where he had overall responsibility for sales, marketing, and servicing AGL's 3.7 million residential and small business gas and electricity customers. Prior to this, Stephen served as AGL's Chief Financial Officer for six years.

Alistair Preston

BSc Business Administration, PhD Management

Executive General Manager
Organisational Transformation

Alistair has over 20 years' experience in the energy industry as a professor, consultant and executive leader. His experience extends across operations, finance and organisational transformation. Alistair has led transformation programs in generation and distribution companies and corporate and regional support service organisations. Most recently, he was AES's Chief Financial Officer for Europe, Middle East and Africa.

Our Employees

AGL's Diversity and Inclusion Policy oversees a comprehensive strategy to build inclusion and foster diversity in all its forms across AGL workplaces.

Current priorities:

> Continue to build AGL's culture of inclusion, embedding diversity and inclusion concepts and principles in our people processes, and expand our focus beyond gender to ensure inclusion of other employee diversity groups.

> Maintain our focus on gender equity with an emphasis on removing barriers for women to increase their representation in leadership.

> Translate flexibility for our different businesses and workplaces, and equip leaders to confidently manage a flexible workforce.

> Investigate mature age workforce initiatives.

OUR VALUES

> Safe & Sustainable
> One Team
> Delivery
> Authentic
> Vitality

76%
EMPLOYEE ENGAGEMENT

We're committed to building a diverse workforce and an inclusive workplace culture. By valuing diversity and inclusion we'll have a better understanding of, and engagement with, the customers we serve, our employees and the communities in which we operate.

Directors' Report 2015

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 2015 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 'AGL'.

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 Directors: Michael Fraser (retired 11 February 2015), Andy Vesey (commenced 12 February 2015)

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

Non-executive Director since October 2006 and Chairman since October 2010. Age 63.

Directorships: Chairman of Arrium Limited (commenced as a Director on 19 August 2014 and as Chairman on 17 November 2014) and of Port of Brisbane Pty Ltd. He is a Director of The Smith Family and he ceased as a Director of Nuplex Limited (commenced in 2011 and resigned on 20 August 2014).

Experience: Jerry's commercial experience spans 42 years, in senior executive and non-executive roles in significant Australian and international companies.

Andy Vesey
BA (Econ), BSc (Mec. Eng.), MS

Managing Director and Chief Executive Officer since February 2015. Age 60.

Directorships: Nil

Experience: Andy has over 30 years of experience in the energy industry including strategic and commercial leadership of large energy organisations, and working in complex regulatory and political environments. His experience extends across the energy supply chain, including power development, generation, distribution and retail businesses. Andy commenced with AGL in January 2015, officially taking over as Managing Director and Chief Executive Officer on 12 February 2015.

Les Hosking

Non-executive Director since November 2008. Age 70.

Directorships: Chairman of Adelaide Brighton Limited.

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 The Carbon Market Institute (ceased 27 November 2014), Innovation Australia Pty Limited, Australian Energy Market Operator (AEMO) (ceased 6 November 2014), 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 58.

Directorships: Managing Director of Transfield Services Limited and Chair of the National Resources Science Precinct. He is President of the Australian Mines and Metals Association (commenced in March 2015).

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

Composition of Board Committees as at 30 June 2015

Director	Status	Audit and Risk Management Committee	People and Performance Committee	Safety, Sustainability and Corporate Responsibility Committee	Nominations Committee
Jeremy Maycock	Independent				✔ Chair
Andy Vesey	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 62.

Directorships: Chancellor of the University of Sydney; Chairman of Future Generation Global Investment Company, a Director of Australian Philanthropic Services, and a Member of the Salvation Army Eastern Territory Advisory Board and of St Vincent's Health Australia NSW Advisory Council.

Experience: Belinda has had extensive experience in non-executive roles including as Chairman of QBE Insurance Group, a Director of Telstra Corporation, Coles Myer, Crane Group, Energy Australia, TAB, Snowy Hydro Trading and Sydney Water. Her executive career included her role as an Executive Director of Macquarie Group; a Vice President of Citibank, and a senior manager at Andersen Consulting.

Sandra McPhee

AM, Dip Ed, FAICD

Non-executive Director since October 2006. Age 69.

Directorships: A Director of Fairfax Media Limited, Kathmandu Holdings Limited and of 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 Scentre Group Limited (commenced on 30 June 2014 and retired on 7 May 2015), Westfield Retail Trust, 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.

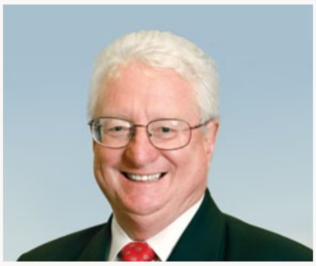
Bruce Phillips

BSc (Hons) PESA, ASEG

Non-executive Director since August 2007. Age 60.

Directorships: Chairman of AWE Limited and a Director of ALS Limited (commenced on 1 August 2015).

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), ceased as Chairman and as a Director of Platinum Capital Limited (commenced as a Director in 2009 and retired on 5 June 2015) 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 64

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 roles. He was previously a member of the Financial Reporting Council, and a Director of RACV Ltd and of Telstra Corporation Limited.

Composition of Board Committees as at 30 June 2015

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' Report 2015 continued

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	79,499
Andy Vesey	73,000
Les Hosking	2,801
Graeme Hunt	1,500
Belinda Hutchinson	9,156
Sandra McPhee	20,546
Bruce Phillips	40,601
John Stanhope	4,669

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 in 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 38 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 over 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	12	12	3	3							2	2
Andy Vesey	5	5	1	1								
Michael Fraser	7	7	1	2								
Les Hosking	12	12	3	3	5	5	4	4			2	2
Graeme Hunt	12	12	3	3			4	4	5	5	2	2
Belinda Hutchinson	11	12	3	3	5	5	4	4			2	2
Sandra McPhee	12	12	3	3	5	5			5	5	1	2
Bruce Phillips	12	12	3	3	5	5			5	5	2	2
John Stanhope	12	12	3	3	5	5	4	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 25 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 and related products and services;

> Construction and/or operation of power generation and energy processing infrastructure;

> Development and operation 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 with 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 Note 30 of the Financial Report 2015.

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 $339,000 of non-audit or assurance 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 Financial Report 2015.

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 2015 was 64.0 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 2014:

Final dividend of 33.0 cents per share (100% franked) paid on 30 September 2014	$185 million
Interim dividend of 30.0 cents per share (100% franked) paid on 25 March 2015	$202 million
Final dividend of 34.0 cents per share (100% franked) payable on 24 September 2015	$229 million

Directors' Report 2015 continued

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 non-compliances which became subject of significant environmental regulation under relevant legislation during the financial year (that is, those which resulted in regulatory action such as a penalty infringement notice and official caution). Improvement actions have been implemented to address each of the issues listed.

AGL businesses also had other non-compliances which did not result in regulatory action. These have been notified accordingly to the relevant regulator as required under relevant legislation. For example, in relation to the Gloucester Gas Project, AGL has notified the NSW Environment Protection Authority (EPA) about exceedances of limits set out in its environment protection licence (EPL). The EPA confirmed that no enforcement action will be taken on this matter, but that it will continue to regulate AGL's activities through changes in its EPL. Similarly, in relation to the Bayswater Power Station and Liddell Power Station, the relevant AGL business has reported incidents to the EPA in accordance with requirements of the EPLs for those sites and apart from the non-compliance listed in Table 1 below, no regulatory action has been taken by the EPA as at the date of this Report.

More information on the Group's environmental performance is published in AGL's Sustainability Performance Report 2015, available on the AGL website in late 2015.

Table 1 – Summary of AGL's non-compliances subject of significant environmental regulation during the financial year

Site	Key Environment and Planning legislation	Comments
Rosalind Park Gas Plant, Camden Gas Project, NSW	Protection of the Environment Operations Act 1997	During a start-up of the Rosalind Park Gas Plant, a pressure safety valve on the gas/water separator at Spring Farm 05 well activated and natural gas was released to the atmosphere from the pressure safety valve vent. AGL and the EPA investigated the incident and identified that an accumulation of coal fines in a pressure transmitter resulted in incorrect pressure readings being transmitted from the wellhead to the control room, resulting in the opening of the well remotely and release of natural gas from the pressure safety valve vent line. The investigation also identified that there was no actual or potential material harm to human health or to ecosystems. The EPA imposed a Penalty Infringement Notice ($15,000) for failure to comply with an Environment Protection Licence condition relating to maintenance of plant and equipment. AGL has implemented corrective actions to reduce the likelihood of this incident re-occurring.
AGL Macquarie Liddell Power Station and Bayswater Power Station, NSW (AGL Macquarie was acquired by AGL on 2 September 2014)	Protection of the Environment Operations Act 1997	On 28 October, 1 and 21 November 2014, AGL reported to the EPA that ash and dust laden water overflowed from the Liddell Ash Dump Valve Basin into Tinkers Creek after a pump on the ash pipeline failed. The EPA issued an official letter of caution in relation to the releases. Key actions to prevent ash releases to Tinkers Creek were agreed with EPA prior to AGL's acquisition of AGL Macquarie and are being implemented in accordance with agreed timeframes. On 29 January 2015 ash slurry was released into the storm water drain system following the failure of an ash pipeline. Some of the ash entered into Lake Liddell. The EPA issued an official letter of caution in relation to the release. Changes to maintenance and operations are being implemented to prevent ash entering stormwater systems. On 11 March 2015, approximately 1,000 litres of ferric chloride entered the Bayswater Power Station storm water system which flows to Tinkers Creek. On 14 July 2015 (that is, outside the relevant period of this report), the EPA issued an official caution in response to the incident. Investigation found that the primary cause of the incident was the failure to prepare a correct work instruction. Corrective actions have been implemented to prevent a recurrence. On 9 April 2015, the pH limit prescribed by the Environment Protection Licence was exceeded at the Tinkers Creek monitoring station. The elevated pH level was caused by the discharge of water containing ammonia from the Bayswater Station ammonia storage tank which was undergoing a cleaning and re-certification process. AGL Macquarie stopped related work and reported the event to the EPA as soon as the elevated pH levels were detected. On 4 August 2015 (that is, outside the relevant period of this report), the EPA issued a $15,000 Penalty Infringement Notice in relation to the licence breach together with two official cautions. Investigation found the incident did not result in harm to the environment. Corrective actions implemented included a review of operational procedures and further environmental awareness training for employees.

Operating and Financial Review
For the year ended 30 June 2015
This report is attached to and forms part of the Directors' Report

Contents

1. AGL's Business Strategies and Prospects
1.1 About AGL
AGL is one of Australia's leading integrated energy companies. It is taking action to responsibly reduce its greenhouse gas emissions while providing secure and affordable energy to its customers. Drawing on over 175 years of experience, AGL serves its customers throughout eastern Australia by meeting their energy requirements, including gas, electricity, solar PV and related products and services. 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, solar, landfill gas and biomass.

1.2 Operating Segments
AGL's segment results are reported according to the internal management reporting structure at the reporting date. A restatement of these segments is outlined and reconciled at section 2.2. AGL has four reportable operating segments:

> **Energy Markets** comprises three business units: Wholesale Markets, Consumer Market and Business Customers. It is responsible for managing the risks associated with satisfying the gas and electricity requirements of AGL's wholesale, consumer and business portfolios. It also sells natural gas, electricity and energy related products and services to Consumer Market and Business Customers, currently servicing over 3.7 million customer accounts.

> **Group Operations** is a diverse power generation portfolio, spread across traditional thermal generation, natural gas (formerly Upstream Gas), gas storage, and renewable sources including hydro, wind and solar.

> **New Energy** was formed in 2014 to drive AGL's capabilities in taking new and distributed technologies to market in Australia. The business unit comprises Residential Energy Services, Business Energy Services, Distributed Energy Services, and the newly established Digital Metering business, ActiveStream.

> **Investments** include equity accounted investments in the ActewAGL Retail Partnership and Diamantina Holding Company Pty Limited.

1.3 Business Strategies and Prospects Overview
On 26 May 2015, AGL announced an outline of its strategic roadmap to deliver improved shareholder returns. The strategic roadmap builds on AGL's strengths, and recognises the challenges and opportunities in the existing business and as the energy industry evolves. The strategy will increase business productivity, drive retail growth and position AGL for success as the energy industry transforms. It recognises that an organisational transformation will be required, including the creation of an anticipatory culture and a commitment to an orderly transition to a carbon constrained future.

The strategic roadmap builds on AGL's many strengths, including a strong, well-recognised energy brand with over 3.7 million customer accounts; a stable, world-class customer relationship management platform with advanced analytic capability; the largest and lowest cost thermal electricity generation portfolio in the National Electricity Market (NEM); and a large renewable energy portfolio.

Directors' Report 2015 continued

Against this backdrop, the retail energy environment is increasingly competitive, consumers are now more aware of their energy consumption, and digital technologies have enabled and increased expectations for price transparency and control.

Additionally, AGL operates in an industry heavily influenced by public policy and regulation. The company will continue to play an active role in promoting competitive neutrality and pro-competitive outcomes in public policies. Important areas of policy reform where AGL is currently focussing include consumer pricing and affordability frameworks; competitive and efficient retail energy markets; and carbon reduction policies. Continuing to address the needs of vulnerable customers remains a priority.

The existing centralised energy supply market is expected to provide near-to-mid term opportunities with an expected increase in wholesale electricity prices, although there are challenges in the long-term from the need to reduce carbon emissions, as well as from increasing penetration of decentralised generation and digital technologies.

AGL recognises that it plays a key role in reducing greenhouse gas emissions, at the same time as providing secure and affordable electricity for Australian households and businesses. AGL released its Greenhouse Gas Policy in April 2015, which included a range of commitments and priorities. These commitments will help drive AGL's success by helping mitigate risks to our business, supporting AGL's brand and retail position, and helping attract and retain talent.

In the long-term, energy markets will be transformed by new decentralised products and services, including solar PV, battery storage, connected appliances and smart grids.

AGL understands that it must overcome internal constraints and needs to create an anticipatory culture able to take advantage of opportunities in a changing market environment.

1.4 Strategic Roadmap

To address the challenges and deliver sustainable earnings growth, AGL's strategy is to harness energy insights to enrich customers. This strategy will be delivered through three key components.

1 Organise for Transformation

> Align structure with strategy
> Create anticipatory culture

2 Drive Productivity

> Improve capital allocation
> Improve operational efficiency

3 Unlock Growth

> Grow retail energy's share of value
> Invest in business models which exploit new technology

1.4.1 Organise for Transformation

Operating models of the past need to be changed and new organisational foundations need to be created to position AGL for the transformation occurring in the energy industry.

1.4.1.1 Create anticipatory culture

To survive and thrive in the changing environment, AGL will build agile business processes and systems able to anticipate, adapt and position it to take advantage of opportunities as they emerge. This ensures that the company acts entrepreneurially; that it has lean processes; that investments are evaluated rigorously and quickly; that scenario planning is employed; and that the company builds adaptive business partnerships and supply chains. AGL's new organisational structure which was recently announced will facilitate this internal cultural change. The company is also developing a deep and growing talent pool.

1.4.2 Drive Productivity

The low growth in centralised energy demand and increasing industry competitiveness is requiring an increased focus on productivity improvements to deliver improved returns.

1.4.2.1 Improve capital allocation

AGL is conducting a thorough review of its asset portfolio and targeting around $1 billion in non-strategic and under-performing asset divestments by the end of FY17. Working capital reductions of around $200 million by the end of FY17 are also targeted.

AGL is committed to competing in retail gas markets which requires the company to secure cost-competitive gas supplies. This includes the company's recent Esso/BHP contract, its investment in gas storage and gas exploration and development. On 6 July 2015, AGL announced that, following a comprehensive review of its Upstream Gas business, it would focus on core gas projects and divest non-core and under-performing gas assets and activities.

In the meantime, the company is continuing to assess the Gloucester Gas Project which includes an evaluation of the cost to develop and the expected gas recovery. AGL has recently signed an agreement for the removal of flow back water to an approved treatment facility. This will enable AGL to conduct flow testing on the four Waukivory pilot wells over a period of approximately six months. Flow testing is an important step toward reaching a final investment decision (FID), now expected in 2016.

1.4.2.2 Improve operational productivity

AGL will drive an improvement in operational efficiency targeting around $170 million real reduction in its normalised operating cost base, and around $100 million real reduction in sustaining capital expenditure by FY17. AGL is committing to achieve below-CPI cost increases in electricity generation costs over FY16 and FY17.

Total recurring cash benefit targeted by FY17 is around $200 million after netting potential increases to power purchase agreement costs linked to some asset divestments.

1.4.3 Unlock Growth

AGL has significant growth opportunities both in its core retail business and in new closely-related businesses as new energy technologies become increasingly economic.

1.4.3.1 Grow retail energy's share of value

The retail energy market in the NEM is highly competitive, but remains relatively unsophisticated compared with other retail industries, such as telecommunications and banking. AGL has been successfully executing its retail growth strategy since June 2014 and will continue differentiating its retail business through initiatives which include:

> Applying sophisticated customer segmentation to focus customer acquisition, retention, loyalty and product and service innovation to drive higher customer value;

> Digital solutions to better meet customers' needs in a low-cost way; and

> Differentiating with new capabilities, such as AGL's digital meter capability and battery storage business, ahead of major retail competitors.

1.4.3.2 Invest in business models which exploit new technology

AGL's New Energy business has been established to embrace the major changes transforming the energy industry and to create new business models to meet customers' needs.

AGL intends to create one million 'smart' connections to consumers and businesses by 2020 by scaling to become one of the leading providers of metering services, rooftop solar, commercial energy services, energy storage and electric vehicle services.

AGL is well-placed to succeed in this new and changing environment given its large customer base, intimate knowledge of its customers' needs, its strong brand, sound balance sheet, and highly motivated and committed employees.

1.5 Financial Year 2016 Outlook

AGL has previously advised the market that it will improve operational efficiency and is targeting around $200 million real reduction in its normalised operating cost base, and around $100 million real reduction in sustaining capital expenditure by FY17. A significant portion of this cost improvement is expected to be achieved by 30 June 2016.

In addition, AGL is targeting around $1 billion in non-strategic and under-performing asset divestments by the end of FY17. The sale of AGL's 50 percent interest in the Macarthur Wind Farm is expected to be completed in the first half of FY16. Working capital reductions of around $200 million by the end of FY17 are also targeted.

Restructuring costs associated with the organisation restructure of approximately $20 million pre-tax are expected to be booked as Significant Items in FY16.

AGL will provide formal guidance of its FY16 earnings outlook at its Annual General Meeting on 30 September 2015.

Directors' Report 2015 continued

2. AGL's FY15 Results

2.1 Results Overview

The consolidated profit after tax attributable to shareholders was $218 million (FY14: $570 million). The underlying profit after tax was $630 million (FY14: $562 million).

The following tables reconcile Statutory Profit to Underlying Profit.

	Year ended 30 June 2015 $m	Year ended 30 June 2014 $m
Statutory Profit	218	570
Adjust for the following after tax items:		
Significant items[1]	578	20
Changes in fair value of financial instruments[2]	(166)	(28)
Underlying Profit	630	562

	cents	cents (Restated)
EPS on Statutory Profit	33.3	98.2
EPS on Underlying Profit	96.4	96.9

(1) Section 2.3
(2) Section 5

Statutory and Underlying EPS for the prior corresponding period have been restated to reflect the bonus element of the rights issue completed in September 2014.

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 2015 $m	Year ended 30 June 2014 $m
Revenue	**10,678**	10,445
Operating EBITDA	**1,505**	1,330
Operating EBIT by segment:		
Energy Markets	**2,063**	1,619
Group Operations	**(729)**	(473)
New Energy	**2**	21
Investments	**26**	23
Centrally Managed Expenses	**(236)**	(186)
Total Operating EBIT	**1,126**	1,004
Less Net finance costs	**(234)**	(223)
Underlying Profit before tax	**892**	781
Less Income tax expense	**(262)**	(219)
Underlying Profit	**630**	562

Underlying profit for the year ended 30 June 2015 (FY15) was 12.1% higher than the prior corresponding period (FY14) driven by AGL Macquarie performing above business case, return to more normal weather conditions and increased Queensland wholesale gas sales.

Distribution Use of System Restatement

As announced to the market on 22 January 2015, the Distribution Use of System (DUOS) costs in South Australia and Queensland have been restated in the FY14 figures. The result of this is a grossing up of revenue and cost of sales in the Energy Markets segment for both states.

The following table summarises this change in reporting:

	Year ended 30 June 2014 $m As published	DUOS restatement $m	Year ended 30 June 2014 $m Restated
Revenue	9,543	902	10,445
Expenses	(8,263)	(902)	(9,165)

There is no change to the reported Gross Margin, Statutory or Operating EBIT or Statutory or Underlying Profit.

Directors' Report 2015 continued

2.2 Segment Restatement

On 29 July 2015, AGL announced that it has changed the basis for segment reporting to align it with the organisational structure announced on 16 April 2015 and the subsequent review and restructure of the Upstream Gas business.

This change is in accordance with Australian Accounting Standard AASB 8: Operating Segments, which requires companies to report segmental information on a similar basis as is used internally by management for reviewing segment performance.

The previous segments were: Retail Energy, Merchant Energy, Upstream Gas, Investments and Centrally Managed Expenses.

The new segments are: Energy Markets, Group Operations, New Energy, Investments and Centrally Managed Expenses.

There is no change to the reported profit in any periods, only movements between segments. To facilitate comparisons with performance in prior periods, AGL has provided the segment reconciliations below.

AGL Group	Year ended 30 June 2015 $m	Year ended 30 June 2014 $m
Revised Structure:		
Energy Markets	2,063	1,619
Group Operations	(729)	(473)
New Energy	2	21
Investments	26	23
Centrally Managed Expenses	(236)	(186)
Operating EBIT	**1,126**	**1,004**
Previous Structure:		
Retail Energy	1,086	318
Merchant Energy	323	899
Upstream Gas	(26)	(13)
Investments	6	23
Centrally Managed Expenses	(263)	(223)
Operating EBIT	**1,126**	**1,004**

2.3 Significant Items

	Year ended 30 June 2015		Year ended 30 June 2014	
	Pre-tax $m	PAT $m	Pre-tax $m	PAT $m
Upstream Gas				
Gloucester	**(275)**	**(193)**	–	–
Moranbah	**(321)**	**(237)**	–	–
Cooper Oil	**(7)**	**(5)**	–	–
Sub-total	**(603)**	**(435)**	–	–
Macquarie acquisition stamp duty	**(93)**	**(65)**	–	–
Macquarie elimination of derivative contracts	**(37)**	**(37)**	–	–
Macquarie acquisition and integration costs	**(22)**	**(15)**	(11)	(9)
Restructuring costs	**(25)**	**(18)**	–	–
Carbon repeal costs	**(12)**	**(8)**	–	–
APG acquisition	**–**	**–**	(50)	(35)
Tax items	**–**	**–**	–	24
Total significant items	**(792)**	**(578)**	(61)	(20)

2.3.1 Upstream Gas

Current Year

On 6 July 2015, AGL announced that following a comprehensive review of its Upstream Gas business, it would focus on core gas projects and divest non-core and under-performing gas assets and activities.

Gloucester

A detailed in-house review of the valuation of the project was completed during the year. The review incorporated the effect of significant delays in production of first gas and the latest estimates of gas volumes, development costs and lower forward gas prices. The combined effect of these factors was to lower the valuation of the project. In advance of all work being completed to allow a final investment decision, AGL has recognised a provision for impairment of $193 million after tax.

Moranbah

For the previous 18 months, AGL had designated the Moranbah assets as "held for sale". In accordance with accounting standards, no depreciation charges associated with these assets was brought to account over this period. To date, the sale process has not identified a buyer of the Moranbah assets. Consequently, with effect from 30 June 2015, AGL has de-designated the "held for sale" classification and reinstated depreciation charges. This change in designation arises as a result of relevant accounting standards. From a commercial viewpoint a sale process for the asset is ongoing.

Historically the Moranbah assets have been valued collectively. A review of the assets has concluded that the Northern Queensland Energy (NQE) business should now be valued separately to recognise that lower than expected gas volumes are not generating sufficient revenue to cover the fixed costs associated with the Yabulu power purchase agreement and associated gas transportation agreement. This has resulted in an impairment charge totalling approximately $237 million after tax. This comprises onerous contract provisions of $262 million, the remaining book value of NQE of $34 million and depreciation previously not recognised on the entire Moranbah project for the 18 months to 30 June 2015 of $25 million less a tax effect benefit of $84 million.

Cooper Oil

The sale of Cooper Oil is underway and expected to result in a loss on sale of approximately $7 million before tax. An impairment charge has therefore been recognised in the FY15 financial statements in anticipation of this event.

Prior Year

Nil.

2.3.2 Merger and acquisition costs

Current Year

i. Acquisition of Macquarie Generation

AGL completed the acquisition of the Macquarie Generation assets on 2 September 2014. The following items were recognised as significant items in the period:

> Stamp duty included in the purchase price of $93 million before tax.

> Elimination of derivative contracts between Macquarie Generation and AGL of $37 million.

> Acquisition and integration costs of $22 million before tax including adviser fees, redundancies and other transaction costs.

Prior Year

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

In FY14, the completion of the acquisition of APG on 25 October 2013 resulted in the recognition of the following costs as significant items:

> Acquisition related transaction costs of $16 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

During FY14 AGL incurred $11 million of costs before tax associated with the acquisition.

2.3.3 Restructuring costs

Current Year

During the period restructuring costs of $25 million before tax were recognised in relation to various organisational reviews conducted during the year.

Prior Year

Nil.

2.3.4 Carbon repeal costs

Current Year

On 17 July 2014, the Federal Government passed legislation to repeal the carbon tax. AGL incurred costs in removing the calculation of the carbon tax from customer statements and also wrote-off previously capitalised costs associated with the original implementation of the carbon tax, totaling $12 million before tax.

Prior Year

Nil.

2.3.5 Tax items

Current Year

Nil.

Prior 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 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.

2.4 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 2.1.

Directors' Report 2015 continued

	Year ended 30 June 2015 $m	Year ended 30 June 2014 $m
Statutory Profit	218	570
Underlying Profit	630	562

	cents	cents (Restated)
EPS on Statutory Profit	33.3	98.2
EPS on Underlying Profit	96.4	96.9

The above EPS calculations have been based upon a weighted average number of ordinary shares of 653,725,754 (FY14: 580,276,015).

Statutory and Underlying EPS for the prior corresponding period have been restated to reflect the bonus element of the rights issue completed in September 2014.

2.5 Dividend

The Directors have declared a final dividend of 34.0 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 24 September 2015. The record date to determine shareholders' entitlements to the final dividend is 27 August 2015. Shares will commence trading ex-dividend on 25 August 2015.

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 64.0 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 allocated under the DRP. Shares will be allocated to plan participants at the volume weighted average price at which AGL shares trade during each of the 10 trading days commencing on 31 August 2015. The last date for shareholders to elect to participate in the DRP for the FY15 final dividend is 5pm on 28 August 2015.

3. 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 2015 $m	Year ended 30 June 2014 $m
Statutory EBIT	567	979
Significant items	792	61
Change in fair value of financial instruments	(237)	(40)
Finance income included in Operating EBIT	4	4
Operating EBIT	1,126	1,004

Operating EBIT for the year ended 30 June 2015 was $1,126 million compared with $1,004 million for FY14. 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	
	2015 $m	2014 $m	2015 $m	2014 $m
Energy Markets	**1,938**	1,603	**2,063**	1,619
Group Operations	**(1,129)**	(464)	**(729)**	(473)
New Energy	**(2)**	17	**2**	21
Investments	**26**	23	**26**	23
Centrally Managed Expenses	**(266)**	(200)	**(236)**	(186)
EBIT	**567**	979	**1,126**	1,004
Add back:				
Depreciation and amortisation	**379**	326	**379**	326
EBITDA	**946**	1,305	**1,505**	1,330
Average funds employed	**11,859**	10,018	**11,859**	10,018
EBIT/Average funds employed	**4.8%**	9.8%	**9.5%**	10.0%

Operating EBIT/Average funds employed decreased 0.5 percentage points (ppts) due to an 18.4% increase in average funds employed. The factors affecting Operating EBIT are explained in detail in Sections 3.1 to 3.6.

The increase in average funds employed was primarily due to the acquisition of the Macquarie Generation assets and AGL's capital expenditure program.

On 2 September 2014, AGL completed the $1,505 million acquisition of the Macquarie Generation assets from the NSW Government. The Macquarie Generation assets include the Bayswater and Liddell power stations.

3.1 Energy Markets Operating EBIT:

Increased 27.4% to $2,063 million from $1,619 million

	Year ended 30 June 2015 $m	Year ended 30 June 2014 $m
Statutory EBIT	**1,938**	1,603
Significant items	**359**	49
Changes in fair value of financial instruments	**(234)**	(33)
Operating EBIT	**2,063**	1,619
Add back:		
Depreciation and amortisation	**89**	108
Operating EBITDA	**2,152**	1,727
Average funds employed	**3,841**	3,554
Operating EBIT/Average funds employed	**53.7%**	45.6%

Energy Markets comprises three business units: Wholesale Markets, Consumer Market and Business Customers. It is responsible for managing the risks associated with satisfying the gas and electricity requirements of AGL's wholesale, consumer and business portfolios. It also sells natural gas, electricity and energy related products and services to Consumer Market and Business Customers, currently servicing over 3.7 million customer accounts.

Consumer Market sources its energy from Wholesale Markets. The transfer price for this energy is calculated based on methodologies traditionally adopted by regulators for determining wholesale energy costs in setting tariffs.

The business utilises its financial hedges and bilateral contracts to ensure adequacy of competitively priced supply.

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

	Operating EBIT		Operating EBITDA	
	Year ended 30 June 2015 $m	Year ended 30 June 2014 $m	Year ended 30 June 2015 $m	Year ended 30 June 2014 $m
Wholesale Markets	**1,675**	1,223	**1,686**	1,238
Consumer Market	**321**	332	**391**	417
Business Customers	**67**	64	**75**	72
Total Energy Markets	**2,063**	1,619	**2,152**	1,727

3.1.1 Wholesale Markets Operating EBIT:

Increased 37.0% to $1,675 million from $1,223 million

	Year ended 30 June 2015 $m	Year ended 30 June 2014 $m	Movement %
Wholesale Electricity	**1,300**	1,038	25.2
Wholesale Gas	**380**	164	131.7
Eco-Markets	**31**	54	(42.6)
Gross margin	**1,711**	1,256	36.2
Net Operating costs excluding D&A	**(25)**	(18)	38.9
Operating EBITDA	**1,686**	1,238	36.2
Depreciation and amortisation	**(11)**	(15)	(26.7)
Operating EBIT	**1,675**	1,223	37.0

Wholesale Markets 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 are complemented by a portfolio of electricity hedge products.

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 energy 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.

3.1.1.1 Wholesale Electricity Gross Margin:

Increased 25.2% to $1,300 million from $1,038 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 Consumer Market and Business Customers bases.

The 25.2% increase in gross margin was largely due to the acquisition of the Macquarie Generation assets on 2 September 2014 which provided an additional 19 TWh of generation and margin of $407 million. The additional generation has resulted in AGL being able to meet the demand of its entire customer base.

This increase is partly offset by the repeal of the carbon tax on 1 July 2014, which is estimated to have reduced earnings by $169 million compared with FY14, due to the loss of Loy Yang A transitional assistance and a reduction in generation revenues partially offset by lower pool purchase rates and carbon tax related costs.

The result was also affected by lower consumer market volumes, which fell 4.4% reducing earnings by $12 million. This was driven by a combination of lower average demand, lower average customers and a change in customer mix across the portfolio, partially offset by favourable weather which returned to more historical averages.

3.1.1.2 Wholesale Gas Gross Margin:

Increased 131.7% to $380 million from $164 million

Wholesale Gas is responsible for sourcing and managing AGL's gas supply and transportation portfolio to maximise wholesale price effectiveness for the Consumer Market and Business Customers businesses. Wholesale Gas also supplies other retailers and internal and third party gas fired generators.

The 131.7% increase in gross margin was largely due to 36.1 PJ or $128 million of additional sales to Queensland wholesale customers and a further $79 million benefit from increased revenue reflecting higher wholesale market prices. Consumer Market volumes also increased 9.4% as weather normalised compared with the record warm weather conditions in the peak winter months of FY14, contributing an additional $12 million.

3.1.1.3 Eco-Markets Gross Margin:

Decreased 42.6% to $31 million from $54 million

Eco-Markets is responsible for managing the liabilities for both voluntary and mandatory green schemes. The largest of the 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 FY14 was driven by higher generation costs for Large-scale Renewable Energy Certificates (LREC) and associated reductions in customer margins contracted in prior years. In the second half of the year, Large-scale Generation Certificates (LGC) prices increased, as a result of legislative changes, the impact of which will flow through in customer prices in future years.

3.1.2 Consumer Market Operating EBIT:

Decreased 3.3% to $321 million from $332 million

	Year ended 30 June 2015 $m	Year ended 30 June 2014 $m	Movement %
Electricity gross margin	**426**	420	1.4
Gas gross margin	**311**	277	12.3
Gross margin	**737**	697	5.7
Net operating costs excluding D&A	**(346)**	(280)	23.5
Operating EBITDA	**391**	417	(6.2)
Depreciation and amortisation	**(70)**	(85)	(17.6)
Operating EBIT	**321**	332	(3.3)

3.1.2.1 Consumer Market Electricity Gross Margin:

Increased 1.4% to $426 million from $420 million

Electricity gross margin increased slightly due to rate improvement through disciplined price management in highly competitive markets, offset by a 4.4% reduction in volume. The reduction in volumes can be attributed to reductions in average demand, lower average customer numbers and changes in customer mix across the residential, small business and high consuming multi-site portfolios, offset by favourable weather impacts, which returned to more historical averages in FY15.

Total average demand per customer fell 4.3% for the year, but, normalising for weather changes, the reduction represents a 6.2% decline. The key drivers of the change are a 0.5% increase in residential average demand or a 1.9% weather normalised reduction, highlighting a continuing but flattening decline, offset by a 13.1% reduction in small business average demand (13.7% weather normalised reduction) driven by portfolio changes and losses of high consuming multi-site customers.

3.1.2.2 Consumer Market Gas Gross Margin:

Increased 12.3% to $311 million from $277 million

Gas gross margin increased predominately due to higher volumes as weather normalised compared with the record warm weather conditions in the peak winter months in FY14 and disciplined price management, partially offset by slightly lower average customer numbers.

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3.1.2.3 Consumer Market Net Operating Costs:

Increased 14.0% to $416 million from $365 million

	Year ended 30 June 2015 $m	Year ended 30 June 2014 $m	Movement %
Labour and contractor services	**(126)**	(112)	12.5
Bad and doubtful debts	**(81)**	(65)	24.6
Campaigns and advertising	**(99)**	(64)	54.7
Other expenditure	**(76)**	(78)	(2.6)
Fees and charges	**36**	39	(7.7)
Net operating costs excluding D&A	**(346)**	(280)	23.6
Depreciation and amortisation	**(70)**	(85)	(17.6)
Net operating costs	**(416)**	(365)	14.0

Total net operating costs included a $33 million year on year impact of APG (acquired October 2013) and Energy Connections NSW (acquired October 2014) acquisitions, and the resulting maintenance of a larger customer base. Underlying increase in net operating costs was $18 million or 4.9% driven by continued investment in digital and customer value capability and an increase in bad debt expenses.

Labour and contractor services costs increased by $14 million, or 12.5%, due to the acquisition of Energy Connections NSW, continued growth and investment in digital capability, labour and offshore contract inflationary increases and employee incentives.

The increase in bad and doubtful debts of $16 million, or 24.6%, is due to the full year impact of the APG portfolio, which continues to perform to the business model, higher provisioning for aged debt and lower bad debt recoveries and debt sales. Following a plateauing of key debt metrics the Credit Improvement Program was launched during the year, which will positively impact the credit performance in future years.

Campaigns and advertising expenditure increased $35 million, or 54.7%, with $25 million of NSW electricity acquisitions no longer being capitalised, which is offset by lower amortisation (as detailed below), and an increase of more than 10% in the number of acquisitions and retentions required to maintain a larger customer base following the acquisition of APG. Investment in reward and loyalty programs and an increase in the direct variable cost to acquire and retain through external channels were partially offset by an improved channel mix with the overall cost to acquire and retain per customer remaining relatively flat in a competitive external environment where margins per customer have increased.

In line with the AGL Strategic Roadmap, a targeted program to drive an improvement in operational efficiency is underway, which will reduce the operating cost base and improve key metrics.

Depreciation and amortisation decreased by $15 million, or 17.6% compared with the prior corresponding period predominately due to the NSW acquisition cost amortisation reduction of $25 million. This was offset by increases in other depreciation and amortisation of $10 million driven by digital capability investment and core system enhancement, together with full year run rate of APG customer contracts and system integration.

	Year ended 30 June 2015 $m	Year ended 30 June 2014 $m	Movement %
NSW direct customer acquisition cost amortisation	**(15)**	(40)	(62.5)
Other	**(55)**	(45)	22.2
Total depreciation and amortisation	**(70)**	(85)	(17.6)

NSW acquisition cost amortisation

The project to substantially grow AGL's customer base in NSW concluded at the end of June 2014. Total capitalised costs during the project were $125 million with an unamortised balance of $14 million remaining at 30 June 2015. The remaining amortisation will be recognised by 30 June 2016. All acquisition costs from 1 July 2014 are now directly expensed through the profit and loss.

3.1.2.4 Consumer Customer Profitability

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

	Year ended 30 June 2015	Year ended 30 June 2014	Movement %
Consumer gross margin	**$737m**	$697m	5.7
Consumer EBIT	**$321m**	$332m	(3.3)
Average customer accounts	**3,726,904**	3,733,047	(0.2)
Consumer gross margin per customer account	**$198**	$187	5.9
Consumer EBIT per customer account	**$86**	$89	(3.4)

3.1.2.5 Consumer Operating Efficiency

AGL focusses on Consumer Market net operating costs as a percentage of gross margin along with net operating costs per customer as the primary measures of operating efficiency. As a secondary measure, cost to serve is also analysed.

3.1.2.5.1 Net Operating Costs as a percentage of Gross Margin and per Customer Account

	Year ended 30 June 2015	Year ended 30 June 2014	Movement %
Consumer net operating costs	**($416m)**	($365m)	14.0
Consumer gross margin	**$737m**	$697m	5.7
Average customer accounts	**3,726,904**	3,733,047	(0.2)
Consumer net operating costs as percentage of gross margin	**56.5%**	52.4%	4.1ppts
Consumer net operating costs per customer account	**$112**	$98	14.3

Net operating costs increased by 14.0% as detailed in section 3.1.2.3.

Net operating costs as a percentage of gross margin increased by 4.1 percentage points (ppts). This is due to higher net operating costs as discussed in section 3.1.2.3 partially offset by incremental gross margin improvement from volume growth and price management.

3.1.2.5.2 Cost to Serve Analysis

	Operating costs Year ended 30 June			Cost per account Year ended 30 June		
	2015 $m	2014 $m	Movement %	2015 $	2014 $	Movement %
Cost to Serve	**(270)**	(234)	15.4	**(72)**	(63)	14.3
Cost to Acquire	**(117)**	(108)	8.3	**(156)**	(148)	5.4
Cost to Retain	**(29)**	(23)	26.1	**(31)**	(29)	6.9
Cost to Acquire/Retain	**(146)**	(131)	11.5	**(87)**	(86)	1.2
Net operating costs	**(416)**	(365)	14.0	**(112)**	(98)	14.3

Cost to Serve per account increased by $9 or 14.3% due to increased operating costs as described in section 3.1.2.3, predominately labour, bad and doubtful debts and depreciation combined with a slight reduction in average customer numbers.

The overall cost to acquire and retain has increased $15 million predominately due to the increase in the number of acquisitions and retentions which have increased more than 10% year on year driven by market activity and a larger customer base. The cost to acquire and retain per customer increased by $1 or 1.2% driven by an increase in direct variable costs through external channels, the acquisition of Energy Connections NSW and continued investment in reward and loyalty programs with higher member numbers and higher revenues per customer. This is partially offset by an improved channel mix with growth in internal sales and a greater number of lower cost retentions. The cessation of capitalisation of NSW electricity acquisitions is offset by the reduction in amortisation relating to the NSW customer acquisitions and therefore does not impact the cost to acquire and retain metric.

Cost to acquire increased by $9 million or $8 per customer account due to an increase in the total number of acquisitions together with an increase in the direct variable cost to acquire through external channels and the acquisition of Energy Connections NSW partially offset by an improved sales mix with a greater number of internal sales at a lower cost.

Cost to retain increased by $6 million or $2 per customer account due to an increase of more than 15% in number of retentions to subdue churn on a larger customer base, particularly for identified high value customers. The per customer increase is driven by the continued investment in reward and loyalty programs with members growing to almost one million customers and increases in the direct variable cost to retain through external channels partially offset by an improved retention mix with a greater number of internal retentions at a lower cost.

Net operating costs per customer account was $112, a $14 or 14.3% increase on the prior corresponding period. The increase in net operating costs relates largely to the increase in operating costs as described in section 3.1.2.3 combined with a slight reduction in average customer numbers.

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3.1.3 Business Customers Operating EBIT:

Increased 4.7% to $67 million from $64 million

	Year ended 30 June 2015 $m	Year ended 30 June 2014 $m	Movement %
Electricity gross margin	42	39	7.7
Gas gross margin	60	62	(3.2)
Gross margin	102	101	1.0
Net operating costs excluding D&A	(27)	(29)	(6.9)
Operating EBITDA	75	72	4.2
Depreciation and amortisation	(8)	(8)	–
Operating EBIT	67	64	4.7

Business Customers manages AGL's Commercial and Industrial (C&I) gas and electricity customers through an integrated sales and service model.

Electricity gross margin has improved despite lower volumes due to customer portfolio changes, which has resulted in higher customer margins due to a strong performance in a market which remains highly competitive.

Gas gross margin has declined with lower volumes due to the closure of two major customers operations and other customer portfolio changes. The change in portfolio and targeted market activity has contributed to an improvement in average customer profitability.

3.1.4 Customer Numbers

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

		30 June 2015 ('000)	30 June 2014 ('000)	Movement ('000)	Movement %
Consumer Electricity					
	New South Wales	806	815	(9)	(1.1)
	Victoria	646	665	(19)	(2.9)
	South Australia	422	431	(9)	(2.1)
	Queensland	387	386	1	0.3
		2,261	2,297	(36)	(1.6)
Consumer Gas					
	New South Wales	700	707	(7)	(1.0)
	Victoria	544	567	(23)	(4.1)
	South Australia	132	130	2	1.5
	Queensland	79	79	–	–
		1,455	1,483	(28)	(1.9)
Total Consumer Accounts		3,716	3,780	(64)	(1.7)
Total Business Customer Accounts		19	20	(1)	(5.0)
Total Customer Accounts		3,735	3,800	(65)	(1.7)

AGL churn decreased by 0.5 ppts to 14.9% (15.4% at 30 June 2014) despite strong competition in the market place. The APG customer base, now integrated in the AGL customer base, churned at a higher rate but remained in line with the acquisition business case. The Rest of Market churn decreased 0.2 ppts to 20.3% (20.5% at 30 June 2014), increasing the favourable gap between AGL and the rest of the market to 5.4%. This favourable gap is supported by strong product offers and customer satisfaction levels.

3.2 Group Operations Operating EBIT:

Decreased 54.1% to ($729 million) from ($473 million)

	Year ended 30 June 2015 $m	Year ended 30 June 2014 $m
Statutory EBIT	**(1,129)**	(464)
Significant items	**401**	–
Changes in fair value of financial instruments	**(1)**	(9)
Operating EBIT	**(729)**	(473)
Add back:		
Depreciation and amortisation	**254**	187
Operating EBITDA	**(475)**	(286)

AGL's Group Operations is a diverse power generation portfolio and is spread across traditional thermal generation as well as renewable sources including hydro, wind, solar and natural gas (formerly Upstream Gas).

The decrease in Group Operations Operating EBIT is largely attributed to the addition of AGL Macquarie from 2 September 2014, lower sales revenue from Natural Gas, higher depreciation and general CPI increase.

The significant item expense for FY15 of $401 million relates primarily to the review of the Upstream Gas business and restructuring costs, as detailed under section 2.3.

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

	Operating EBIT		Operating EBITDA	
	Year ended 30 June 2015 $m	Year ended 30 June 2014 $m	Year ended 30 June 2015 $m	Year ended 30 June 2014 $m
Thermal	**(574)**	(340)	**(372)**	(218)
Renewables	**(77)**	(78)	**(40)**	(37)
Natural Gas	**(23)**	(13)	**(12)**	4
Other	**(55)**	(42)	**(51)**	(35)
Total Group Operations	**(729)**	(473)	**(475)**	(286)

3.2.1 Thermal Operating EBIT:

Decreased 68.8% to ($574 million) from ($340 million)

AGL's thermal energy assets generate electricity from heat derived from gas or coal. Loy Yang and AGL Macquarie generate electricity from coal. AGL Torrens relies on gas and is the largest natural gas power station in Australia.

AGL Macquarie produces approximately 12% of the electricity needed by consumers in eastern Australia. AGL Macquarie's assets include the 2,640 MW Bayswater power station, the 2,000 MW Liddell power station, the 50 MW Hunter Valley gas turbines and the Liddell solar thermal project. AGL Macquarie is the former NSW Government power producer, Macquarie Generation, which AGL acquired the assets of in September 2014.

Loy Yang supplies approximately 30% of Victoria's power requirements. Acquired in June 2012, Loy Yang comprises the 2,210 MW Loy Yang A power station and adjacent Loy Yang coal mine. Loy Yang uses brown coal, supplied exclusively by the open cut mine, as the fuel source to generate electricity. The mine has an annual output of approximately 30 million tonnes of coal.

AGL Torrens, located 18 km from Adelaide CBD, is the largest power station in South Australia and the largest natural gas fired power station in Australia. With a name plate capacity total of 1,280 MW, the station burns natural gas in boilers to generate steam, which then drives the turbines to generate electricity.

The decrease in Thermal Operating EBIT is largely attributed to higher costs incurred as a consequence of the addition of AGL Macquarie from 2 September 2014, CPI and wage escalation, the absence of AGL Torrens insurance proceeds from prior years and higher depreciation driven by a higher asset base. This is partly offset by cost initiatives implemented throughout the year.

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3.2.2 Renewables Operating EBIT:

Increased 1.3% to ($77 million) from ($78 million)

AGL is the largest ASX listed owner, operator and developer of renewable energy generation in the country. AGL has already invested over $3 billion in renewable investments and we are currently building Australia's largest utility-scale solar projects.

AGL operates hydroelectric power stations in Victoria and NSW, with the three primary schemes located in the Kiewa, Dartmouth and Eildon catchments, with total installed capacity of 780 MW.

AGL operates seven wind farms spread across South Australia and Victoria with installed capacity of 925 MW of wind generation. The 420 MW Macarthur Wind Farm, made up of 140 3 MW turbines, is currently the largest of its kind in the southern hemisphere.

AGL is delivering two large-scale solar photovoltaic (PV) power plants with a total capacity of 155 MW (AC) at Nyngan (102 MW) and Broken Hill (53 MW) in regional NSW. Total capital expenditure for the two projects is approximately $440 million, with $167 million being provided by the Federal Government's Australian Renewable Energy Agency (ARENA) and $65 million from the NSW Government.

The Macarthur Wind Farm was held for sale from 1 April 2015. As a result of this accounting classification, depreciation was suspended, which resulted in 3 months of lower depreciation ($5m) in FY15.

3.2.3 Natural Gas Operating EBIT:

Decreased 76.9% to ($23 million) from ($13 million)

On 6 July 2015 AGL announced that following a comprehensive review of the Upstream Gas business it would focus on core gas projects and divest non-core and under-performing assets and activities. The core projects to be retained include the Camden Gas Project, Gloucester Gas Project, Silver Springs underground storage facility, Wallumbilla LPG plant and the recently opened Newcastle Gas Storage Facility.

Assets to be divested include the Hunter Gas Project licence interests (PELs 4 and 267) and associated agriculture activities. Other assets to be divested include AGL's interests in PEL 2 (adjacent to the Camden Gas Project), the Cooper Oil assets (ATP 1056P), CSM Energy and the Spring Gully assets. PELs 2, 4 and 267 will be sold as part of the NSW Government's PEL buy-back scheme. The Moranbah assets have been de-designated as "held for sale" but a sale process for the assets is ongoing.

Natural Gas Operating EBIT is lower as a result of reduced oil sales revenue in Silver Springs, reduced gas sales revenue in the North Queensland Energy (NQE) joint venture and increased operating costs, largely due to well workovers and field related expenditure in Moranbah, partially offset by lower Moranbah depreciation expense.

3.2.4 Gas Sales and Reserves Position

The following table summarises the gas sales volume and associated revenue during the period:

AGL share of operations	Year ended 30 June 2015	Year ended 30 June 2014	Movement %
Gas sales volume (PJ)	**11.1**	12.4	(10.5)
Sales revenue ($m)	**43**	44	(2.3)
Average gas price ($/GJ)	**3.87**	3.55	9.0

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)	Year ended 30 June 2015		Year ended 30 June 2014	
	2P	3P	2P	3P
Gloucester (100%)	**462**	**632**	527	649
Moranbah (50%)	**279**	**475**	285	481
Camden (100%)	**41**	**41**	45	45
Silver Springs (various)	**57**	**148**	57	149
Spring Gully (various)	**10**	**11**	9	11
Sub-Total	**849**	**1,307**	923	1,335
ATP 1103 back-in rights (50%) (1)	**968**	**2,191**	968	2,191
Total	**1,817**	**3,498**	1,891	3,526

(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.

An independent reserves assessment of the Gloucester Gas Project was undertaken, and reserves were reassessed by SRK as at 30 June 2015. Gloucester 2P reserves decreased by 65 PJ (12.3%), due to revision of accessible seams in the shallow section, lateral extent of various reservoirs and changes in costs and prices.

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 Silver Springs Project were last reassessed by SRK as at 30 June 2012. There has been no reassessment since then.

Gas reserves within the Moranbah Gas Project (MGP) were last reassessed by independent reserves and resources evaluation company Netherland Sewell & Associates, Inc (NSAI) as at 31 December 2012; and 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.

Refer to AGL's Annual Reserves Assessment as at 30 June 2015, released to the ASX on 12 August 2015, for more details relating to AGL's gas reserves and resources.

3.2.5 Other Operations EBIT:

Decreased 31.0% to ($55 million) from ($42 million)

Other Operations includes Property & Facilities, Procurement, Technical Functions, and Safety and Environment.

The decrease in EBIT is mainly attributed to the addition of AGL Macquarie's operational support costs, productivity consultants and building central capabilities in engineering and project management.

Group Operations Segments

Thermal	Renewables	Natural Gas	Other
> AGL Macquarie	> Wind farms	> Camden	> Property & facilities
> Loy Yang	> Hydro	> Moranbah	> Technical functions
> AGL Torrens	> Solar plants	> Silver Springs	> Safety & environment
		> Newcastle Gas Storage Facility	
		> Gloucester	

The above list includes only major elements and is not all inclusive.

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3.3 Portfolio Market Reporting

3.3.1 Electricity portfolio

The gross margin for AGL's electricity portfolio is set out in the following table. This analysis combines the Wholesale Markets, Consumer Market, Business Customers and Generation businesses (described in section 3.1 and 3.2) to reflect the procurement and hedging of AGL's electricity requirements, the costs of managing and maintaining AGL's owned and contracted generation assets and the margin from external customers.

	Year ended 30 June 2015 $m	Year ended 30 June 2014 $m	Movement %
Consumer Market	**426**	420	1.4
Business Customers	**42**	39	7.7
Wholesale Electricity	**1,300**	1,038	25.2
Eco Markets	**27**	52	(48.1)
Group Operations (Thermal & Renewables)	**(651)**	(418)	55.7
Portfolio margin	**1,144**	1,131	1.1
Revenue			
Consumer Market	**4,023**	4,344	(7.4)
Business Customers, Wholesale Electricity & Eco Markets	**2,208**	2,314	(4.6)
Group Operations (Thermal & Renewables)	**90**	85	5.9
Total revenue	**6,321**	6,743	(6.3)
Consumer Market network costs	**(2,091)**	(2,040)	2.5
Consumer Market other cost of sales	**(439)**	(427)	2.8
Business Customers network costs	**(937)**	(912)	2.7
Business Customers other cost of sales	**(201)**	(233)	(13.7)
Fuel	**(560)**	(230)	143.5
Generation costs	**(536)**	(372)	44.1
Carbon	**–**	(237)	(100.0)
Depreciation & Amortisation (Group Operations)	**(238)**	(162)	46.9
Costs of generation	**(1,334)**	(1,001)	33.3
Pool generation revenue	**1,301**	1,104	17.8
Pool purchase costs	**(1,549)**	(1,902)	(18.6)
Net derivative (cost)/revenue	**73**	(201)	(136.3)
Wholesale markets cost of sales	**(1,509)**	(2,000)	(24.6)
Total cost of sales	**(5,177)**	(5,612)	(7.8)
Portfolio margin	**1,144**	1,131	1.1

The net 1.1% increase in the Electricity portfolio margin is discussed in sections 3.1.1.1 (Wholesale Markets Electricity), 3.1.2.1 (Consumer Market Electricity) and 3.1.3 (Business Customers Electricity).

The following table provides a volume and rate analysis of the electricity portfolio gross margin.

	Year ended 30 June 2015	Year ended 30 June 2014	Movement %
Generation volumes (GWh)	**38,249**	19,577	95.4
Consumer Market	**14,180**	14,839	(4.4)
Business Customers & Wholesale Markets	**22,017**	15,306	43.8
Sold volumes (GWh)	**36,197**	30,145	20.1
Consumer Market[1]	**283.7**	292.7	(3.1)
Business Customers & Wholesale Markets[1]	**100.3**	151.2	(33.7)
Revenue ($/MWh)[1]	**174.6**	223.7	(21.9)
Consumer Market network costs ($/MWh)[1]	**(147.4)**	(137.4)	7.3
Consumer Market other cost of sales ($/MWh)[1]	**(31.0)**	(28.8)	7.6
Business Customers network costs ($/MWh)[1]	**(73.3)**	(70.4)	4.1
Business Customers other cost of sales ($/MWh)[1]	**(15.7)**	(18.0)	(12.8)
Fuel[2]	**(14.6)**	(11.7)	24.8
Generation costs[2]	**(14.0)**	(19.0)	(26.3)
Carbon[2]	**–**	(12.1)	(100.0)
Depreciation & Amortisation (Group Operations)[2]	**(6.2)**	(8.3)	(25.3)
Cost of generation ($/MWh)[2]	**(34.8)**	(51.1)	(31.9)
Pool generation revenue[2]	**34.0**	56.4	(39.7)
Pool purchase costs[3]	**(40.7)**	(59.5)	(31.6)
Net derivative (cost)/revenue[3]	**1.9**	(6.3)	(130.2)
Average Wholesale cost of sales ($/MWh)[3]	**(39.6)**	(62.5)	(36.6)
Total cost of sales ($/MWh)[1]	**(143.0)**	(186.1)	(23.2)
Gross margin ($/MWh)[1]	**31.6**	37.5	(15.7)

Note: $/MWh calculated on the basis of: 1) Sold volumes; 2) Generation volumes; or 3) Demand volumes.

The change in the gross margin $ per MWh rate was predominantly due to the carbon tax repeal reducing the average revenue, carbon expense, pool sales and pool purchase rates. This reduced Energy Markets gross margin by $169 million which equates to approximately $5.60 per MWh of the total $5.90 per MWh reduction.

The following table provides a breakdown of the supply and demand of volume across the electricity portfolio.

Purchased volumes (GWh)	Year ended 30 June 2015 GWh	Year ended 30 June 2014 GWh	Movement %
Consumer Market	**15,220**	15,900	(4.3)
Business Customers & Wholesale Markets	**22,819**	16,073	42.0
Total demand	**38,039**	31,973	19.0
AGL generated	**38,249**	19,577	95.4
Pool sales	**(38,249)**	(19,577)	95.4
Pool purchases	**38,039**	31,973	19.0
Total supply	**38,039**	31,973	19.0
Energy losses	**(1,842)**	(1,828)	0.8
Total sold	**36,197**	30,145	20.1

Consumer Market electricity average consumption declined 4.3% due to continued demand decline, lower average customer numbers and changes in customer mix across the residential, small business and high consuming multi-site portfolios, offset by favourable weather impacts which returned to more historical averages.

Business Customers and Wholesale Markets volumes increased 42.0% due to the inclusion of large wholesale contracts from the Macquarie Generation acquisition. This increase was partly offset by lower Business Customer electricity volumes, primarily as a result of the loss of several major customers.

AGL generated volumes have increased substantially due to 19,019 GWh generated by AGL Macquarie. This is partially offset by lower wind generation (287 GWh).

Directors' Report 2015 continued

3.3.2 Gas portfolio

The gross margin for AGLs gas portfolio is set out in the following table. This analysis combines the Wholesale Markets, Consumer Markets and Business Customers businesses (described in section 3.1) to reflect the procurement and hedging of AGL's gas requirements and the margin from external customers.

	Year ended 30 June 2015 $m	Year ended 30 June 2014 $m	Movement %
Consumer Market	**311**	277	12.3
Business Customers	**60**	62	(3.2)
Wholesale Markets	**380**	164	131.7
Eco Markets	**4**	3	33.3
Portfolio margin	**755**	506	49.2
Revenue			
Consumer Market	**1,495**	1,362	9.8
Business Customers & Wholesale Gas and Eco Markets	**1,359**	966	40.7
Total revenue	**2,854**	2,328	22.6
Consumer Market network costs	**(646)**	(577)	12.0
Consumer Market other cost of sales	**(28)**	(91)	(69.2)
Business Customers network costs	**(75)**	(76)	(1.3)
Business Customers other cost of sales	**(14)**	(57)	(75.4)
Gas purchases	**(1,041)**	(871)	19.5
Haulage & storage	**(295)**	(150)	96.7
Average Wholesale cost of sales	**(1,336)**	(1,021)	30.9
Total cost of sales	**(2,099)**	(1,822)	15.2
Portfolio margin	**755**	506	49.2

The net 49.2% increase in the Gas portfolio margin is discussed in sections 3.1.1.2, (Wholesale Markets Gas) 3.1.2.2 (Consumer Market Gas) and 3.1.3 (Business Customers Gas).

The following table provides a volume and rate analysis of the gas portfolio gross margin.

	Year ended 30 June 2015	Year ended 30 June 2014	Movement %
Consumer Market	**63.0**	57.6	9.4
Business Customers & Wholesale Markets	**171.1**	146.6	16.7
Sold volumes (TJ)	**234.1**	204.2	14.6
Consumer Market	**23.7**	23.7	–
Business Customers & Wholesale Markets	**7.9**	6.6	19.7
Revenue ($/GJ)	**12.2**	11.4	7.0
Consumer Market network costs ($/GJ)	**(10.3)**	(10.0)	3.0
Consumer Market other cost of sales ($/GJ)	**(0.4)**	(1.6)	(75.0)
Business Customers network costs ($/GJ)	**(0.9)**	(0.9)	–
Business Customers other cost of sales ($/GJ)	**(0.2)**	(0.7)	(71.4)
Gas purchases	**(4.4)**	(4.3)	2.3
Haulage & storage	**(1.3)**	(0.7)	85.7
Average Wholesale cost of sales ($/GJ)	**(5.7)**	(5.0)	14.0
Total cost of sales ($/GJ)	**(9.0)**	(8.9)	0.5
Portfolio margin ($/GJ)	**3.2**	2.5	28.0

Changes in $ per GJ rates was due to higher Queensland wholesale customer margin resulting in increased revenue rates, partially offset by increased haulage costs enabling gas supply from southern states to NSW demand centres. The Consumer Market revenue rate was impacted by price increases, the removal of carbon, changes in customer mix and higher volumes, resulting in the overall $ per GJ being flat with the prior corresponding period.

The following table provides a breakdown of the supply and demand of volume across the gas portfolio.

Gas volumes	Year ended 30 June 2015 PJ	Year ended 30 June 2014 PJ	Movement %
Consumer Market	**63.0**	57.6	9.4
Business Customers & Wholesale Markets	**171.1**	146.6	16.7
Total demand	**234.1**	204.2	14.6
Gas purchases	**(237.1)**	(206.3)	14.9
Less Energy losses	**3.0**	2.1	42.9
Total supply	**(234.1)**	(204.2)	14.6

Consumer gas volumes increased 5.4PJ or 9.4% year on year driven by favourable weather across peak consumption periods.

Business Customers and Wholesale volumes increased 16.7% due to higher Wholesale Queensland sales 36.1 PJ, partially offset by the closure of two major Business Customers operations and other customer portfolio changes.

3.4 New Energy Operating EBIT:

Decreased 90.5% to $2 million from $21 million

	Year ended 30 June 2015 $m	Year ended 30 June 2014 $m
Statutory EBIT	**(2)**	17
Significant items	**–**	–
Finance income included in Operating EBIT	**4**	4
Operating EBIT	**2**	21
Add back:		
Depreciation and amortisation	**11**	9
Operating EBITDA	**13**	30

New Energy was formed in 2014 to drive AGL's capabilities in taking new and distributed technologies to market in Australia, to enable AGL to establish a market leading position. The business unit comprises Residential Energy Services, which includes AGL Solar and Franchisee management (formerly part of Retail Energy), Business Energy Services, including Thermal, Solutions, Electrical and Technical (formerly part of Merchant Energy) and Distributed Energy Services, including AGL's portfolio of low emission and renewable generation assets (formerly part of Merchant Energy) and the newly established Digital Metering business ActiveStream.

3.4.1 Gross Margin:

Decreased 6.5% to $58 million from $62 million

	Year ended 30 June 2015 $m	Year ended 30 June 2014 $m	Movement %
Revenue	**119**	135	(11.9)
Cost of goods sold	**(61)**	(73)	(16.4)
Gross margin	**58**	62	(6.5)

Gross margin decreased $4 million predominantly due to the closure of the Kurnell refinery, and associated lost revenue. This was partially offset by an increase in solar sales revenue.

Directors' Report 2015 continued

3.4.2 Operating Costs:

Increased 36.6% to ($56) million from ($41) million

	Year ended 30 June 2015 $m	Year ended 30 June 2014 $m	Movement %
Labour and contractor services	**(28)**	(21)	33.3
Campaigns and advertising	**(5)**	(3)	66.7
Other	**(12)**	(8)	50.0
Operating costs excluding D&A	**(45)**	(32)	40.6
Depreciation and amortisation	**(11)**	(9)	22.2
Operating costs	**(56)**	(41)	36.6

Operating costs increased $15 million, predominantly relating to the creation of the New Energy division and increased investment to unlock growth in this area, including new resources (capabilities in new technology areas), increased solar marketing and costs relating to Digital Metering business establishment. This investment is forecast to increase into FY16 and beyond as new revenue streams in this area are explored and developed.

3.5 Investments Operating EBIT:

Increased 13.0% to $26 million from $23 million

	Year ended 30 June 2015 $m	Year ended 30 June 2014 $m
Statutory EBIT	**26**	23
Operating EBIT	**26**	23
Add back:		
Depreciation and amortisation	**–**	–
Operating EBITDA	**26**	23

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

	Year ended 30 June 2015 $m	Year ended 30 June 2014 $m
ActewAGL	**31**	25
Diamantina Power Station	**(5)**	(2)
Operating EBIT	**26**	23

3.5.1 ActewAGL (50% AGL Ownership) Operating EBIT:

Increased 24.0% to $31 million from $25 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 $31 million for the year compared with $25 million for the prior corresponding period. The increase is due to a reduction in energy costs and the acquisition of a significant Government contract in the ACT region.

3.5.2 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 in Mt Isa. The power station was commissioned in November 2014.

3.6 Centrally Managed Expenses

Increased 26.9% to ($236 million) from ($186 million)

	Year ended 30 June 2015 $m	Year ended 30 June 2014 $m
Statutory EBIT	(266)	(200)
Significant items	32	12
Change in fair value of financial assets	(2)	2
Operating EBIT	(236)	(186)
Add back:		
Depreciation and amortisation	25	22
Operating EBITDA	(211)	(164)

Significant items predominately relate to the costs associated with restructuring and AGL's acquisition of the Macquarie Generation assets as described in section 2.3.

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

	Year ended 30 June 2015 $m	Year ended 30 June 2014 $m
Labour	(86)	(75)
Hardware and software costs	(57)	(54)
Consultants and contractor fees	(12)	(13)
Insurance premiums	(26)	(9)
Depreciation and amortisation	(25)	(22)
Other	(30)	(13)
Total	(236)	(186)

The increase in Centrally Managed Expenses (CME) was largely due to an additional $27 million in FY15 in expenses from the acquisition of the Macquarie Generation assets and a transfer of the insurance costs of $9 million for Loy Yang from Group Operations to CME, consistent with the reporting of other insurance costs. Other expenses and depreciation and amortisation have increased by $8 million due to a full year's depreciation on completed IT related projects, the acceleration of depreciation due to reanalysing the commercial useful life and write off of minor IT assets.

Excluding these items comparable CME increased by 3% or $6 million in line with wage inflation.

AGL centrally manages a number of expense items, including information technology, 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 2015 and 30 June 2014.

Directors' Report 2015 continued

30 June 2015	Centrally Managed Expenses $m	Reallocate Energy Markets $m	Reallocate Group Operations $m	Reallocate New Energy $m	Unallocated $m
Labour	(86)	–	–	–	(86)
Hardware and software costs	(57)	34	18	1	(4)
Consultants and contractor fees	(12)	2	2	–	(8)
Insurance premiums	(26)	1	25	–	–
Depreciation and amortisation	(25)	15	8	1	(1)
Other	(30)	14	12	1	(3)
Total	**(236)**	**66**	**65**	**3**	**(102)**

30 June 2014	Centrally Managed Expenses $m	Reallocate Energy Markets $m	Reallocate Group Operations $m	Reallocate New Energy $m	Unallocated $m
Labour	(75)	–	–	–	(75)
Hardware and software costs	(54)	36	12	1	(5)
Consultants and contractor fees	(13)	3	1	–	(9)
Insurance premiums	(9)	–	8	–	(1)
Depreciation and amortisation	(22)	15	5	–	(2)
Other	(13)	7	4	1	(1)
Total	(186)	61	30	2	(93)

3.7 Net Finance Costs

Increased 4.9% to $234 million from $223 million

	Year ended 30 June 2015 $m	Year ended 30 June 2014 $m
Statutory finance costs	**(250)**	(243)
Statutory finance income	**20**	24
Remove finance income included in EBITDA	**(4)**	(4)
Net finance costs	**(234)**	(223)

The 4.9% increase in net finance costs was due to an overall increase in average net debt to $3,398 million compared with $3,037 million in FY14. Net debt increased over the period driven by partial funding of the Macquarie Generation acquisition and the capital expenditure program. Statutory finance income reduced by $4 million due to lower cash balances held during the year and decreased interest rates.

3.8 Income Tax Expense

Underlying income tax increased 19.6% to $262 million from $219 million

	Year ended 30 June 2015 $m	Year ended 30 June 2014 $m
Statutory income tax expense	**(119)**	(190)
Income tax benefit from significant items	**(214)**	(41)
Income tax (benefit)/expense from fair value movements	**71**	12
Underlying tax expense	**(262)**	(219)

The increase in the underlying tax expense was due to a 14.2% improvement in underlying earnings. The effective tax rate of 29.4% was higher than 28.0% for FY14 primarily due to a reduction in adjustments relating to prior years.

4. Operating Cash Flow

4.1 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 2015 $m		Year ended 30 June 2014 $m
Operating EBITDA		**1,505**		1,330
Equity accounted income (net of dividend received)		**4**		1
Accounting for onerous contracts		**(14)**		(117)
Working capital movements				
(Increase)/decrease in receivables	**77**		109	
Increase/(decrease) in creditors	**74**		(189)	
(Increase)/decrease in inventories	**(62)**		(54)	
Increase/(decrease) in carbon liability	**(139)**		(12)	
Net derivative premiums paid/roll-offs	**15**		–	
Net movement in GST recoverable/payable	**5**		(9)	
Net movement in green assets/liabilities	**53**		43	
(Increase)/decrease in futures margin calls	**(5)**		–	
Other	**14**		47	
Total working capital movements		**32**		(65)
Operating cash flow before interest, tax & significant items		**1,527**		1,149
Net finance costs paid		**(194)**		(198)
Income tax paid		**(147)**		(191)
Underlying operating cash flow		**1,186**		760
Cash flow relating to significant items		**(142)**		(61)
Statutory net cash provided by operating activities		**1,044**		699

Operating cash flow before interest, tax & significant items was up $378 million compared with the prior corresponding period.

The effect of the repeal of carbon tax on working capital is not significant. The decrease in receivables of approximately $134 million (FY14 $24 million decrease), has broadly offset the estimated decrease in trade creditors of $17 million (FY14 $3 million increase) and decrease in carbon liability of $139 million (FY14 $12 million decrease).

AGL Macquarie contributed $287 million in underlying operating cash flow before interest and tax in FY15.

4.2 Underlying Operating Cash Flow before Interest and Tax

Increased 32.9% to $1,527 million from $1,149 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 2015 $m	Year ended 30 June 2014 $m
Statutory net cash provided by operating activities	**1,044**	699
Cash flow relating to significant items	**142**	61
Underlying Operating Cash Flow	**1,186**	760
Net finance costs paid	**194**	198
Income tax paid	**147**	191
Underlying Operating Cash Flow before interest and tax	**1,527**	1,149

AGL incurred cash expenses in the year relating to transaction and integration costs associated with the acquisition of the Macquarie Generation assets, restructuring and carbon tax repeal costs. These payments are discussed further in Section 2.3.

Directors' Report 2015 continued

5. 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 2015 was a gain of $237 million before tax and $166 million after tax. For the year ended 30 June 2014 change in fair value of derivatives was a gain before tax of $40 million and $28 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 2015 is presented in the following table:

	Net Assets (Liabilities)		
	30 June 2015 $m	30 June 2014 $m	Change $m
Energy derivative contracts	403	18	385
Cross currency and interest rate swap derivative contracts	2	(79)	81
Total net assets (liabilities) for derivative contracts	405	(61)	466
Change in derivative net asset	466		
Premiums paid	(106)		
Premium roll off	121		
Derivatives acquired	(114)		
Total change in fair value	367		
Recognised in equity hedge reserve	72		
Recognised in borrowings	82		
Recognised in profit and loss – pre tax			
Net finance costs	13		
Significant items	(37)		
Changes in fair value of financial instruments	237		
Total change in fair value	367		

6. Funding and Capital Expenditure

Total borrowings increased from $3.7 billion to $3.9 billion, an increase of 5.4% due to the partial debt funding of the acquisition of the Macquarie Generation assets and the funding of AGL's capital expenditure program; including the Newcastle Gas Storage Facility, Natural Gas projects and operating plant maintenance programs. AGL issued $600 million in Medium Term Notes in October 2014, $350 million of the notes were used to repay the debt bridge used for the purchase of the Macquarie Generation assets. AGL continues to prepay Loy Yang debt with longer tenure bank debt. A $410 million syndicated 6.5yr term debt was executed in February 2015 to partially prepay Loy Yang senior debt and a $100 million bridge facility was established in April 2015 to refinance an on market buy-back of Loy Yang CPI Indexed bonds. AGL's Gearing (Net Debt/(Net Debt + Equity) as at 30 June 2015 was 28.6% (FY14: 29.8%), consistent with the BBB Standard & Poor's credit rating.

Total capital expenditure was $794 million, $277 million higher than FY14. "Sustaining" capital expenditure was $368 million (2014: $255 million) and included office relocation costs, consistent expenditure on Loy Yang maintenance, and the addition of AGL Macquarie maintenance. Capital expenditure on growth initiatives net of government grants was $426 million and included $72 million of expenditure on the Newcastle Gas Storage Facility and $101 million on Natural Gas projects. Expenditure on the solar generation projects was $263 million for the year, less government grant receipts of $31 million for the year. Other growth expenditure of $21 million related to New Energy projects. Expenditure on growth projects was $164 million higher than FY14.

7. Business Acquisitions and Disposals

On 2 September 2014, AGL completed the $1,505 million acquisition of the Macquarie Generation assets from the NSW Government. The Macquarie Generation assets include the Bayswater and Liddell power stations.

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		Description and Mitigation
1.	**Policy uncertainty**	The risk that political intervention results in increased regulation and/or unfavorable policy outcomes in areas such as competition, affordability, tariff reform, competitive neutrality and decarbonisation. AGL engages with governments and regulators to promote responsible policies in the areas of tariff reform, retail price deregulation, and carbon reduction. AGL works with customer representative bodies and charitable organisations to promote industry policies and practices to assist energy consumers struggling with the affordability of energy costs.
2.	**Reputation & trust**	The risk that customer, community, regulator, employee and investor expectations are not met, creating a negative effect on reputation or lack of trust with key stakeholders. AGL communicates frequently with all key stakeholder groups. AGL's compliance program is designed to prevent material breaches of relevant legislation.
3.	**Shareholder returns**	The risk of failing to deliver financially competitive operations or in failing to maintain capital funding requirements to finance AGL's growth objectives and to generate adequate returns for shareholders. AGL has announced plans to reduce its operating costs and sustaining capital expenditure and to divest non-core assets. AGL has also developed plans to grow its New Energy business to provide opportunities for future earnings growth.
4.	**Execution of our New Energy strategy**	The risk that the New Energy strategy for renewable energy, energy efficiency and smarter technology does not achieve revenue and EBIT objectives. AGL has set targets for smart home connections, rooftop solar installations and total revenue to provide a basis for continuous monitoring of performance.
5.	**Asset operations**	The risk that AGL fails to achieve/exceed operational and reliability targets while ensuring health, safety and environmental obligations are met. AGL has in place a comprehensive asset maintenance plan to monitor that assets are being operated safely, sustainably and reliably.
6.	**Business resilience**	The risk of failing to operate assets safely, efficiently and reliably and in accordance with environmental obligations. AGL's risk framework operates to identify material risks, put in place processes to prevent risk events from occurring, and to identify, respond to and recover from risk events that do occur. AGL's emergency response, disaster recovery and business continuity plans are key components of this framework.
7.	**Access to gas supply**	The risk that AGL does not secure gas on competitive and commercial terms to supply its customer base. AGL has adopted a diverse approach to sourcing gas supplies, including self-production, long-term gas contracts, and the construction of gas storage assets at Newcastle (in NSW) and Silver Springs (in QLD).
8.	**Delivery of energy market returns**	The risk that AGL does not generate sufficient returns from the underlying energy markets business. AGL's marketing strategies are directed at retaining or acquiring customers with the highest value. AGL's scale provides a base for keeping costs to a minimum. A program of organisational transformation is being developed to deliver cost efficiencies. New products have been developed to differentiate AGL from its competitors.

Directors' Report 2015 continued

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 2015 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.

10. Information on Audits

This report has been derived from the AGL Financial Report 2015 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 2015 also released to the market on 12 August 2015.

REMUNERATION REPORT

For the year ended 30 June 2015

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

Dear Fellow Shareholder,

On behalf of the Board we are pleased to introduce AGL's 2015 Remuneration Report.

AGL's approach to remuneration is intended to attract and retain the best talent to deliver our strategic objectives and align executive rewards with the creation and delivery of shareholder value.

In the 2015 financial year, at the underlying profit level, AGL continued to perform well, reporting a net profit after tax of $630 million, an increase of 12.1% from the previous period. AGL's statutory net profit after tax was $218 million which primarily reflects the impairments of Upstream Gas assets and AGL Macquarie acquisition costs. The results include the earnings of AGL Macquarie from 2 September 2014.

During the year, we appointed Mr Andy Vesey as CEO and Managing Director to replace long serving CEO Michael Fraser. Andy's remuneration package is more heavily weighted in favour of incentive remuneration, and his starting fixed remuneration level was set below that of his predecessor.

Following the appointment of Andy, there has also been a restructure of our Executive Team. Appointments were made from both our internal talent pool and external candidates. New executives were appointed at market competitive levels to attract and retain the right talent to deliver our strategy, which has been refined and revised under Andy's leadership.

While there have been a number of changes in the Executive Team during the year, earlier in the financial year a number of increases were made to fixed remuneration levels of existing KMP to address issues of market competitiveness and internal relativities.

In terms of our incentive programs the group financial targets under the STI were met with underlying profit after tax increasing by 12.1% on 2014. The STI financial target was increased during the year to reflect the business case presented to the Board in relation to the acquisition of the Macquarie Generation assets. The Executive Team delivered the targeted performance to meet our safety, customer and engagement conditions, which are critical to the long-term success of AGL, and most executives also met their other non-financial targets in large measure or in full. The effect of impairments to AGL's Upstream Gas assets has been taken into account where appropriate in assessing the 2015 STI payments.

As the Executive Team was reconstituted we increased STI percentage opportunities for some executives to address issues of market competitiveness. In conjunction, the Board has introduced STI deferral for all KMP, with 50% of the CEO's STI and, initially, 10% of other KMP's STI deferred into shares for 12 months. For FY15 we rebalanced the weighting of the financial measures to 70% for the CEO and progressively to 60% for other KMP. We have continued to rebalance the weighting of financial and non-financial measures and for FY16 financial measures will comprise 70% for all KMP to provide stronger accountability in delivering appropriate returns to shareholders.

Outcomes under the LTI banking plan were mixed. AGL's Absolute TSR was 14.8% over the performance period, resulting in the maximum deposit possible being made in relation to the absolute TSR performance condition.

This result against our longer term target of absolute TSR of 14% was achieved over a period when the market also performed well relative to AGL, resulting in the relative TSR performance condition achieving the 47th percentile of the ASX100 comparator group and resulting in a modest contribution into the Relative TSR bank account. As we underperformed against the EBIT/Funds Employed target, a clawback was applied to the notional bank account. While it may be contended that our relative TSR performance is at odds with the Board's Absolute TSR performance hurdles, the Board considers Absolute TSR of more than 14% is still a good rate of return for shareholders.

As announced to the market and in the context of a rapidly evolving energy industry, the new management team under Andy's leadership is pursuing a revised corporate strategy. As AGL transitions from a vertically integrated energy generator to an anticipatory, agile, customer-focussed organisation embracing technology and innovation, we will be focusing on improving capital efficiency and pursuing sustainable earnings growth in both our core retail business and emerging new energy technologies.

The setting of strategic direction and introduction of a new leadership structure led by Andy presents an opportunity to revisit our remuneration framework. Accordingly, the Board is well advanced with a holistic review of the current remuneration framework. As part of this review, taking into account the views of our new CEO and the management team, and having regard to views expressed by our shareholders, the Board has decided that a number of changes to our remuneration practices and policies are appropriate. These changes are intended to align with the strategic roadmap, and to re-emphasise our focus on improving financial returns and the ongoing creation of long term value for shareholders.

We are currently working through the detail and will report on changes to the remuneration framework as a whole in the 2016 Annual Report. One change we can confirm, is that a simpler LTI plan will apply from FY16 onwards to reward the creation of long term shareholder value.

From FY16, adjustments to statutory financial results for incentive purposes will continue to include unrealised electricity market hedging gains or losses, but will only include, at board discretion, significant items where it can be clearly demonstrated that their exclusion was outside management control or foresight and would be inequitable.

On behalf of the Board we look forward to welcoming you to the 2015 AGM.

Yours faithfully

Les Hosking
(Chair of People and Performance Committee) and

Jeremy Maycock
(Board Chair)

Directors' Report 2015 continued

Contents

The Directors present the Remuneration Report for AGL Energy Limited and its consolidated entities for the year ended 30 June 2015 in line with Section 300A of the Corporations Act.

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

1. AGL performance in 2015

The Directors are pleased to present AGL Energy Limited's sound underlying financial performance for 2015, with AGL posting increased underlying profit after tax (NPAT), revenue, and earnings before interest and tax (EBIT). In summary:

> underlying net profit after tax increased by $68 million or 12.1% on 2014.

> underlying operating cash flow increased by $426 million or 56.1% on 2014.

> revenue increased by $233 million, up 2.2% on 2014.

> earnings before interest and tax was up $122 million, or 12.2% on 2014.

These results are reflected in remuneration outcomes for 2015 (see section 6).

2. Remuneration framework

2.1 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 2015 and detailed in this Report are listed below.

Name	Position	Tenure
Managing Director and Chief Executive Officer		
Andy Vesey (1)	Managing Director and Chief Executive Officer	Part year
Executives		
Daniel Cram (2)	Executive General Manager, People and Culture	Part year
Marc England (3)	Executive General Manager, New Energy	Part year
Doug Jackson (4)	Executive General Manager, Group Operations (acting)	Part year
Stephen Mikkelsen (5)	Executive General Manager, Energy Markets	Full year
Alistair Preston (6)	Executive General Manager, Organisational Transformation	Part year
Brett Redman	Chief Financial Officer	Full year
Former executive directors		
Michael Fraser (7)	Managing Director and Chief Executive Officer	Part year
Former senior executives		
Anthony Fowler (8)	Group General Manager Merchant Energy	Full year
Michael Moraza (9)	Group General Manager Upstream Gas	Part year
Non-executive directors		
Jeremy Maycock	Chairman	Full year
Les Hosking	Non-executive Director	Full year
Graeme Hunt	Non-executive Director	Full year
Belinda Hutchinson	Non-executive Director	Full year
Sandra McPhee	Non-executive Director	Full year
Bruce Phillips	Non-executive Director	Full year
John Stanhope	Non-executive Director	Full year

(1) Andy Vesey was appointed as Managing Director and Chief Executive Officer effective 12 February 2015.
(2) Daniel Cram was the Head of People and Culture, Merchant Energy, Corporate and Head of AGL Employee Relations prior to his appointment as Executive General Manager, People and Culture effective 12 May 2015.
(3) Marc England was the Group Head of Strategy prior to his appointment as Executive General Manager, New Energy on 4 May 2015.
(4) Doug Jackson was the Chief Operating Officer, Merchant Operations prior to his appointment as acting Executive General Manager, Group Operations on 4 May 2015.
(5) Stephen Mikkelsen was the Group General Manager Retail Energy prior to his appointment as Executive General Manager, Energy Markets on 4 May 2015.
(6) Alistair Preston was appointed Executive General Manager, Organisational Transformation effective 1 June 2015.
(7) Michael Fraser retired effective 11 February 2015.
(8) Anthony Fowler's role was made redundant effective 1 July 2015.
(9) Michael Moraza retired effective 18 February 2015.

2.2 Remuneration framework

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 AGL's objectives and ultimately, generating satisfactory returns to shareholders.
Our Executive remuneration framework comprises three elements:

> fixed remuneration (FR);

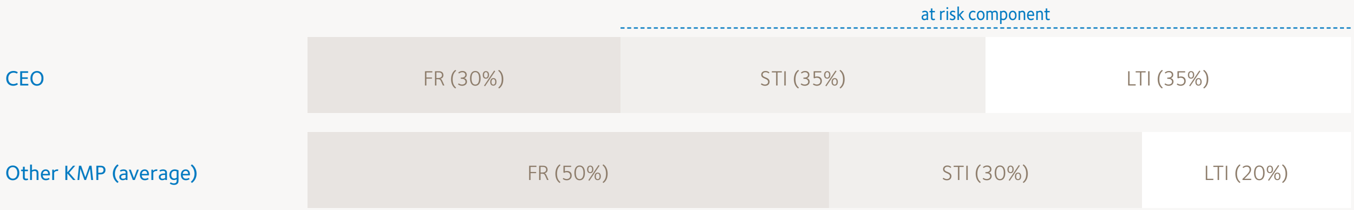
> a short-term incentive (STI); and

> 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 AGL'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 2015 financial year allocation is as follows:

Remuneration Mix



Directors' Report 2015 continued

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: > Scope and nature of the role and responsibilities > Executive's performance > Executive's expertise, skills and experience > Relevant market analysis	> Set at competitive levels (including internationally) 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 based on individual performance as they prove themselves in their roles.
+		
Short-term incentive (STI) > Cash > Deferred shares (CEO: 50% of award, other KMP: 10% of award)	Financial measures: underlying profit Non-financial measures: > People Management (includes employee safety and engagement) > Strategic Growth and Innovation (includes customer and individual KMP objectives) Weighting: > CEO: 70% financial, 30% non-financial > Other KMP: 60% financial, 40% non-financial	Financial targets are set to ensure strong discipline is maintained. Underlying profit is aligned with budget and should drive dividends and share price growth over time. Items that are not within management control or foresight are excluded. Non-financial objectives drive performance and behaviours, which are consistent with achieving our key strategic objectives. > Providing a safe workplace is critical. > With a customer base in excess of 3.7 million, customer satisfaction is considered critical to AGL's long term success. The Board is focused on ensuring our customer centric culture is maintained and further strengthened. > AGL values its employees, and believes that high levels of employee engagement translate to better customer service and performance output. > As each Executive's individual responsibilities impact the overall AGL business, performance objectives are also set in relation to their specific area of responsibility. Performance against these objectives is intended to translate to improved shareholder return.
+		
Long-term incentive (LTI) > Share performance rights > Held in notional bank accounts over the long term, subject to share price risk and clawback in future years, with a portion released each year	> **Relative Total Shareholder Return (RTSR)** measured against the ASX100 (50%) > Annual growth in **Absolute Total Shareholder Return (ATSR)** (50%)	External market measures are aligned with, and reward the generation of, sustained shareholder value over the long-term > RTSR requires AGL to outperform the returns delivered by other ASX100 companies. > ATSR requires year on year growth and delivery of strong returns to shareholders The operation of the plan aligns shareholder and executive interest over the long term. SPRs are 'banked' and the majority are retained in bank accounts over the long term, subject to share price risk and clawback in future years.
=		
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.	

3. Remuneration governance

3.1 Policy and approach to setting remuneration

Our remuneration policy is designed to:

> be set at competitive levels to attract, retain and motivate key talent;

> drive performance and behaviour to achieve AGL's short and long term objectives;

> support executive accountability for delivering agreed levels of performance; and

> align executive reward with the creation of long term sustainable value for shareholders.

3.2 Role of People and Performance Committee

The Board takes an active role in the governance and oversight of AGL's remuneration policies and is responsible for ensuring that AGL'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. Details of the composition of the Committee are set out on pages 24 and 25.

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 2015, 3 degrees consulting was engaged to provide market practice information and independent advice on certain other governance and remuneration related matters. *3 degrees consulting* did not provide any 'remuneration recommendations' as defined in the Corporations Act 2001 during the 2015 financial year.

3.3 Minimum shareholding policy

While AGL does not have in place a formal minimum shareholding policy for non-executive Directors and Executives, they currently hold sizeable shareholdings, including approximately two times NED fees for the Chairman and 50% of FR for the recently appointed CEO. The former long serving CEO had more than 100% of FR on retirement. AGL's new CEO holds shares equivalent to approximately 60% of FR.

The details of non-executive Directors and Executives shareholdings as at 30 June 2015, are set out in a table in section 9.2 on page 72.

3.4 Hedging policy

To ensure alignment between Executives' incentives and shareholders' interests, AGL 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 or in relation to AGL securities in general without prior written approval.

Directors' Report 2015 continued

4. Short term incentive plan

The STI is an annual incentive plan delivered in cash and deferred shares subject to the achievement of pre-defined AGL and individual performance objectives.

4.1 Summary of performance in FY15

The table below sets out the performance objectives for the 2015 STI and whether those objectives were met, exceeded expectations or fell below expectations.

		RESULT
FINANCIAL OBJECTIVES	Financial results	**Statutory Profit** Statutory net profit after tax in 2015 was $218 million – down 61.8% on 2014. **Underlying profit** Underlying profit after tax in 2015 was $630 million – that is 12.1% above last year. Result – exceeded expectations (see below). The STI financial target was increased during the year to reflect the business case presented to the Board in relation to the acquisition of the Macquarie Generation assets. For the underlying profit after tax calculation the following adjustments have been made: Gains or losses on changes in the fair value of energy derivative (hedging) contracts between the start and end of the reporting period which are required to be recognised as a profit or loss at the end of the financial year were excluded. Other one-off items excluded from the underlying profit calculation in 2015 include the impacts of lower gas prices on asset values and the consequences of the decision, to focus on core gas projects and divest non-core and underperforming gas assets and activities. Macquarie generation acquisition costs and restructuring costs were also excluded. KMP previously responsible for the Upstream Gas business did not receive any discretionary STI payments. Most executives with financial responsibility for other divisions had their STI payments set below their nominal entitlements by 10%, reflecting a degree of collective responsibility.
NON-FINANCIAL OBJECTIVES	People management	**Safety performance** Result – exceeded expectations. Lagging safety indicators improved across AGL. Overall AGL's Lost Time Injury Frequency Rate for 2015 was 10.7% lower compared to the previous year at 2.5 and the Occupational Injury Frequency Rate was 38% lower than the previous year at 2.0 and all specific safety actions plans for 2015 were completed. **Employee engagement** Result – met expectations. Numerous initiatives to promote engagement were successfully implemented across the business. The overall 2015 survey result for employee engagement at AGL was 76% which placed AGL in the Best Performing Zone against an international benchmark.
NON-FINANCIAL OBJECTIVES	Customer & Strategic	**Customer satisfaction** Result – met expectations. Generally customer metrics tracked well against a range of metrics including mean customer satisfaction score and overall customer satisfaction. **Individual KMP objectives** Result – generally met or exceeded expectations. Individual Executives focused on delivery of their strategic performance objectives including, growth and market based initiatives such as: > successful integration of AGL Macquarie; > development and integration of new power generation and gas storage; > focusing on operational excellence; > optimisation of AGL's medium to long term gas portfolio; > ongoing development of customer centric culture resulting in improved customer engagement and satisfaction measured on a range of indicators; > productivity improvement across the Merchant business, including best in class generation, trading and investment, implementation of value programs and optimisation of back office processes.

How are STI outcomes measured?

STI awards are determined after the preparation of the financial statements in each year, in respect of the financial measure, and after a review of performance against non-financial measures, at the end of the financial year.

	MEASUREMENT
FINANCIAL OBJECTIVES	Underlying profit is the statutory profit adjusted for significant items and changes in the fair value of financial instruments. In general, the exclusion of these items allows a better understanding of financial performance, as it allows for a more relevant comparison between financial periods because it removes: > one off material items of revenue or expense that are unrelated to the underlying performance of the business; > changes in the fair value of financial instruments (ie hedges and other derivatives) 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 calculated with reference to the Australian Securities and Investment Commission Regulatory Guide 230 "Disclosing non-IFRS financial information" issued in December 2011. From FY16, adjustments to statutory financial results for incentive purposes will continue to include unrealised electricity market hedging gains or losses, but will only include, at board discretion, significant items where it can be clearly demonstrated that their exclusion was outside management control or foresight and would be inequitable.
NON-FINANCIAL OBJECTIVES	People and management and customer non-financial objectives are assessed against a range of defined measures such safety and leadership plans, annual employee engagement surveys and customer satisfaction metrics. Individual objectives are assessed against a range of strategic growth and market based initiatives, such as: > development of a customer centric culture; > developing and integrating new power generation, and gas storage; > pursuing acquisitions; > focus on operational excellence; and > progressing workforce diversity (including gender and sexual orientation).

4.2 STI outcomes for FY15

The table below shows the STI opportunities and outcomes for 2015 for each KMP, including the breakdown between cash and shares. STI cash payments are made and deferred shares are allocated in September following the end of financial year. The deferred component of STI for KMP is subject to 'malus' during deferral period in the case of misstatement of the financial accounts or gross misconduct.

Executive KMP	STI opportunity as a % of FR	Percentage of STI opportunity earned(1)
Andy Vesey	120%	50%(2)
Daniel Cram	40%	90%
Marc England	50%	90%
Doug Jackson	70%	90%
Stephen Mikkelsen	70%	80%
Alistair Preston	60%	Not applicable(3)
Brett Redman	70%	80%

Former Executive KMP	STI opportunity as a % of FR	Percentage of STI opportunity earned
Michael Fraser	100%	99%(4)
Anthony Fowler	70%	90%
Michael Moraza	60%	0%

Notes:
(1) For Andy Vesey, 50% is awarded in cash, 50% is deferred into equity. For the other executives, 90% is awarded in cash, 10% in equity.
(2) Payment was calculated based on 6 months employment.
(3) For Alistair Preston no STI was payable as he commenced on 1 June 2015.
(4) For Michael Fraser payment was contractual upon cessation of employment and in cash.

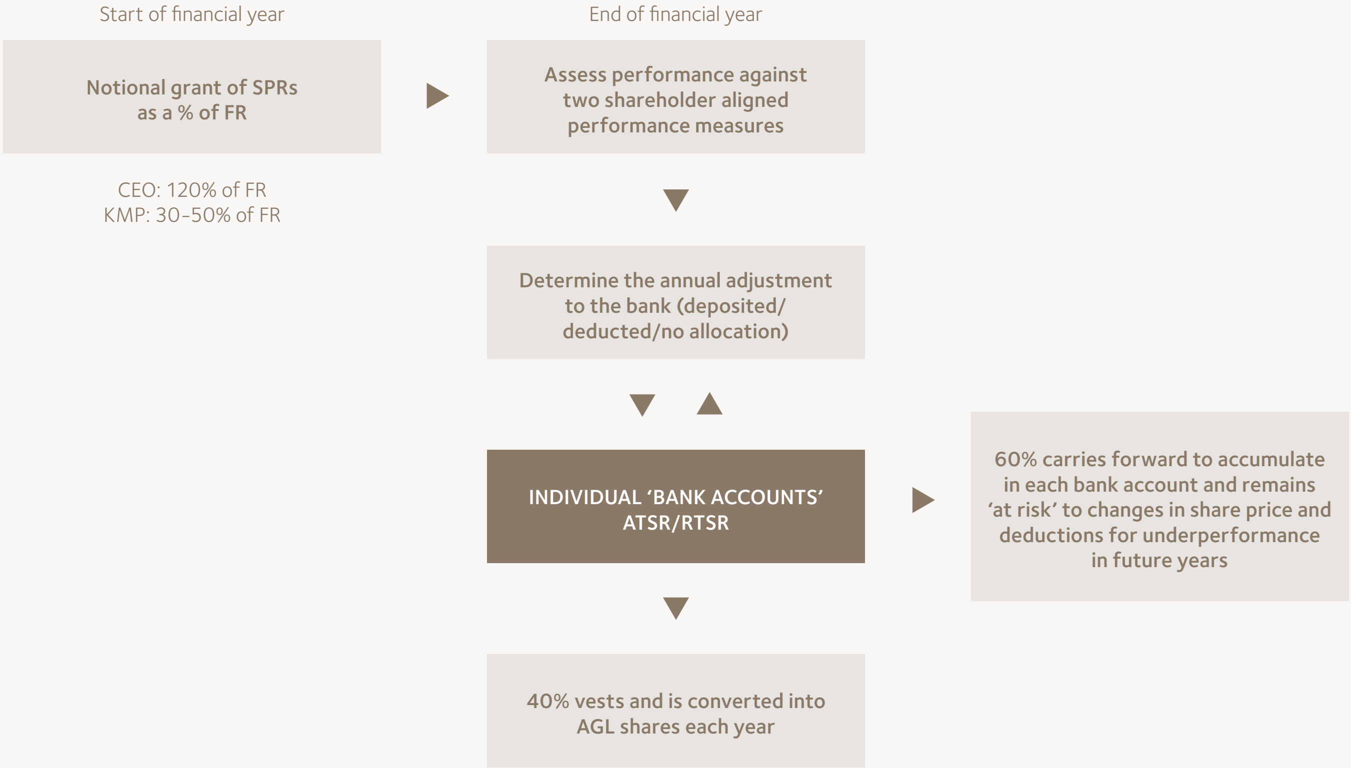
The details of actual STI received for the year ended 30 June 2015 for KMP are set out in the remuneration table in section 6 on page 67.

Directors' Report 2015 continued

5. Long term incentive plan

5.1 Overview

An outline of the key steps in the workings of AGL's current LTI Plan are set out below.



5.2 Operation of LTI Plan

The LTI Plan both rewards good performance and penalises underperformance based on AGL's performance over the long-term.

> **Deposits** (additions) of SPRs are made to the participant's bank accounts where performance meets or exceeds performance hurdles set. Using a multiplier, a maximum of twice the number of SPRs notionally granted may be banked in respect of both the Absolute TSR and Relative TSR bank accounts.

> **No allocation** of SPRs is made to the participants bank accounts for performance levels that the Board does not consider should be rewarded.

> **Clawbacks** (deductions) of previously banked SPRs can be (and have been) made to participants bank accounts where AGL underperforms or if performance is not sustained over a longer period of time. Using a multiplier, a maximum of twice the number of SPRs notionally granted may be clawed back in respect of the Absolute TSR account and one times in respect of the Relative TSR account.

The majority of SPRs (following additions or deductions from the bank each year) are carried forward each year and held in the bank until vesting. Any negative balance also rolls forward to the following year.

The value of the banked awards therefore remain 'at risk' and are subject to:

> future share price fluctuations; and

> additional clawbacks in future years based on performance against the LTI performance hurdles.

Executives have direct visibility over annual performance conditions, yet a large portion of SPRs are at risk over the long term, encouraging Executives to think like shareholders and pursue sustainable growth in shareholder value.

This supports the objective of the LTI plan to align shareholder and Executive interests over the long term.

Banking schedule

The plan progressively rewards (through deposits) and penalises (using the clawback mechanism) Executives to reflect the level of performance achieved against two performance measures. Each Executive has two active notional share bank accounts, one for ATSR and one for RTSR, which operate independently.

The schedules below describes how the number of SPRs to be 'banked' in, or clawed back from, each account (based on notional grant of SPRs made at the start of the year) is determined against the relevant performance measure.

Absolute TSR

Annual growth in ATSR	Less than or equal to minus 14%	Between minus 4% and 4%	Greater than or equal to 14%
Multiplier	Minus 2x	0	2x

With straight line vesting between each of the annual growth in ATSR values.

Relative TSR

RTSR percentile ranking	0-25th	25-39th	40th*	50th	65th	90th +
Multiplier	Minus 1x	0x	0.4x	0.5x	1x	2x

With straight line vesting between each of the percentile rankings.

* The Board acknowledges that it is more common to commence vesting at the 50th percentile. Given that AGL has one of the lowest price volatilities in the ASX100, the motivational effect of the LTI would be diminished if vesting commenced at the 50th percentile. Accordingly, a modest portion (0.4x) commences vesting at the 40th percentile.

Cessation of employment or change of control

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

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 cessation), and the remaining 50% will remain in the account and paid out 12 months following cessation to ensure that Executives remain aligned with shareholders over this period.

In the event of redundancy, total or permanent disability, or death, any positive notional share bank balance is distributed as shares as soon as practicable following the opening of the next share trading window. Any negative balance is eliminated.

If a participant ceases employment before the SPRs vest in circumstances other than 'good leaver' (ie resignation, termination for gross misconduct, AGL initiated termination other than redundancy), any positive balance is forfeited or any negative balance is eliminated.

Upon a change of control, all positive notional bank account balances are released (as soon as reasonably practicable within the first share trading window following the change of control or other time determined by the Board) and any negative balances are extinguished.

5.3 LTI outcomes

Outcomes in FY15

AGL's absolute TSR was 14.8% over the performance period, resulting in the maximum deposit possible being made in relation to the absolute TSR performance condition. This result against our longer term target of absolute TSR of 14% was achieved over a period when the market also performed well relative to AGL, resulting in the relative TSR performance condition achieving the 47th percentile of the ASX100 comparator group and resulting in a modest contribution into the Relative TSR bank account.

A clawback was applied to the EBIT/Funds Employed notional bank account.

The table below shows what will be deposited into or deducted from the notional bank accounts in FY16 to reflect FY15 performance results for each current KMP who participated in FY15. Please note that Andy Vesey, Daniel Cram and Alistair Preston were appointed during the year and did not participate in the LTIP in FY15.

Name	Performance hurdles	Opening balance	Deposit to be made to bank	Deduction to be made from bank	Vested – 40% released after deposits/ deductions have been made	Balance to be carried forward
Marc England	ATSR	6,896	15,033	0	(8,772)	13,157
	RTSR	0	3,533	0	(1,413)	2,120
Doug Jackson	ATSR	2,069	4,029	0	(2,439)	3,659
	RTSR	0	947	0	(379)	568
	EBIT/Funds employed(1)	0	0	0	0	0
Stephen Mikkelsen	ATSR	22,341	29,592	0	(20,773)	31,160
	RTSR	0	6,954	0	(2,782)	4,172
	EBIT/Funds employed(1)	2,477	0	(594)	(1,883)	0
Brett Redman	ATSR	10,783	26,144	0	(14,771)	22,156
	RTSR	0	6,144	0	(2,458)	3,686
	EBIT/Funds employed(1)	609	0	(146)	(463)	0

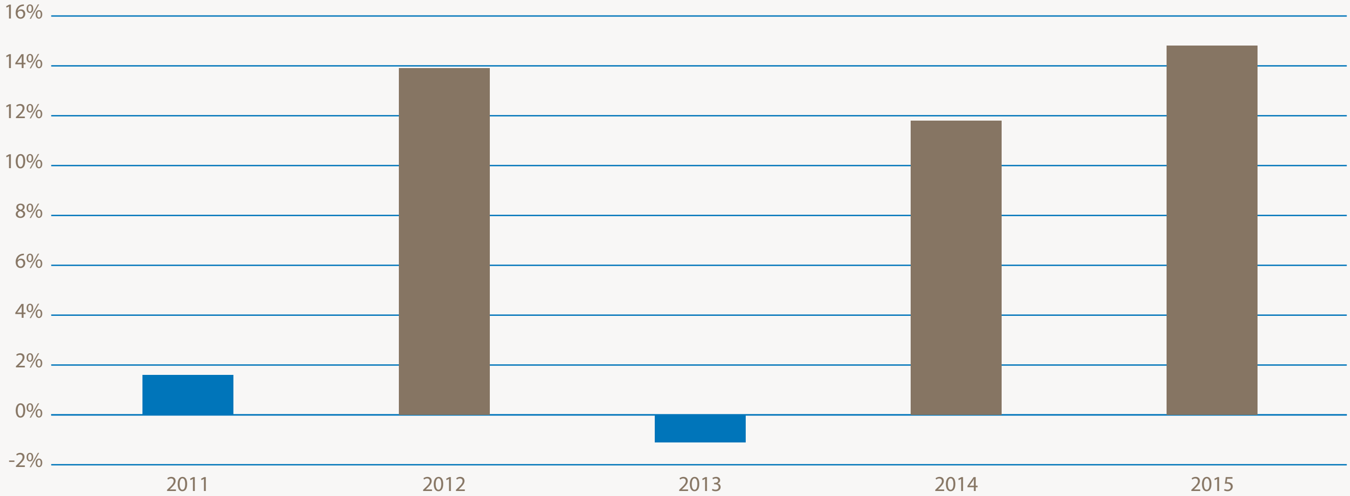
(1) The EBIT/Funds Employed account was closed effective 30 June 2013. No further allocations will be made to this account however to ensure performance against the EBIT/Funds Employed condition is sustained, the balance in that account will remain subject to clawback until September 2015.

Directors' Report 2015 continued

Outcomes over the last 5 years

The Board considers the LTI Plan has served AGL well, strongly aligning remuneration outcomes (ie whether there were additions to, deductions from, or no allocation made to the bank) over the past 5 years with shareholder experience, as illustrated in the diagrams below.

Absolute TSR : AGL



FY2011	FY2012	FY2013	FY2014	FY2015
Actual Growth: 1.6%	Actual Growth: 13.9%	Actual Growth: -1.1%	Actual Growth: 11.8%	Actual Growth: 14.8%
No Allocation: 0x	Deposit: 1.98x	No Allocation: 0x	Deposit: 1.56x	Deposit: 2.0x

Relative TSR replaced EBIT/Funds Employed as a hurdle in 2014.

Relative TSR: AGL and ASX100

AGL Energy   ASX100 Index

FY2014	FY2015
Percentile ranking: 34.7th	Percentile ranking: 47th
No Allocation: 0x	Allocation: 0.47x

EBIT/Funds Employed

In 2011 and 2014, clawbacks were made from the EBIT/Funds Employed bank account as a result of underperformance in those years. For FY15 the EBIT/Funds Employed notional bank account was again reduced due to a clawback being applied as a result of underperformance against target. Note, while the bank account was closed effective 30 June 2013, the balance remained subject to clawback until September 2015.

LTI allocation: FY16

As indicated previously, AGL's LTI plan will be amended from FY16. It is intended that KMP will be granted performance rights in line with their individual remuneration packages.

6. Executive KMP remuneration disclosures

A number of increases were made to fixed remuneration levels of existing KMP to address issues of market competitiveness and internal relativities. The changes ranged from 2.9% to 23%. The 23% increase was granted to Brett Redman in accordance with our policy to intentionally set fixed remuneration at relatively modest levels for executives new to their roles, and to progressively increase based on individual performance. The increase is in recognition of his individual performance and brings him to market competitive levels relative to his peers.

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

Key Management Personnel (Senior Executives) statutory remuneration

		Short-Term Benefits				Post-Employment Benefits		Other Long-Term Benefits	Termination Benefits	Share-Based Payments			
	Year	Cash Salary & Fees $	Short-Term Incentives[(a)] $	Non-Monetary Benefits[(b)] $	Other Short-Term Benefits $	Superannuation $	Retirement Benefits $	$	$	Share Performance Rights[(c)] $	Other $	Total $	Value of Equity as a percentage of Total
Key Management Personnel for year ended 30 June													
Andy Vesey (for part year)[(d)]	**2015**	**1,909,621**	**1,140,000**	**115,036**	**0**	**0**	**0**	**0**	**0**	**0**	**1,103,760**	**4,268,417**	**25.9%**
	2014	0	0	0	0	0	0	0	0	0	0	0	0.0%
Stephen Mikkelsen	**2015**	**882,467**	**507,100**	**118,053**	**0**	**18,783**	**0**	**0**	**0**	**327,751**	**0**	**1,854,154**	**17.7%**
	2014	856,681	225,000	38,984	0	17,775	0	0	0	423,527	0	1,561,967	27.1%
Brett Redman	**2015**	**756,217**	**448,000**	**0**	**0**	**18,783**	**0**	**0**	**0**	**187,624**	**0**	**1,410,624**	**13.3%**
	2014	632,225	162,500	0	0	17,775	0	0	0	211,707	0	1,024,207	20.7%
Daniel Cram (for part year)[(e)]	**2015**	**78,767**	**207,000**	**0**	**0**	**2,573**[(f)]	**0**	**0**	**0**	**0**	**0**	**288,340**	**0.0%**
Marc England (for part year)[(g)]	**2015**	**91,370**	**258,750**	**0**	**0**	**2,985**	**0**	**0**	**0**	**103,376**	**0**	**456,481**	**22.6%**
Doug Jackson (for part year)[(h)]	**2015**	**97,964**	**388,400**	**0**	**0**	**2,985**	**0**	**0**	**0**	**29,210**	**0**	**518,559**	**5.6%**
Alistair Preston[(i)] (for part year)	**2015**	**276,667**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**276,667**	**0.0%**
Former Key Management Personnel													
Anthony Fowler[(j)]	**2015**	**817,677**	**551,250**	**0**	**0**	**29,583**[(f)]	**0**	**0**	**0**	**451,910**	**0**	**1,850,420**	**24.4%**
	2014	757,205	220,000	0	0	27,555[(f)]	0	0	0	382,362	0	1,387,122	27.6%
Michael Fraser[(k)]	**2015**	**2,816,557**	**2,203,443**	**0**	**0**	**302,378**	**0**	**0**	**836,324**	**1,521,589**	**0**	**7,680,291**	**19.8%**
	2014	1,682,814	973,350	63,420	0	480,186	0	0	0	2,110,798	0	5,310,568	39.7%
Michael Moraza[(l)]	**2015**	**1,355,090**	**0**	**0**	**0**	**105,688**	**0**	**0**	**0**	**0**	**0**	**1,460,778**	**0.0%**
	2014	595,555	61,000	0	0	140,918	0	0	0	329,038	0	1,126,511	29.2%
Total for all KMP[(m)]	**2015**	**9,082,397**	**5,703,943**	**233,089**	**0**	**483,758**	**0**	**0**	**836,324**	**2,621,460**	**1,103,760**	**20,064,731**	
Total for all KMP	2014	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 2014/2015 financial year and to be paid in September 2015.

(b) Includes the value of benefits such as, relocation expenses, entertainment and Fringe Benefits Tax.

(c) The fair value of LTI SPRs has been calculated using Monte Carlo Simulation.

(d) Andy Vesey commenced employment 12 January 2015 and was appointed Managing Director and Chief Executive Officer on 12 February 2015. Cash salary and fees includes an amount of $1m paid to cover any US or Australian tax costs arising as a result of the award of 73,000 AGL ordinary shares on commencement, which are to be retained whilst employed by AGL. The shares were purchased on market at $15.12 per share at a total cost of $1,103,760. This benefit was offered in a highly competitive engagement process in recognition of incentives forgone.

(e) Daniel Cram was the Head of People and Culture, Merchant Energy, Corporate and Head of AGL Employee Relations prior to his appointment as Executive General Manager, People and Culture effective 12 May 2015.

(f) Includes salary sacrifice contributions.

(g) Marc England was the Group Head of Strategy prior to his appointment as Executive General Manager, New Energy on 4 May 2015.

(h) Doug Jackson was the Chief Operating Officer, Merchant Operations prior to his appointment as acting Executive General Manager, Group Operations on 4 May 2015.

(i) Alistair Preston was appointed Executive General Manager, Organisational Transformation effective 1 June 2015.

(j) Anthony Fowler's role was made redundant effective 1 July 2015.

(k) Michael Fraser retired effective 11 February 2015. The short term incentive payment was made in accordance with the contractual provisions of Mr Fraser's 2007 Service Agreement. The termination benefit represents the unworked portion of Mr Fraser's notice period up to 26 June 2015.

(l) Michael Moraza retired effective 18 February 2015.

(m) Totals for 2015 include payments for the new and former CEO as well as the disclosure of an additional 4 KMP over previous years.

All executives are entitled to four weeks annual leave and long service leave based on statutory entitlements.

Directors' Report 2015 continued

7. 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. All Service Agreements are for unlimited duration.

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

	Notice Period[1]			
	By Executive	By AGL	Termination Payment[2]	Post-employment Restraint Period
CEO				
Andy Vesey[3]	6 months	12 months	–	12 months
Executives				
Daniel Cram	6 months[4]	3 months	9 months FR	6 months
Marc England	6 months[4]	3 months	9 months FR	6 months
Doug Jackson	3 months	3 months	–	12 months
Stephen Mikkelsen	6 months[4]	3 months[5]	9 months FR	6 months
Alistair Preston	6 months[4]	3 months	9 months FR	6 months
Brett Redman	6 months[4]	3 months	9 months FR	6 months

(1) AGL can, at its election, make a payment in lieu of part or all of the notice period.

(2) Maximum termination payment (exclusive of any payment in lieu of notice) payable if AGL terminates the Executive's employment other than for cause.

(3) Mr Vesey 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 Chairman, or if the scope of his responsibilities is materially diminished. In this case he will be entitled to a payment equivalent to 12 months FR.

(4) Executives, may also terminate their agreement with 3 months' notice in the event of a 'Fundamental Change', which includes circumstances where there has been a substantial diminution of role and responsibility of the Executive, in which event they will be entitled to a payment equivalent to 9 months FR.

(5) AGL will provide 6 months' notice in circumstances of unsatisfactory performance.

Retirement of Mr Fraser

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

Mr Fraser received a payment in lieu of the unworked portion of his notice period up to 26 June 2015 and his statutory entitlements (unused annual and long service leave) in accordance with the terms of his Executive Service Agreement. He did not receive any other termination payment.

In light of Mr Fraser's strong leadership and performance over his tenure as CEO, the Board treated Mr Fraser as a 'good leaver' under the STI and LTI plans, therefore Mr Fraser:

> in accordance with the contractual provisions of his 2007 Service Agreement, received a pro rata payment of $2.203 million for 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 previously received shareholder approval and the terms of the LTI after clawback, vesting and banking for 2014 occurred, received the remaining positive SPR bank account balance on retirement.

Under his Service Agreement, Mr Fraser is restrained, for a period of six months following cessation of his employment, 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.

8. Non-executive Directors (NED) remuneration

Following a freeze on non-executive director fees in the 2014 financial year, in 2015 base fees and committee fees were increased by approximately 2.9% to ensure the fees paid to our non-executive directors remain competitive with fees paid by companies of a similar size to AGL.

8.1 NED remuneration policy

Overview of policy	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. The Chairman of the Board receives no extra remuneration for participating in or chairing Committees.
Aggregate fees approved by shareholders	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. Total fees paid to non-executive directors during the 2015 financial year were $1.88 million, $0.62 million below the maximum aggregate cap, last approved by shareholders at the 2012 AGM.
Reviews	Non-executive Directors' fees are determined by the Board having regard to the anticipated time commitment, work load and responsibilities attaching to that office and having regard to the level of fees paid by companies with a similar market capitalisation to enable the Board to attract and retain directors with appropriate skills and experience.
Base fees	The fee structure for non-executive Directors, effective 1 January 2015 (inclusive of statutory superannuation), is as follows: (see table below) 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.
Base fee components	NEDs may choose to receive fees as a combination of one or more of: (1) **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. (2) **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. (3) **Cash.** The balance of fee entitlements is paid in cash in equal monthly amounts over the year. Non-executive Directors are permitted to vary the components of their fee entitlements at any time.
Governance	Non-executive Directors do not receive performance-related payments. No options have been granted to non-executive Directors over any securities or interests of AGL or the consolidated entity.

Base fees	Chair ($)	Member ($)
Board (1)	519,700	180,100
Committee fees		
Audit & Risk Management	49,400	24,700
Other Committees	36,000	17,500

(1) The Chairman of the Board receives no additional fee for Committee work

Directors' Report 2015 continued

8.2 NED remuneration disclosures

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

Non-executive director statutory remuneration

		Short-Term Benefits	Post-Employment Benefits	Share-Based Payments			
Non-executive directors	Year	Cash Salary & Fees $	Superannuation $	Share Performance Rights $	Other Share Plans[b] $	Total[a] $	Value of Equity as a percentage of Total
Jeremy Maycock	**2015**	**488,590**	**18,783**	**0**	**4,977**	**512,350**	**1.0%**
	2014	482,225	17,775	0	5,000	505,000	1.0%
Les Hosking	**2015**	**218,617**	**18,783**	**0**	**0**	**237,400**	**0.0%**
	2014	216,225	17,775	0	0	234,000	0.0%
Graeme Hunt	**2015**	**193,653**	**18,397**	**0**	**0**	**212,050**	**0.0%**
	2014	191,304	17,696	0	0	209,000	0.0%
Belinda Hutchinson	**2015**	**200,388**	**18,762**	**0**	**0**	**219,150**	**0.0%**
	2014	198,225	17,775	0	0	216,000	0.0%
Sandra McPhee	**2015**	**218,617**	**18,783**	**0**	**0**	**237,400**	**0.0%**
	2014	216,225	17,775	0	0	234,000	0.0%
Bruce Phillips	**2015**	**233,426**	**21,724**	**0**	**0**	**255,150**	**0.0%**
	2014	198,442	17,557	0	0	215,999	0.0%
John Stanhope	**2015**	**224,717**	**18,783**	**0**	**0**	**243,500**	**0.0%**
	2014	222,225	17,775	0	0	240,000	0.0%
Total	**2015**	**1,778,008**	**134,015**	**0**	**4,977**	**1,917,000**	
Total	2014	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.

9. Other statutory disclosures

9.1 Overview of AGL performance

Five-year financial performance

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

Year ended 30 June	2011	2012	2013	2014	2015
Statutory Profit[2] ($m)	559	115	375	570	218
Statutory EPS[1 & 2] (cents)	113.9	22.9	65.5	98.2	33.3
Underlying Profit[2] ($m)	431	482	585	562	630
Underlying EPS[1 & 2] (cents)	87.9	96.1	102.2	96.9	96.4
Dividends (cents)	60.0	61.0	63.0	63.0	64.0
Increase/(decrease) in share price[3] (%)	2.8	11.0	4.0	13.6	11.5
EBIT/Funds Employed[2] (%)	8.9	9.2	10.5	10.0	9.5
Adjusted EBIT/Funds Employed[2 & 4] (%)	10.5	11.6	12.7	11.7	11.0
ATSR[4 & 5] (%)	1.6	13.9	(1.1)	11.8	14.8
Relative TSR[4 & 6] (%)	–	–	–	34.7	47.4

Notes:
1. Restated for the bonus element of the one-for-five share rights issue completed in September 2014.
2. FY2013 restated for adoption of revised accounting standard AASB 119 Employee Benefits.
3. Closing share price adjusted for dividends and rights issues.
4. Used to calculate Executives' long-term incentives.
5. Based on June VWAP in each financial year.
6. Percentile ranking against ASX100 as measured by Orient Capital Pty Ltd.

9.2 KMP holdings of equity instruments in AGL

Details of Share Performance Rights granted to Key Management Personnel as part of remuneration for the year ended 30 June 2015

	Balance at 1 July 2014	Adjustment to SPR balance at 1 July 2014[a]	SPRs deposited (deducted) during the year[b]	SPRs notionally granted during the year	Fair value per SPR at grant date[c]	SPRs vested during the year[d]	SPRs forfeited during the year	Balance at 30 June 2015
Michael Fraser								
TSR share bank account	65,212	3,249	124,296	–	Various	(192,757)	–	–
Relative TSR share bank account	–	–	–	–	–		–	–
EBIT/Funds Employed share bank account	110,251	5,494	(90,281)	–	Various	(25,464)	–	–
Notional grant 25-Sep-14	–	–	–	–	–	–	–	–
Notional grant 9-Oct-13	151,790	–	(151,790)	–	$15.88	–	–	–
	327,253	8,743	(117,775)	–		(218,221)	–	–
Andrew Vesey								
TSR share bank account	–	–	–	–	–	–	–	–
Relative TSR share bank account	–	–	–	–	–	–	–	–
EBIT/Funds Employed share bank account	–	–	–	–	–	–	–	–
	–	–	–	–		–	–	–
Daniel Cram								
TSR share bank account	–	–	–	–	–	–	–	–
Relative TSR share bank account	–	–	–	–	–	–	–	–
EBIT/Funds Employed share bank account	–	–	–	–	–	–	–	–
	–	–	–	–		–	–	–
Marc England								
TSR share bank account	–	–	11,493	–	Various	(4,597)	–	6,896
Relative TSR share bank account	–	–	–	–	–	–	–	–
EBIT/Funds Employed share bank account	–	–	–	–	–	–	–	–
Notional grant 25-Sep-14	–	–	–	15,033	$5.92	–	–	15,033
Notional grant 9-Oct-13	14,036	–	(14,036)	–	$15.88	–	–	–
	14,036	–	(2,543)	15,033		(4,597)	–	21,929
Anthony Fowler[e]								
TSR share bank account	9,326	465	22,986	–	Various	(13,111)	–	19,666
Relative TSR share bank account	–	–	–	–	–	–	–	–
EBIT/Funds Employed share bank account	19,526	973	(15,989)	–	Various	(2,255)	–	2,255
Notional grant 25-Sep-14	–	–	–	28,595	$5.92	–	–	28,595
Notional grant 9-Oct-13	28,071	–	(28,071)	–	$15.88	–	–	–
	56,923	1,438	(21,074)	28,595		(15,366)	–	50,516
Doug Jackson								
TSR share bank account	–	–	3,448	–	Various	(1,379)	–	2,069
Relative TSR share bank account	–	–	–	–	–	–	–	–
EBIT/Funds Employed share bank account	–	–	–	–	–	–	–	–
Notional grant 25-Sep-14	–	–	–	4,029	$5.92	–	–	4,029
Notional grant 9-Oct-13	4,211	–	(4,211)	–	$15.88	–	–	–
	4,211	–	(763)	4,029		(1,379)	–	6,098
Stephen Mikkelsen								
TSR share bank account	11,384	567	25,284	–	Various	(14,894)	–	22,341
Relative TSR share bank account	–	–	–	–	–	–	–	–
EBIT/Funds Employed share bank account	21,452	1,069	(17,566)	–	Various	(2,478)	–	2,477
Notional grant 25-Sep-14	–	–	–	29,592	$5.92	–	–	29,592
Notional grant 9-Oct-13	30,878	–	(30,878)	–	$15.88	–	–	–
	63,714	1,636	(23,160)	29,592		(17,372)	–	54,410

Directors' Report 2015 continued

	Balance at 1 July 2014	Adjustment to SPR balance at 1 July 2014[(a)]	SPRs deposited (deducted) during the year[(b)]	SPRs notionally granted during the year	Fair value per SPR at grant date[(c)]	SPRs vested during the year[(d)]	SPRs forfeited during the year	Balance at 30 June 2015
Michael Moraza								
TSR share bank account	9,832	490	19,423	–	Various	(11,898)	(17,847)	–
Relative TSR share bank account	–	–	–	–	–	–	–	–
EBIT/Funds Employed share bank account	17,108	852	(14,009)	–	Various	(1,976)	(1,975)	–
Notional grant 25-Sep-14	–	–	–	–	–	–	–	–
Notional grant 9-Oct-13	23,720	–	(23,720)	–	$15.88	–	–	–
	50,660	1,342	(18,306)	–		(13,874)	(19,822)	–
Alistair Preston								
TSR share bank account	–	–	–	–	–	–	–	–
Relative TSR share bank account	–	–	–	–	–	–	–	–
EBIT/Funds Employed share bank account	–	–	–	–	–	–	–	–
	–	–	–	–		–	–	–
Brett Redman								
TSR share bank account	2,887	144	14,941	–	Various	(7,189)	–	10,783
Relative TSR share bank account	–	–	–	–	–		–	–
EBIT/Funds Employed share bank account	5,280	263	(4,324)	–	Various	(610)	–	609
Notional grant 25-Sep-14	–	–	–	26,144	$5.92	–	–	26,144
Notional grant 9-Oct-13	18,246	–	(18,246)		$15.88	–	–	–
	26,413	407	(7,629)	26,144		(7,799)	–	37,536

(a) Adjustment to the share bank balances for the dilution to unvested SPRs as at 1 July 2014 as a result of the one-for-five share rights issue in September 2014.
(b) After testing the SPRs notionally granted on 9 October 2013 against the relevant performance hurdle, the SPRs are deposited into (or deducted from) the relevant share bank account for each participant.
(c) Fair value of SPRs granted is determined using Monte Carlo Simulation.
(d) SPRs vest at no cost to the recipient providing the relevant performance hurdles are satisfied.
(e) Anthony Fowler's role was made redundant on 1 July 2015.

Details of Fully Paid Ordinary Shares of AGL Energy Limited held by Key Management Personnel as at 30 June 2015

	Balance at 1 July 2014	AGL Share Purchase Plan[(a)]	Dividend Reinvestment Plan[(b)]	Received on vesting of SPRs	Net change other[(c)]	Balance at 1 July 2015	Balance held nominally
Non-executive Directors							
Jeremy Maycock	65,951	357	–	–	13,191	79,499	–
Lee Hosking	2,334	–	–	–	467	2,801	–
Graeme Hunt	–	–	–	–	1,500	1,500	–
Belinda Hutchinson	7,630	–	–	–	1,526	9,156	–
Sandra McPhee	17,121	–	–	–	3,425	20,546	–
Bruce Phillips	33,834	–	–	–	6,767	40,601	–
John Stanhope	3,738	–	183	–	748	4,669	–
Executive Directors							
Andrew Vesey[(d)]	–	73,000	–	–	–	73,000	–
Michael Fraser[(e)]	763,242	–	–	218,221	152,602	1,134,065	–
Executives							
Daniel Cram	9,441	1,578	–	–	47	11,066	–
Marc England	3,233	780	–	4,597	–	8,610	–
Anthony Fowler	–	–	–	15,366	–	15,366	–
Doug Jackson	1,038	2,424	–	1,379	25	4,866	–
Stephen Mikkelsen	38,904	–	–	17,372	(13,219)	43,057	–
Michael Moraza[(f)]	74,760	–	–	13,874	–	88,634	–
Alistair Preston	–	–	–	–	–	–	–
Brett Redman	11,264	–	–	7,799	(1,747)	17,316	–

(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 shares purchased and disposed in the ordinary course of trading on the ASX, and shares acquired as a result of their take-up of the pro-rata entitlements under the rights issue in September 2014.
(d) Mr Vesey commenced employment with AGL on 12 January 2015 as Managing Director and Chief Executive Officer and was officially appointed MD and CEO from 12 February 2015. Under Mr Vesey's service agreement, he received an allocation of 73,000 AGL shares in recognition of incentives foregone from his previous employment.
(e) Mr Fraser retired effective 11 February 2015 and the number of shares represent those held at the date of leaving office.
(f) Mr Moraza retired effective 18 February 2015 and the number of shares represent those held at the date of leaving office.

Abbreviations used in this report

ATSR:	Absolute total shareholder return
Board:	AGL Board
CEO:	Chief Executive Officer
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
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 12th day of August 2015.

Jeremy Maycock
Chairman

AGL Concise Financial Report 2015

Contents

The concise financial statements are an extract from the full financial statements of AGL Energy Limited. The financial statements and specific disclosures included in the concise financial statements have been derived from the full financial statements of AGL Energy Limited, and cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial statements.

Further financial information can be obtained from AGL Energy Limited's full financial statements, AGL Financial Report 2015, a copy of which, together with a copy of the independent audit report, is available to all shareholders, and will be sent to shareholders without charge on request. Alternatively, you can access the AGL Financial Report 2015 via the internet by visiting www.agl.com.au and selecting 'Investor Centre' from the 'About AGL' menu.

Consolidated Statement of Profit or Loss

For the year ended 30 June 2015	Note	2015 $m	2014 $m
Continuing operations			
Revenue	5	10,678	10,445
Expenses		(9,759)	(9,165)
Share of profits of associates and joint ventures		27	25
Profit before net financing costs, depreciation and amortisation		946	1,305
Depreciation and amortisation		(379)	(326)
Profit before net financing costs		567	979
Finance income		20	24
Finance costs		(250)	(243)
Net financing costs		(230)	(219)
Profit before tax		337	760
Income tax expense		(119)	(190)
Profit for the year		218	570
Profit attributable to:			
Owners of AGL Energy Limited		218	570
Non-controlling interests		–	–
		218	570
Earnings per share [(a)]			
Basic earnings per share		33.3 cents	98.2 cents
Diluted earnings per share		33.3 cents	98.2 cents

(a) The comparative earnings per share for the year ended 30 June 2014 have been restated for the bonus element of the one-for-five share rights issue undertaken in September 2014.

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2015	2015 $m	2014 $m
Profit for the year	218	570
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Remeasurement gain on defined benefit plans	135	60
Income tax relating to items that will not be reclassified subsequently	(40)	(18)
	95	42
Items that may be reclassified subsequently to profit or loss		
Cash flow hedges		
Loss in fair value of cash flow hedges	(22)	(135)
Reclassification adjustments transferred to profit or loss	94	(6)
Share of other comprehensive income of a joint venture	(14)	–
Income tax relating to items that may be reclassified subsequently	(22)	42
	36	(99)
Other comprehensive income for the year, net of income tax	131	(57)
Total comprehensive income for the year	349	513
Total comprehensive income attributable to:		
Owners of AGL Energy Limited	349	513
Non-controlling interests	–	–
	349	513

Consolidated Statement of Financial Position

As at 30 June 2015	2015 $m	2014 $m
Current assets		
Cash and cash equivalents	259	456
Trade and other receivables	1,894	1,902
Inventories	396	191
Other financial assets	156	114
Other assets	262	318
	2,967	2,981
Assets classified as held for sale	492	430
Total current assets	3,459	3,411
Non-current assets		
Trade and other receivables	44	46
Inventories	32	28
Other financial assets	596	484
Investments in associates and joint ventures	91	32
Exploration and evaluation assets	130	372
Oil and gas assets	544	170
Property, plant and equipment	6,958	5,694
Intangible assets	3,266	3,248
Deferred tax assets	682	631
Other assets	31	18
Total non-current assets	12,374	10,723
Total assets	15,833	14,134
Current liabilities		
Trade and other payables	1,377	1,417
Borrowings	443	45
Provisions	191	101
Current tax liabilities	86	49
Other financial liabilities	269	477
Other liabilities	7	–
	2,373	2,089
Liabilities directly associated with assets classified as held for sale	–	77
Total current liabilities	2,373	2,166
Non-current liabilities		
Borrowings	3,439	3,669
Provisions	456	106
Deferred tax liabilities	–	50
Other financial liabilities	387	280
Other liabilities	363	275
Total non-current liabilities	4,645	4,380
Total liabilities	7,018	6,546
Net assets	8,815	7,588
Equity		
Issued capital	6,696	5,437
Reserves	(65)	(99)
Retained earnings	2,175	2,249
Total equity attributable to owners of AGL Energy Limited	8,806	7,587
Non-controlling interests	9	1
Total equity	8,815	7,588

Consolidated Statement of Changes in Equity

For the year ended 30 June 2015	Issued capital $m	Employee equity benefits reserve $m	Hedging reserve $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
	Attributable to owners of AGL Energy Limited						
Balance at 1 July 2014	5,437	5	(104)	2,249	7,587	1	7,588
Profit for the year	–	–	–	218	218	–	218
Other comprehensive income for the year, net of income tax	–	–	36	95	131	–	131
Total comprehensive income for the year	–	–	36	313	349	–	349
Transactions with owners in their capacity as owners:							
Issue of ordinary shares	1,275	–	–	–	1,275	8	1,283
Transaction costs relating to the issue of ordinary shares	(22)	–	–	–	(22)	–	(22)
Payment of dividends	–	–	–	(387)	(387)	–	(387)
Share-based payments	–	(2)	–	–	(2)	–	(2)
Income tax relating to transactions with owners	6	–	–	–	6	–	6
Balance at 30 June 2015	6,696	3	(68)	2,175	8,806	9	8,815
Balance at 1 July 2013	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

Consolidated Statement of Cash Flows

For the year ended 30 June 2015	2015 $m	2014 $m
Cash flows from operating activities		
Receipts from customers	**11,587**	11,791
Payments to suppliers and employees	**(10,236)**	(10,733)
Dividends received	**32**	26
Finance income received	**24**	23
Finance costs paid	**(216)**	(217)
Income taxes paid	**(147)**	(191)
Net cash provided by operating activities	**1,044**	699
Cash flows from investing activities		
Payments for property, plant and equipment	**(744)**	(624)
Payments for exploration and evaluation assets	**(34)**	(28)
Payments for oil and gas assets	**(28)**	(46)
Payments for investments in associates and joint ventures	**(80)**	–
Payments for intangible assets	**–**	(25)
Payments for businesses and subsidiaries, net of cash acquired		
acquisitions in current period	**(1,348)**	(79)
acquisitions in prior periods	**(32)**	(33)
Government grants received	**32**	190
Proceeds from sale of property, plant and equipment	**6**	2
Loans advanced to related parties	**(3)**	(126)
Proceeds from repayment of related party loans	**56**	–
Net cash used in investing activities	**(2,175)**	(769)
Cash flows from financing activities		
Proceeds from issue of shares, net of transaction costs	**1,210**	1
Proceeds from issue of shares to non-controlling interests	**8**	1
Purchase of shares on-market for equity based remuneration	**(7)**	(6)
Proceeds from borrowings	**2,647**	2,075
Repayment of borrowings	**(2,580)**	(1,547)
Payments for settlement of derivative financial instruments	**(10)**	–
Dividends paid	**(344)**	(269)
Net cash provided by financing activities	**924**	255
Net (decrease)/increase in cash and cash equivalents	**(207)**	185
Cash and cash equivalents at the beginning of the financial year	**466**	281
Cash and cash equivalents at the end of the financial year	**259**	466

Notes to the Concise Financial Statements

Note 1 – Basis of preparation

The concise financial statements have been prepared in accordance with the *Corporations Act 2001* and Accounting Standard AASB 1039 *Concise Financial Reports*. The concise financial statements are an extract from the full financial statements. The concise financial statements and specific disclosures included in the concise financial statements have been derived from AGL Energy Limited's full financial statements, AGL Financial Report 2015. All amounts are presented in Australian dollars.

Note 2 – Adoption of new and revised accounting standards

AGL has applied the required amendments to Standards and a new Interpretation that are relevant to its operations and effective for the current reporting period.

The application of the amendments to Standards and the new Interpretation do not have any material impact on the disclosures or on the amounts recognised in AGL's consolidated financial statements.

Note 3 – Change in recognition of Distribution Use of System costs

AGL announced to the market on 22 January 2015, that it has changed the recognition of Distribution Use of System (DUOS) costs in South Australia and Queensland for the Energy Markets operating segment. This change has resulted in a grossing up of revenue and expenses in the consolidated statement of profit or loss and a grossing up of receivables and payables in the consolidated statement of financial position. Comparative information in the consolidated financial statements has been restated.

The following tables summarise the impact on individual line items in AGL's financial statements.

Consolidated statement of profit or loss (extract) Year ended 30 June 2014	As previously reported $m	DUOS restatement $m	As restated $m
Revenue	9,543	902	10,445
Expenses	(8,263)	(902)	(9,165)
Profit before tax	760	–	760
Profit for the year	570	–	570

Consolidated statement of financial position (extract) As at 30 June 2014	As previously reported $m	DUOS restatement $m	As restated $m
Current assets			
Trade and other receivables	1,743	159	1,902
Total current assets	3,252	159	3,411
Total assets	13,975	159	14,134
Current liabilities			
Trade and other payables	1,258	159	1,417
Total current liabilities	2,007	159	2,166
Total liabilities	6,387	159	6,546
Net assets	7,588	–	7,588

Note 4 – 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.

On 29 July 2015, AGL announced that it has changed the basis for segment reporting to align it with the organisational structure announced on 16 April 2015 and the subsequent review and restructure of the Upstream Gas business.

The previous operating segments were: Retail Energy, Merchant Energy, Upstream Gas and Investments.

AGL now has four reportable operating segments as follows:

> **Energy Markets** comprises three business units: Wholesale Markets, Consumer Market and Business Customers. It is responsible for managing the risks associated with satisfying the gas and electricity requirements of AGL's wholesale, consumer and business portfolios. It also sells natural gas, electricity and energy related products and services to Consumer Market and Business Customers, currently servicing over 3.7 million customer accounts.

> **Group Operations** is a diverse power generation portfolio, spread across traditional thermal generation, natural gas (formerly Upstream Gas) and renewable sources including hydro, wind and solar.

> **New Energy** was formed in 2014 to drive AGL's capabilities in taking new and distributed technologies to market in Australia. The business unit comprises Residential Energy Services, Business Energy Services, Distributed Energy Services, and the newly established Digital Metering business, ActiveStream.

> **Investments** include equity accounted investments in the ActewAGL Retail Partnership and Diamantina Holding Company Pty Limited.

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 comparative information has been restated to reflect the changes described above.

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.

	Energy Markets $m	Group Operations $m	New Energy $m	Investments $m	Other $m	Total $m
2015						
Revenue						
Total segment revenue	10,463	160	116	–	–	10,739
Inter-segment revenue	(18)	(24)	(19)	–	–	(61)
External revenue	10,445	136	97	–	–	10,678
Earnings before interest, tax, depreciation and amortisation (EBITDA)	2,152	(475)	13	26	(211)	1,505
Depreciation and amortisation	(89)	(254)	(11)	–	(25)	(379)
Operating EBIT	2,063	(729)	2	26	(236)	1,126
Net financing costs						(234)
Underlying profit before income tax						892
Income tax expense						(262)
Underlying profit						630
Segment assets	5,088	8,708	164	159	117	14,236
Segment liabilities	1,424	828	24	–	118	2,394
Other segment information						
Share of profits of associates and joint ventures	–	–	–	27	–	27
Investments in associates and joint ventures	–	2	6	83	–	91
Additions to non-current assets	89	2,107	28	77	16	2,317
Other non-cash expenses	(83)	–	–	–	(5)	(88)
Gain in fair value of financial instruments	234	1	–	–	2	237
Significant expense items [(a)]	(359)	(401)	–	–	(32)	(792)

(a) Further details are contained in the Operating and Financial Review attached to and forming part of the Directors' Report.

Notes to the Concise Financial Statements continued

Note 4 – Segment information (continued)

	Energy Markets $m	Group Operations $m	New Energy $m	Investments $m	Other $m	Total $m
2014						
Revenue						
Total segment revenue	10,231	162	133	–	–	10,526
Inter-segment revenue	(36)	(25)	(20)	–	–	(81)
External revenue	10,195	137	113	–	–	10,445
Earnings before interest, tax, depreciation and amortisation (EBITDA)	1,727	(286)	30	23	(164)	1,330
Depreciation and amortisation	(108)	(187)	(9)	–	(22)	(326)
Operating EBIT	1,619	(473)	21	23	(186)	1,004
Net financing costs						(223)
Underlying profit before income tax						781
Income tax expense						(219)
Underlying profit						562
Segment assets	5,072	7,044	190	154	123	12,583
Segment liabilities	1,242	631	8	–	95	1,976
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	263	588	18	126	32	1,027
Other non-cash expenses	(69)	–	–	–	(7)	(76)
Gain/(loss) in fair value of financial instruments	33	9	–	–	(2)	40
Significant expense items	(49)	–	–	–	(12)	(61)

	2015 $m	2014 $m
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	**10,739**	10,526
Elimination of inter-segment revenue	**(61)**	(81)
Total revenue for reportable segments	**10,678**	10,445
Other	**–**	–
Total revenue	**10,678**	10,445
Revenue from major products and services		
The following is an analysis of AGL's revenue from its major products and services:		
Electricity	**6,175**	6,583
Gas	**2,755**	2,351
Generation sales to pool	**1,438**	1,178
Other goods and services	**310**	333
Total revenue	**10,678**	10,445

	2015 $m	2014 $m
Segment Operating EBIT reconciliation to the statement of profit or loss		
Reconciliation of segment Operating EBIT to profit before tax is as follows:		
Operating EBIT for reportable segments	**1,362**	1,190
Other	**(236)**	(186)
	1,126	1,004
Amounts excluded from underlying results:		
– gain in fair value of financial instruments	**237**	40
– significant expense items	**(792)**	(61)
Finance income included in Operating EBIT	**(4)**	(4)
Finance income	**20**	24
Finance costs	**(250)**	(243)
Profit before tax	**337**	760
Segment assets reconciliation to the statement of financial position		
Reconciliation of segment assets to total assets is as follows:		
Segment assets for reportable segments	**14,119**	12,460
Other	**117**	123
	14,236	12,583
Cash and cash equivalents	**259**	456
Cash and cash equivalents included in disposal groups held for sale	**–**	10
Deferred tax assets	**682**	631
Derivative financial instruments	**656**	454
Total assets	**15,833**	14,134
Segment liabilities reconciliation to the statement of financial position		
Reconciliation of segment liabilities to total liabilities is as follows:		
Segment liabilities for reportable segments	**2,276**	1,881
Other	**118**	95
	2,394	1,976
Borrowings	**3,882**	3,714
Current tax liabilities	**86**	49
Deferred tax liabilities	**–**	50
Derivative financial instruments	**252**	515
Deferred consideration and other contractual liabilities	**404**	242
Total liabilities	**7,018**	6,546

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 (2014: none).

Note 5 – Revenue

	2015 $m	2014 $m
Revenue from sale of goods	**10,533**	10,308
Revenue from rendering of services	**145**	137
	10,678	10,445

Notes to the Concise Financial Statements continued

Note 6 – Dividends

	2015 $m	2014 $m
Recognised amounts		
Final dividend		
Final dividend for 2014 of 33.0 cents per share, fully franked at 30%, paid 30 September 2014 (2014: Final dividend for 2013 of 33.0 cents per share, fully franked at 30%, paid 27 September 2013)	185	183
Interim dividend		
Interim dividend for 2015 of 30.0 cents per share, fully franked at 30%, paid 25 March 2015 (2014: Interim dividend for 2014 of 30.0 cents per share, fully franked, paid 4 April 2014)	202	168
Total dividends	387	351
Dividends satisfied by the issue of shares under the AGL Dividend Reinvestment Plan	(43)	(82)
Dividends paid as per the statement of cash flows	344	269
Unrecognised amounts		
Since the end of the financial year, the Directors have declared a final dividend for 2015 of 34.0 cents per share, fully franked at 30%, (2014: 33.0 cents fully franked), payable 24 September 2015.	229	185

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 2016 financial year.

Dividend reinvestment plan

The AGL Dividend Reinvestment Plan (DRP) will be in operation. No discount will apply to shares allocated under the DRP. Shares will be allocated to plan participants at the volume weighted average price at which AGL shares trade during each of the 10 trading days commencing on 31 August 2015. The last date for shareholders to elect to participate in the DRP for the FY15 final dividend is 28 August 2015.

Dividend franking account

	2015 $m	2014 $m
Adjusted franking account balance	57	35
Impact on franking account balance of dividends proposed after the reporting date but not recognised as a liability	(98)	(79)

Note 7 – Acquisition of subsidiaries and businesses

2015

Acquisition of Macquarie Generation

On 20 August 2014, AGL executed a Sale and Purchase Agreement with the New South Wales Government to acquire the Macquarie Generation assets for consideration of $1,505 million including stamp duty.

The acquisition was completed on 2 September 2014, on which date AGL obtained control of the assets. The final purchase consideration comprised cash of $1,401 million including stamp duty of $93 million. The purchase price also included working capital and other settlement adjustments of $104 million.

The assets acquired included the 2,640 MW Bayswater and 2,000 MW Liddell coal fired power stations, 50 MW Hunter Valley gas turbines, development sites and extensive coal handling infrastructure comprising rail unloaders and conveyor systems.

The power stations give AGL ownership of the lowest cost, large-scale base load generators in NSW and increase AGL's registered generation capacity by approximately 82 percent to more than 10,400 MW.

Acquisition-related costs of $105 million including stamp duty 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.

From the date of acquisition, it is not practicable to disclose Macquarie Generation's contribution to revenue and profit as the operations have been integrated into AGL's operating segments.

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.

Acquisition-related costs amounting to $4 million have been excluded from the consideration paid and were 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:

Assets acquired and liabilities assumed	Macquarie Generation 2015 $m	Other acquisitions 2015 $m	Total 2015 $m	Australian Power and Gas 2014 $m	Other acquisitions 2014 $m	Total 2014 $m
Current assets						
Cash and cash equivalents	–	–	–	24	–	24
Trade and other receivables [(a)]	79	1	80	69	–	69
Inventories	148	–	148	2	–	2
Other financial assets	86	–	86	–	–	–
Other assets	11	–	11	10	–	10
Total current assets	324	1	325	105	–	105
Non-current assets						
Other financial assets	64	–	64	–	–	–
Property, plant and equipment	1,352	3	1,355	–	–	–
Intangible assets	10	3	13	49	–	49
Deferred tax assets	92	–	92	31	–	31
Total non-current assets	1,518	6	1,524	80	–	80
Total assets	1,842	7	1,849	185	–	185
Current liabilities						
Trade and other payables	54	–	54	106	–	106
Borrowings	–	–	–	72	–	72
Provisions	47	–	47	1	–	1
Other financial liabilities	27	–	27	20	–	20
Total current liabilities	128	–	128	199	–	199
Non-current liabilities						
Provisions	72	–	72	–	–	–
Other financial liabilities	212	–	212	–	–	–
Other liabilities	122	–	122	–	–	–
Total non-current liabilities	406	–	406	–	–	–
Total liabilities	534	–	534	199	–	199
Net assets	1,308	7	1,315	(14)	–	(14)
Goodwill arising on acquisition	–	33	33	116	2	118
Fair value of net assets acquired	1,308	40	1,348	102	2	104
Purchase consideration	1,505	40	1,545	102	2	104
Less: working capital and other adjustments	(104)	–	(104)	–	–	–
Less: stamp duty	(93)	–	(93)	–	–	–
Net consideration	1,308	40	1,348	102	2	104
Cash paid	1,308	40	1,348	102	1	103
Consideration payable	–	–	–	–	1	1
Net consideration	1,308	40	1,348	102	2	104

(a) Trade and other receivables acquired with a fair value of $80 million (2014: $69 million) had gross contractual amounts of $80 million (2014: $118 million). The best estimate at acquisition date of the contractual cash flows not expected to be collected is $nil (2014: $49 million).

Notes to the Concise Financial Statements continued

Note 7 – Acquisition of subsidiaries and businesses (continued)

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

	2015 $m	2014 $m
Net cash outflow on acquisitions		
Cash paid	1,348	103
Less: cash and cash equivalent balances acquired	–	(24)
	1,348	79

Note 8 – 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:

Final dividend

On 12 August 2015, the Directors of AGL resolved to pay a fully franked final dividend of 34.0 cents per share, amounting to $229 million. The record date for the final dividend is 27 August 2015 with payment to be made on 24 September 2015. Shares will commence trading ex-dividend on 25 August 2015.

The AGL Dividend Reinvestment Plan (DRP) will be in operation. No discount will apply to shares allocated under the DRP. Shares will be allocated to plan participants at the volume weighted average price at which AGL shares trade during each of the 10 trading days commencing on 31 August 2015. The last date for shareholders to elect to participate in the DRP for the FY15 final dividend is 28 August 2015.

Directors' Declaration

For the year ended 30 June 2015

The Directors of AGL Energy Limited declare that:

(a) in their opinion, the attached financial statements and notes thereto comply with Accounting Standard AASB 1039 *Concise Financial Reports*; and

(b) the attached financial statements and notes thereto have been derived from the full financial report of the company.

Signed in accordance with a resolution of the Directors

Jeremy Maycock
Chairman

Sydney, 12 August 2015

Auditor's Independence Declaration

To the Directors of AGL Energy Limited

Deloitte Touche Tohmatsu
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Deloitte.

The Board of Directors
AGL Energy Limited
101 Miller Street
North Sydney NSW 2060

12 August 2015

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 2015, 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

DELOITTE TOUCHE TOHMATSU

G. Couttas

G Couttas
Partner
Chartered Accountants

Independent Auditor's Report

To the Members of AGL Energy Limited

Deloitte Touche Tohmatsu
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Report on the Concise Financial Report

We have audited the accompanying concise financial report of AGL Energy Limited which comprises the Consolidated Statement of Financial Position as at 30 June 2015, the Consolidated Statement of Profit or Loss, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows for the year then ended, and related notes, derived from the audited financial report of AGL Energy Limited for the year ended 30 June 2015 as set out on pages 75 to 86. The concise financial report does not contain all the disclosures required by the Australian Accounting Standards and accordingly, reading the concise financial report is not a substitute for reading the audited financial report.

Directors' Responsibility for the Concise Financial Report

The Directors are responsible for the preparation of the concise financial report in accordance with Accounting Standard AASB 1039 *Concise Financial Reports* and the *Corporations Act 2001*, and for such internal control as the Directors determine is necessary to enable the preparation of the concise financial report.

Auditor's Responsibility

Our responsibility is to express an opinion on the concise financial report based on our procedures which were conducted in accordance with Auditing Standard ASA 810 *Engagements to Report on Summary Financial Statements*. We have conducted an independent audit, in accordance with Australian Auditing Standards, of the financial report of AGL Energy Limited for the year ended 30 June 2015. We expressed an unmodified audit opinion on that financial report in our report dated 12 August 2015. The Australian Auditing 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 for the year is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the concise financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the concise 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 concise financial report 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.

Our procedures included testing that the information in the concise financial report is derived from, and is consistent with, the financial report for the year, and examination on a test basis, of audit evidence supporting the amounts and other disclosures which were not directly derived from the financial report for the year. These procedures have been undertaken to form an opinion whether, in all material respects, the concise financial report complies with Accounting Standard AASB 1039 *Concise Financial Reports*.

The concise financial report and the audited financial report do not reflect the effects of events that occurred subsequent to the date of the auditor's report on the audited financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Deloitte.

Independence
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, the concise financial report of AGL Energy Limited for the year ended 30 June 2015 complies with Accounting Standard AASB 1039 *Concise Financial Reports*.

Report on the Remuneration Report
The following paragraph is copied from our Report on the Remuneration Report for the year ended 30 June 2015.

We have audited the Remuneration Report included in pages 57 to 73 of the Directors' Report for the year ended 30 June 2015. 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 2015, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

G. Couttas

G Couttas
Partner
Chartered Accountants

Sydney, 12 August 2015

Shareholding Information

The following information is provided regarding the Issued Capital of AGL as at 29 July 2015:

1. The Issued Capital consisted of 674,712,378 fully-paid ordinary shares.
2. There were 118,464 holders of these ordinary shares.
3. There were 2,465 holders of less than a marketable parcel of 32 shares.
4. The distribution of holders was:

	No. of holders	%
1 – 1,000	57,765	48.76
1,001 – 5,000	49,588	41.86
5,001 – 10,000	7,344	6.20
10,001 – 100,000	3,662	3.09
100,001 and over	105	0.09
	118,464	**100**

5. The location of holders was:

Location	No. of holders	%	No. of shares	%
Australia	115,145	97.20	664,890,754	98.54
Hong Kong	44	0.04	133,406	0.02
New Zealand	2,333	1.97	8,618,987	1.28
United Kingdom	305	0.26	398,495	0.06
USA and Canada	459	0.39	404,578	0.06
Others	178	0.14	266,158	0.04
	118,464	**100**	**674,712,378**	**100**

6. The class of holders was:

Class of holder	No. of holders	%	No. of shares	%
Individuals	80,832	68.23	159,094,304	23.58
Companies and other	37,632	31.77	515,618,074	76.42
	118,464	**100**	**674,712,378**	**100**

7. The twenty largest holders held 57.93% of the Issued Capital:

Twenty largest holders as at 29 July 2015	Fully-paid ordinary shares	% of total issued shares
HSBC Custody Nominees (Australia) Limited	123,856,526	18.36
J P Morgan Nominees Australia Limited	92,408,810	13.70
National Nominees Limited	74,406,884	11.03
Citicorp Nominees Pty Limited	36,491,927	5.41
BNP Paribus Nominees Pty Limited	15,022,541	2.23
RBC Investor Services Australia Nominees Pty Limited	7,457,813	1.11
Citicorp Nominees Pty Limited	6,271,774	0.93
Australian Foundation Investment Company Limited	6,099,789	0.90
HSBC Custody Nominees (Australia) Limited	4,065,472	0.60
Argo Investments Limited	3,650,000	0.54
UBS Wealth Management Australia Nominees Pty Ltd	3,249,561	0.48
Custodial Services Limited	3,019,970	0.45
AMP Life Limited	2,765,923	0.41
Milton Corporation Limited	2,677,869	0.40
Questor Financial Services Limited	2,122,773	0.31
Navigator Australia Limited	1,761,919	0.26
RBC Investor Services Australia Nominees Pty Limited	1,652,737	0.24
Carlton Hotel Limited	1,355,356	0.20
Gwynvill Investments Pty Limited	1,263,150	0.19
BKI Investment Company Limited	1,247,207	0.18
	390,848,001	**57.93**

Subordinated Note Holding Information

The following information is provided regarding the Subordinated Notes of AGL as at 29 July 2015:

1. There were 6,500,000 Subordinated Notes.
2. There were 9,757 holders of these Subordinated Notes.
3. There was one holder of less than a marketable parcel of 5 Subordinated Notes.
4. The distribution of holders was:

	No. of holders	%
1 – 1,000	9,196	94.25
1,001 – 5,000	503	5.15
5,001 – 10,000	29	0.30
10,001 – 100,000	22	0.23
100,001 and over	7	0.07
	9,757	**100**

5. The location of holders was:

Location	No. of holders	%	No. of notes	%
Australia	9,687	99.28	6,324,728	97.30
Hong Kong	8	0.08	30,672	0.47
New Zealand	28	0.29	27,578	0.43
Taiwan	1	0.01	90,000	1.39
United Kingdom	6	0.06	4,094	0.06
Others	27	0.28	22,928	0.35
	9,757	**100**	**6,500,000**	**100**

6. The class of holders was:

Class of holder	No. of holders	%	No. of notes	%
Individuals	3,356	34.40	1,284,572	19.76
Companies and other	6,401	65.60	5,215,428	80.24
	9,757	**100**	**6,500,000**	**100**

7. The twenty largest holders held 37.35% of the Subordinated Notes:

Twenty largest holders as at 29 July 2015	Subordinated Notes	% of total Notes
National Nominees Limited	400,166	6.16
J P Morgan Nominees Australia Limited	286,096	4.40
National Nominees Limited <DB A/C>	232,343	3.57
Questor Financial Services Limited	231,069	3.55
HSBC Custody Nominees (Australia) Limited	199,478	3.07
Citicorp Nominees Pty Limited	196,516	3.02
UBS Wealth Management Australia Nominees Pty Ltd	104,899	1.61
Navigator Australia Limited	95,182	1.46
Australian Executor Trustees Limited	91,395	1.41
Mr Ting-Tzu Kuo	90,000	1.38
BNP Paribus Nominees Pty Limited	89,806	1.38
Nulis Nominees (Australia) Limited	82,404	1.27
National Nominees Limited <N A/C>	70,697	1.09
Bond Street Custodians Limited	55,388	0.85
Questor Financial Services Limited	47,200	0.73
HSBC Custody Nominees (Australia) Limited – A/C 2	39,318	0.60
Longhurst Management Services Pty Ltd	36,000	0.55
RBC Investor Services Australia Nominees Pty Limited	32,276	0.50
Citicorp Nominees Pty Limited	28,050	0.43
HSBC Custody Nominees (Australia) Limited <Euroclear>	20,579	0.32
	2,428,862	**37.35**

Investor Information

Website access

By visiting agl.com.au and selecting 'Investor Centre' from the 'About AGL' menu you can access AGL's online Investor Centre.

The Investor Centre provides you with easy access to important information about AGL's performance, including Annual Reports, investor presentations, share price graphs and general security holder information.

The Shareholder Services section in our Investor Centre also enables you to access and update your share and note holding information online including:

> Checking your holding balance;

> Viewing, saving or printing interest payment summaries, transaction summaries and dividend statements for Shareholders;

> Updating or amending your bank account or DRP Instructions for Shareholders;

> Electing to receive communications electronically; and

> Downloading a variety of forms

Our Share Registry, Link Market Services, also offers Share and Note holders the ability to register and create a portfolio view of their holdings. Registration is free and enables Share and Note holders to view and update multiple holdings in AGL (or other clients Link act as registry for) using a single login. To create a portfolio, please go to linkmarketservices.com.au

Share Registry

Share and Note holders with enquiries about their share and note holdings can also contact AGL's Share Registry as follows:

AGL Share Registry
Link Market Services Limited
1A Homebush Drive
Rhodes NSW 2138

(Postal Address: Locked Bag A14,
Sydney South NSW 1235)

Telephone: +61 1800 824 513 (free call within Australia)
Facsimile: +61 02 9287 0303
Email: aglenergy@linkmarketservices.com.au
Website: linkmarketservices.com.au

When communicating with the Share Registry, it will assist if you can quote your current address together with your Security Reference Number (SRN) or Holder Identification Number (HIN) as shown on your Issuer Sponsored/CHESS statements.

Final Share Dividend

The final dividend of 34 cents per share fully franked, will be paid on 24 September 2015. As the final dividend will only be paid via direct credit, Australian and New Zealand Shareholders need to nominate a bank, building society or credit union account within these jurisdictions. Payments are electronically credited on the dividend payment date and confirmed by a mailed or electronic payment advice. Payment instructions can either be lodged online or an appropriate form can be downloaded from the Share Registry's website.

Dividend Reinvestment Plan

AGL offers Shareholders the opportunity to participate in the Dividend Reinvestment Plan. Shares are allotted under the Plan at a discount of up to 5% of a weighted average market price, free of transaction costs. The actual rate of discount, if any, will be determined by the Directors at the time each dividend is declared. A zero discount was applied to the 2015 interim dividend and the same will apply to 2015 final dividend.

Subordinated Note Interest Payments

AGL makes interest payments quarterly in arrears in respect of the Subordinated Notes on or about the 8th of September, December, March and June of each year. Dates and payment rates are available at AGL's online Investor Centre.

Reporting to Shareholders

Changes to the Corporations Act mean that AGL need only provide Shareholders with access to this Annual Report on AGL's website, unless they have specifically requested to be sent a printed or electronic copy. Shareholders seeking a copy of the Annual Report should subscribe online or contact the Share Registry. The Annual Report is also available on AGL's website.

Change of name, address or banking details

Shareholders who are Issuer Sponsored should advise the Share Registry immediately of a change of name, address or banking details for dividends electronically credited to a bank account. All such changes must be advised online or in writing and cannot be accepted by telephone. For a change of name, supporting documentation must accompany your written advice. Appropriate forms can also be downloaded from the Share Registry's website.

Shareholders who are CHESS Sponsored should instruct their sponsoring broker in writing to notify the Share Registry of any change.

Tax File Number (TFN)/Australian Business Number (ABN)

It is not compulsory to provide a TFN or ABN. However AGL will be required to deduct tax at the top marginal rate from the unfranked portion of any dividend paid to Shareholders who have not provided either a TFN/ABN or details of a relevant TFN exemption. TFN/ABN notification forms can be obtained by contacting the Share Registry, by lodging your details online or by downloading the appropriate form from the Share Registry's website.

Consolidation of shareholdings

Shareholders who wish to consolidate multiple shareholdings into a single shareholding should advise the Share Registry or their sponsoring broker, whichever is applicable, in writing.

Registered Office

AGL Energy Limited,
Level 22, 101 Miller Street,
North Sydney NSW 2060, Australia

Telephone 02 9921 2999 (within Australia)
61 2 9921 2999 (international)

Company Secretary

Paul McWilliams BA (Accounting), MApFin, GradDipACG, ACA, AGIA

Directory

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