ANNUAL REPORT 2016

Energy in action.®

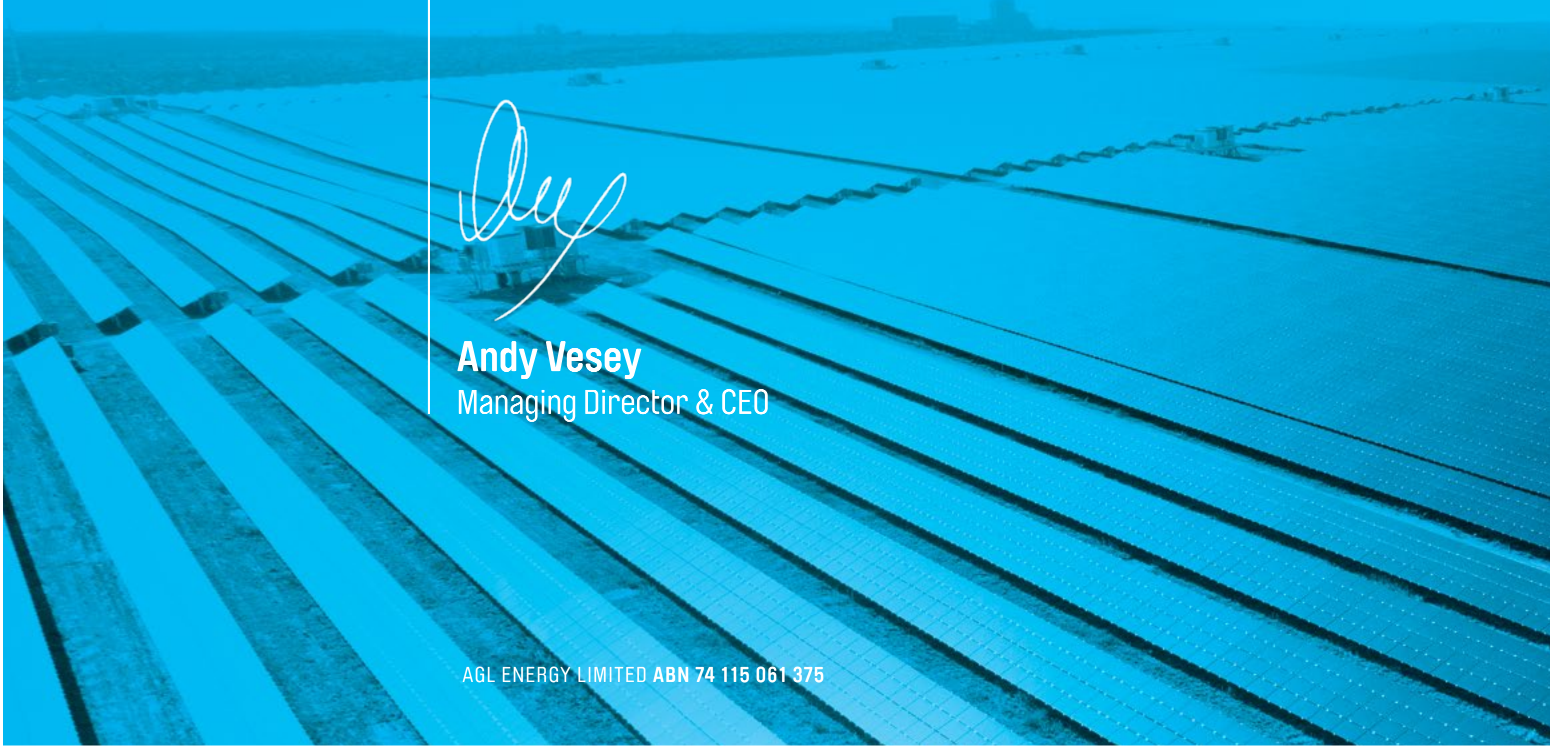
Since 1837

AGL

AGL ENERGY LIMITED
ANNUAL REPORT
2016

Our energy,

We're focussed on delivering new, innovative and integrated offerings to meet the needs of our customers in an ever-changing energy environment.



Andy Vesey
Managing Director & CEO

AGL ENERGY LIMITED **ABN 74 115 061 375**

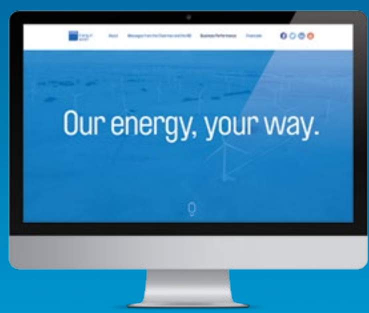
your way.

About this Report

This report is intended to provide AGL shareholders with information on your company, for the financial year ended 30 June 2016. Our 2016 Annual Report includes the concise Financial Report of AGL and its consolidated entities for the year.

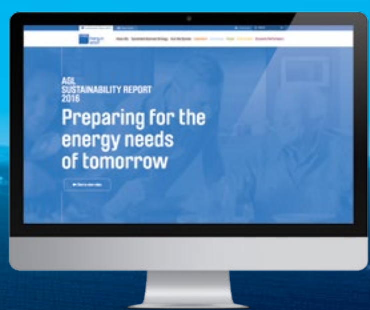
This year, AGL has also produced an online Annual Report which is available on our website **agl.com.au/2016AnnualReport**.

AGL's Corporate Governance Statement discloses the extent to which AGL has complied with the Australian Securities Exchange Corporate Governance Council's 'Corporate Governance Principles & Recommendations – 3rd edition'. This Statement is available at **agl.com.au/CorporateGovernance**.



agl.com.au/2016AnnualReport.

AGL also publishes an annual Sustainability Report which provides an account of our performance in relation to the social, environmental and economic challenges facing AGL and the energy industry. This report is available on our website at **agl.com.au/2016SustainabilityReport**.



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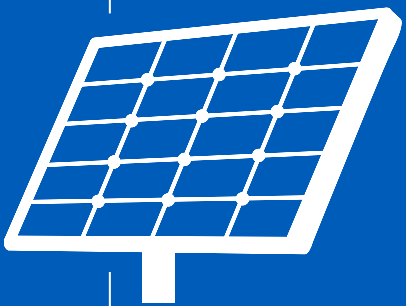


#1
Broken Hill & Nyngan solar plants open

AGL's Nyngan and Broken Hill solar plants, Australia's largest utility-scale solar photovoltaic power plants, were officially opened in January 2016. Annually, the two plants will produce approximately 360,000 MWh of renewable energy, powering more than 50,000 average Australian homes.

50,000
Homes

#2
Powering Australian Renewables Fund launched

The $2-3 billion Powering Australian Renewables Fund is an innovative new financing initiative with equity partner QIC, on behalf of its clients the Future Fund and those invested in the QIC Global Infrastructure Fund. It was designed to unlock investment and open up more opportunities to develop approximately 1,000 MW of renewable energy generation.

$2-3 Billion

#3
130,000 downloads of our industry leading app

In its first year, the AGL Energy app had more than 130,000 downloads. It allows customers to manage all their AGL energy accounts, and provides real time solar monitoring and battery storage information, from their hand-held device. This is part of AGL's commitment to providing products and services of value to our customers.

130,000
Downloads

#4

Powering electric vehicles for $1 a day

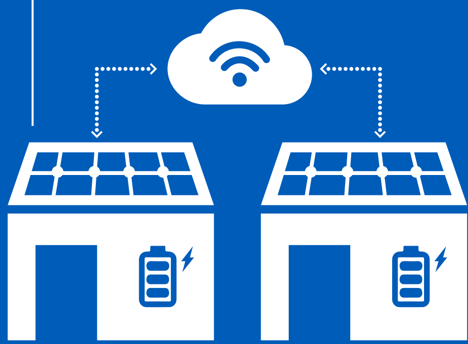
AGL announced a new product for customers with an electric vehicle, which will be available in November 2016.

$1 / day

#5

Residential energy storage range expansion

AGL has expanded its range of energy storage devices to suit a wider range of households and businesses which helps our customers control how they generate, store and use their energy and manage their bills.



#6

World's largest virtual power plant announced

In August 2016, AGL announced the launch of the world's largest virtual power plant, ultimately involving 1,000 connected batteries installed in homes and businesses in South Australia, providing 5 MW of peaking capacity and offering customers the opportunity to save on their energy bills.

1,000
Connected Batteries

Total Injury Frequency Rate

4.3 PER MILLION HOURS WORKED

4.9% ↑

Employees (FTE)

3,358 FULL TIME EQUIVALENT

5.1% ↓

Dual Fuel Customer Accounts

2.0M

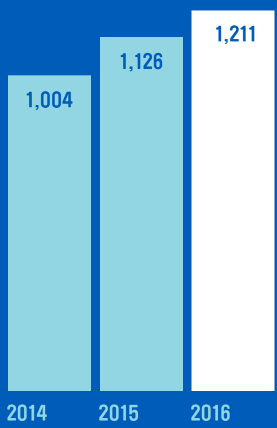
2.3% ↑

Customers

3.7M

1.4% ↓

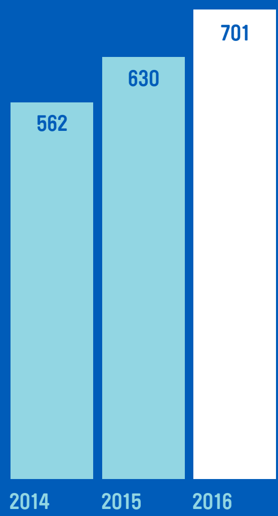
Our key generation assets, wholesale market operations and customer portfolios delivered a strong underlying profit result. This reflects our focus on operational execution and driving value through margin and cost discipline at the same time as we undertake the transformation of AGL.



Operating EBIT ($ million)

1,211

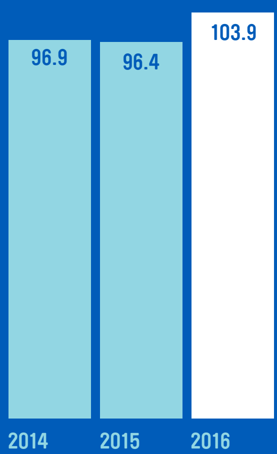
7.5% ↑



Underlying profit ($ million)

701

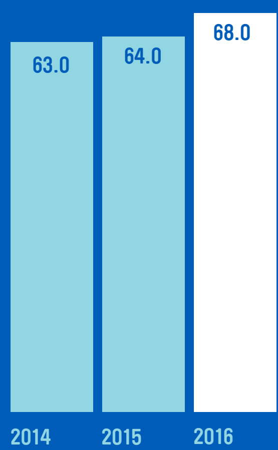
11.3% ↑



Earnings per share – underlying (cents)

103.9

7.8% ↑



Dividends per share (cents)

68.0

6.3% ↑

Year ended 30 June		2016	2015	2014	2013	2012
Profitability						
Revenue	$m	11,150	10,678	10,445	9,716	7,456
Statutory (Loss)/Profit[1]	$m	(408)	218	570	375	115
Underlying Profit	$m	701	630	562	585	482
Financial position and cash flow						
Total assets	$m	14,604	15,833	14,134	13,366	14,738
Gearing (Net Debt / Net Debt + Equity)	%	25.7	28.6	29.8	27.9	26.3
Operating cashflow before interest, tax and significant items	$m	1,588	1,527	1,149	1,179	751
Shareholder value						
Statutory EPS[2]	cents	(60.5)	33.3	98.2	65.5	22.9
Underlying EPS[2]	cents	103.9	96.4	96.9	102.2	96.1
Dividends	cents	68.0	64.0	63.0	63.0	61.0
Total Shareholder Return	%	22.3	14.8	11.8	(1.1)	13.9
Return on Equity	%	8.3	7.2	7.5	8.0	7.5
Employee						
Total injury frequency rate		4.3[3]	4.1[3]	2.7[4]	5.2[5]	6.6
Employee engagement score	%	70.0	76.0	77.0	77.0	70.0
General information						
Capital expenditure	$m	529	794	517	608	768
Generation capacity (operated and controlled)	MW	10,409	10,508	5,847	5,847	5,456
Customer numbers						
– Electricity	"000	2,262	2,279	2,316	2,146	2,084
– Gas	"000	1,419	1,456	1,484	1,371	1,390
– Total	"000	3,681	3,735	3,800	3,517	3,474
– Dual fuel accounts	"000	1,962	1,917	1,942	1,676	1,623
Electricity sales volumes						
– Consumer[6]	GWh	14,634	14,857	15,384	15,677	15,540
– Business[6]	GWh	12,268	12,798	12,963	14,714	17,374
– Total	GWh	26,902	27,655	28,347	30,391	32,914
Gas sales volumes						
– Consumer	PJ	59.4	63.0	57.6	60.6	60.1
– Business	PJ	73.7	79.1	80.6	85.5	81.9
– Wholesale & Generation	PJ	101.1	92.0	66.0	55.0	48.8
– Total	PJ	234.2	234.1	204.2	201.1	190.8

Notes:
1. Attributable to owners of AGL Energy Limited.
2. Earnings per share for FY12 – FY14 restated for the bonus element of the one-for-five share rights issue completed in September 2014.
3. Includes AGL Macquarie employee hours and injuries.
4. Revised from 2.8 to 2.7 due to injury reclassification and data cleansing.
5. Revised from 5.9 to 5.2 due to injury reclassification and data cleansing.
6. Restated to reflect recognition of volumes associated with feed-in tariffs from solar customers.

Chairman's Report

AGL's statutory loss after tax attributable to shareholders for the year ended 30 June 2016 was $408 million while statutory operating cashflow increased 13.6 percent to $1,186 million. Underlying profit increased to $701 million, allowing AGL to increase the final dividend to 36 cents per share fully franked.

Strategy and growth

In the past year, the Board has overseen the evolution of AGL's business strategy as the company strives to improve the efficiency of its core operations while continuing to explore long-term opportunities for sustainable earnings growth. The core objectives of AGL's strategic framework are to embrace transformation, drive productivity and unlock growth.

Central to AGL's strategy is the focus by the Managing Director, Andy Vesey, and his Executive Team, to improve AGL's operational efficiency. Good progress has been made with $122 million of the targeted $170 million reduction in normalised operating costs achieved during FY2016. Other measures, including the sale of $1 billion in non-strategic and under-performing assets by the end of FY2017, are on-track with approximately $691 million of non-core assets having been divested in FY2016.

The Board believes that AGL has significant growth opportunities, both in its core retail business and in new, closely related businesses, as new energy technologies become increasingly economic. Investing in new technology will be critical to successfully unlocking future growth. During FY2016 AGL made a strategic investment in Sunverge Energy Inc., an emerging leader in demand response management for premises-based energy storage. AGL also established the Powering Australian Renewables Fund (PARF) in association with QIC, on behalf of its managed clients the Future Fund and the QIC Global Infrastructure Fund, to develop, own and manage approximately 1,000 megawatts of large scale renewable energy.

In the coming year, AGL will commence a three year program to transform the customer's digital experience with AGL. This will include significant investment in business process re-engineering, information technology, and people.

Statutory financial results

AGL has reported an after-tax statutory loss attributable to shareholders for FY2016 of $408 million. The reduction is due mainly to the inclusion of significant items amounting to $692 million after-tax. By contrast, statutory operating cashflow was $1,186 million, up 13.6 percent on last year.

By far the largest of the significant items is the impairment of approximately $640 million (after-tax) in the value of AGL's upstream gas assets at Gloucester and Camden in New South Wales and at Moranbah, Silver Springs and Spring Gully in Queensland. This follows AGL's announcement, in February 2016, that exploration and production of upstream gas assets will no longer be a core business activity for the company due to the volatility of commodity prices and the risks associated with long development lead times for these projects.

The other notable component of the significant items this year is the $60 million (after-tax) costs incurred in restructuring the business following AGL's decision not to focus on upstream gas exploration and production activities, and in continuing to align AGL's organisational structure with the company's strategic objectives.

While the impairments are disappointing, it should be noted that there has been a substantial net increase in shareholder value from AGL's overall upstream gas investments during the past decade. In the coming year, AGL will continue to focus on its core competencies and transform the business in order to capitalise on emerging opportunities in the energy sector.

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 FY2016 was $701 million, an increase of 11.3 percent on last year's result. This follows a 12.1 percent increase in underlying profit achieved in FY2015. The principal drivers of this year's good profit performance were the contribution from AGL Macquarie, stronger wholesale market prices, improvement in the cost to gross margin ratio in the retail business and a $122 million reduction in operating costs.

Good policy will enable the deployment of private capital

Investing in new technology will be critical to successfully unlocking future growth

The Board believes that improvement in underlying profit represents a good outcome for shareholders in an environment where trading conditions are characterised by high levels of competition and commodity price and market volatility.

The Board has declared a fully franked final dividend of 36 cents per share. When combined with the interim dividend, this brings the full year dividend to 68 cents per share, an increase of four cents on last year.

AGL continues to maintain a strong balance sheet, underpinned by an investment grade credit rating. The Board considers that maintaining a strong balance sheet is essential to ensure that AGL remains a robust counterparty in the NEM with the capacity and flexibility to pursue sensible growth opportunities that deliver long-term value to shareholders.

The Board continues to focus on improving AGL's return on shareholder's equity and earnings per share through heightened focus on productivity and efficiency and efficient capital allocation.

Board renewal

On 30 June this year, Sandra McPhee retired from the AGL Board after approximately 10 years' service. Bruce Phillips, a Director with nine years' service, will retire at the conclusion of the Annual General Meeting on 28 September 2016.

While acknowledging the valuable contribution by Sandra and Bruce, the Board has embraced the opportunity to review its future requirements and identify the skills that will be required to guide the company's future growth and development.

In March 2016, following an extensive search, the Board welcomed Jacqueline Hey as a non-executive director. Jacqueline brings to the Board deep experience in managing the business impacts of technological change and driving improvements in customer experience. She will make a valuable contribution to AGL's strategy as the company responds to the dual challenges of technological change and evolving customer expectations.

At the Annual General Meeting on 28 September 2016, the Board will ask shareholders to approve the appointment of Diane Smith-Gander as a non-executive director. Diane has an extensive background as an executive manager and non-executive director in the areas of information technology, operations, large-scale commodities and in leading major transformation projects. The Board strongly supports Diane's candidacy for appointment to the Board.

The Board regularly reviews its collective skills and experience in the light of contemporary and predicted future needs to ensure that AGL has strong governance and the capability to deliver sustainable growth to the company.

Conclusion

In last year's Annual Report I referred to the challenge of climate change, particularly in the context of AGL being the largest electricity producer in the NEM. Responding to the challenge of climate change remains an issue of focus for AGL. AGL supports the commitment of the Commonwealth Government to reducing emissions in a manner consistent with limiting climate change to two degrees above pre-industrial levels (the 'Paris Commitments').

Last year, AGL committed to providing further information about our response to the risks and opportunities presented by climate change mitigation policies. As part of the 2016 Sustainability Report, we have produced a supplementary report which outlines AGL's response to climate change as well as the results of economic modelling on the impact of greenhouse gas reduction policies on the NEM.

Good government policy will enable the deployment of private capital to meet the demands of providing affordable, reliable electricity as Australia transitions to a low-carbon energy system. As Commonwealth and State governments consider how to deliver an orderly and efficient pathway to meet Australia's Paris Commitments, it is critical that policies are developed which are consistent and complementary across jurisdictions, are transparently developed and enable, rather than hinder, competition for the benefit of energy customers.

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

Jeremy Maycock
Chairman

Managing Director's Report

Strong balance sheet and underlying cashflow, positions us well to deliver our strategy.

I am pleased to deliver the 2016 Financial Year Annual Report, in what can only be described as a very pleasing year for the company.

We have a strong balance sheet and underlying cashflow which positions us strongly to deliver our strategy amid evolving energy markets. We've delivered improved returns for shareholders, while making good progress on key objectives. For example we are on track to meet our divestment target of $1 billion in non-strategic and under-performing asset divestments by the end of FY2017, with $691 executed in FY2016, as well as operating cost reductions of $122 million against a $170 million target over the same time frame.

This has occurred amid significant changes in the energy market. For the first time in many years we have seen electricity demand stabilising, however the electricity sector is still significantly oversupplied. At the same time, wholesale prices are rising, which is being driven by a change in the fuel landscape as demand from liquefied natural gas plants drives up gas prices and black coal domestic contracts are reset off legacy lows.

At the same time, the energy sector is preparing to decarbonise, driven by the Renewable Energy Target (RET) and other government policies still in development. In this context it is important to note that approximately 75 percent of thermal plants in the National Electricity Market (NEM) are past their original design life. It is therefore vital that government policy not only incentivise investment in lower-emitting technology but provide for an orderly exit of this aged, high carbon emitting plant to make room for more low carbon and renewable generation. This must be done in a way that does not unnecessarily impact customers, shareholders, employees or communities.

It is also crucial that policy-makers focus on cost-effective mechanisms to deliver reliable capacity and back-up generation as the penetration of wind and solar in our energy market accelerates.

AGL is well-positioned to play a significant role in this transition. With 1,894 MW of renewable generation capacity already in our fleet, we recently announced that QIC, on behalf of its managed clients the Future Fund and the QIC Global Infrastructure Fund, is our equity partner in the $2-$3 billion Powering Australian Renewables Fund (PARF). This fund aims to develop approximately 1,000 MW of large-scale renewable energy projects to meet Federal Government targets and spur investment and development in support of Australia's transition to a low-carbon economy.

AGL is proud to be developing the world's largest virtual power plant in South Australia. This $20 million project involves the deployment of 1,000 connected batteries to homes and businesses with solar photovoltaic systems in the Adelaide region. This virtual power plant will act as the equivalent of a 5 MW solar peaking plant, improving network stability, supporting renewable generation and ultimately reducing energy bills for customers.

While the generation sector transforms, so does our retail business. This is being driven in part by evolving policy, changing consumer demands and needs, and by innovation in technologies, giving customers the ability to take greater control over their energy use and management than ever before. AGL is investing in new products and digital capabilities to stay in a leadership position and create new value pools.

I'd like to focus on some key achievements over the past year.

YEAR IN REVIEW

Customer focus

In an environment of intense competition in the energy retail sector, AGL has achieved some pleasing results for customers. Our average annual customer satisfaction score was 7.3, which has been higher than our major competitors since 2012, and Ombudsman complaints are down by 25 percent. New customer service solutions such as webchat have also resulted in excellent customer satisfaction and we have lifted the number of satisfied or very satisfied customers to 89 percent in an after call survey.

At the same time, AGL has developed a number of innovative products and services. For example, our mobile phone app, with over 130,000 downloads, has had some improvements with customers now able to monitor the performance of their rooftop solar and battery storage systems, as well as their electricity and gas consumption, all in one app.

New products include our $1 per day electric vehicle charging offer, which will be available in November 2016, and the AGL Future Forests program which enables residential customers to offset carbon emissions based on their electricity consumption for $1 per week. This funds the purchase of native Australian forestry carbon credits to offset those emissions and also supports biodiversity conservation and the planting of Australian native trees.

AGL also now offers a wide range of energy storage solutions to meet individual household needs, after expanding our Power Advantage range of energy storage devices in November 2015.

68CPS
Full year dividend

$701M
AGL's underlying profit in FY2016, an increase of 11.3%

With our investment in leading US-based energy storage and management company Sunverge Energy Inc. (Sunverge) in February 2016, our energy storage management capabilities are enhanced.

These investments in customer initiatives, technologies and generation sources will help unlock future growth for AGL.

At the same time, AGL continues to support vulnerable customers, and to champion the need for protection of these groups. In July we announced an automatic 10 percent discount on electricity rates for Victorian concession card holders on a standing offer. This is on top of an affordability initiative which invests $6.5 million over three years to improve services and support for vulnerable energy customers.

Further, AGL announced its domestic violence support program for customers which was developed in consultation with community groups and sector experts around Australia. This includes having a specialist team trained to support these customers, to establishing payment plans or applying debt relief.

Community commitment

AGL is committed to making a meaningful contribution in communities where we operate. This includes maximising the local employment and economic development opportunities that our projects can provide. For example, during construction of the Nyngan and Broken Hill solar plants, approximately $29 million was injected into the local communities. Over the life of these projects we expect the regional economy to see an inflow of $137 million at Nyngan and $85.5 million at Broken Hill as a direct result of our presence.

As AGL transitions to a low carbon generation mix we are focussed on facilitating a just transition for the communities in which we operate. In the Latrobe Valley in Victoria, where we operate the Loy Yang A power station and mine, and in the Hunter Valley in New South Wales where we operate the Bayswater and Liddell power stations, AGL is leading collaborative efforts to enable new sources of growth and prosperity as traditional carbon-based energy jobs decline. We have sought out examples around the globe of successful economic transitions, and engaged with industry partners, local and state governments, universities and non-government organisations to map opportunities for innovation and employment.

The creation of our Hunter Energy Transition Alliance has already led to new businesses in advanced energy seeking to co-locate with AGL; new energy-based education offerings located in the Hunter Valley; and new proposals for innovation and partnerships in intensive agricultural activities.

AGL is proud to support events in communities where we operate, such as the Burra Country Music Festival near our South Australian wind farms and the Nyngan Ag Expo near our northern NSW solar plant.

AGL has also hosted a number of open days and site tours at our operations, including those at our solar plants and wind farms, our hydroelectric operations and Loy Yang, Bayswater and Liddell power stations, so that the community can have a closer look at our operations.

AGL has established a $2 million Gloucester Independent Community Legacy Fund following the strategic decision to exit upstream gas exploration and production and not go ahead with the Gloucester Gas Project. This fund will support projects contributing to economic development, education and community building in the Gloucester region.

We provided direct community contributions of $3.18 million in the past year including supporting our strategic partners The Smith Family, St Vincent de Paul Society, Cancer Council Australia and the Julian Burton Burns Trust. Our people contributed over 5,300 hours of volunteering leave to support their local communities.

Our people

AGL was recognised as a Silver Status Employer by the Australian Workplace Equality Index (AWEI) at its annual awards. AGL Loy Yang General Manager Steve Rieniets also won the Regional Inclusion Champion of the Year in the Lesbian, Gay, Bisexual, Transgender and Intersex (LGBTI) Inclusion Awards. We are very proud to have worked hard to build a safe and welcoming environment for LGBTI employees both in our metropolitan and regional sites.

This recognition is just part of providing a safe, healthy and secure work environment for our people.

We continue to focus on employee engagement to attract and retain talented employees. The result of AGL's 2016 employee engagement survey was 70 percent. This is a decline of six percentage points compared to last year, and while somewhat disappointing, reflects the fact that AGL is undergoing a transformation and there is more to do to bring our people through the change.

Our people have also been recognised for their talent. For example, AGL's Digital Solutions Team won gold at the Australian Computer Society Digital Disruptor Awards for their work done in establishing a new delivery team for AGL's digital assets and adopting Agile as the delivery methodology.

Also, Electrical Engineering Technician Nicholas McLennan from AGL Macquarie was named the NSW Hunter Region 2016 Apprentice of the Year.

AGL has made progress on increasing the representation of women in our senior leadership pipeline, but this remains challenging in a sector where many roles are non-traditional roles for women. However, in a Victorian first, mine operator Kate Johnston became the first female dredger driver at AGL Loy Yang.

Finally, I would like to acknowledge the significant contribution of all of AGL's employees to the Company's results and to thank them for their dedication and commitment over the past year.

Andy Vesey
Managing Director & CEO

AGL's Executive Team – dedicated and focussed on delivering results for all of our stakeholders.

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 joined AGL as Managing Director and CEO in early 2015.

Brett Redman

BCom, FCA, GAICD

Chief Financial Officer

Brett has over 20 years' experience in senior finance roles in large blue chip industrial companies both in Australia and overseas. He joined AGL in 2007 and was appointed CFO in 2012. His responsibilities at AGL include reporting, shared services, tax, treasury, investor relations, corporate development and IT.

Dan Cram

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

Executive General Manager People & Culture and Acting Executive General Manager Stakeholder Relations

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, leadership development and outsourcing and offshoring 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.

Doug Jackson

MBA Global Energy

Executive General Manager Group Operations

Doug has over 35 years' experience in the power generation industry. Doug is currently responsible for a geographically dispersed business of approximately 1,800 employees. They are located across the AGL operational assets, Health, Safety and Environment and the Facilities and Security functions. Prior to joining AGL in 2013, Doug worked in both the United States and Canada, leading the operations and construction of electricity generation and mining assets.

Stephen Mikkelsen

CA, BBS

Executive General Manager Energy Markets

Stephen has over 20 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 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 and Acting Executive General Manager New Energy

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.

The Directors present their Report, set out on pages 12 to 61, including the Operating and Financial Review (pages 15 to 38), the Remuneration Report (pages 39 to 58) and Other Required Disclosures (pages 59 to 61); 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 2016 and the Independent Auditor's 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 names of the persons who have been Directors, or appointed as Directors, during the period since 1 July 2015 and up to the date of this report are Andy Vesey (Managing Director & CEO), Jeremy Maycock (Chairman), Les Hosking, Graeme Hunt, Belinda Hutchinson, Jacqueline Hey (from 21 March 2016), Bruce Phillips, John Stanhope and Sandra McPhee (retired with effect from 30 June 2016).

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

Non-executive Director since October 2006 and Chairman since October 2010. Age 64.

Directorships: Chairman of Port of Brisbane Pty Ltd, Director of The Smith Family (commenced January 2013), BRW Building Services Pty Limited and Arrium Limited.

Experience: Jerry has had a long commercial career in senior business roles in Australia, New Zealand and South East Asia, the majority of his experience being in construction materials with Swiss group Holcim Ltd. Lately, he held CEO and MD positions in Australian listed companies including CSR Ltd. Jerry is a Fellow of the Australian Institute of Company Directors and the Institute of Professional Engineers NZ.

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

Managing Director and Chief Executive Officer since February 2015. Age 61.

Directorships: Nil

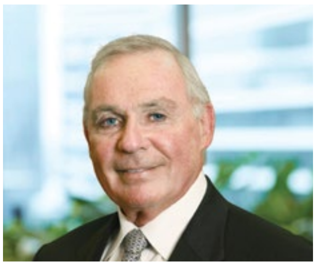
Experience: Andy has over 30 years' experience in the energy industry including strategic and commercial leadership of large energy organisations, and working in complex regulatory and political environments. His experience extends across the energy supply chain including power development, generation, distribution and retail businesses.

Jacqueline Hey
BCom, Grad Cert (Mgmt), GAICD

Non-executive Director since March 2016. Age 50.

Directorships: Director of Qantas Airways Limited, (commenced August 2013), Bendigo and Adelaide Bank Limited, Australian Foundation Investment Company Ltd, Cricket Australia and Melbourne Business School. Jacqueline retired as a Director of Special Broadcasting Service (SBS) in June 2016.

Experience: Jacqueline has enjoyed a successful executive career prior to becoming a full time company director in 2011. Jacqueline has extensive experience in the areas of information technology, telecommunications and marketing. Jacqueline worked with Ericsson for more than 20 years in finance, marketing and sales and in leadership roles in Australia, Sweden, the UK and the Middle East.



Les Hosking

Non-executive Director since November 2008. Age 71.

Directorships: Chairman of Adelaide Brighton Limited and an Adjunct Professor of the University of Sydney John Grill Centre for Project Leadership.

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, Innovation Australia Pty Limited, Australian Energy Market Operator Limited (AEMO), Managing Director and Chief Executive Officer of NEMMCO and a non-executive Director of NEMMCO.

Composition of Board Committees as at 30 June 2016

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				
Jacqueline Hey	Independent	✔		✔	✔
Les Hosking	Independent	✔	Chair		✔
Graeme Hunt	Independent		✔	Chair (from 1 July 2016)	✔

Graeme Hunt
MBA, BMET

Non-executive Director since September 2012. Age 59.

Directorships: Managing Director of Broadspectrum Limited, Chairman of the National Resources Science Precinct, and of the Western Australian Energy Research Alliance and President of the Australian Mines and Metals Association.

Experience: Graeme has extensive experience in establishing and operating large capital projects. He was previously a non-executive Director of Broadspectrum 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.

Belinda Hutchinson
AM, BEc, FCA, FAICD

Non-executive Director since December 2010. Age 63.

Directorships: Chancellor of the University of Sydney, Chairman of Thales Australia Limited (commenced August 2015) and 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.

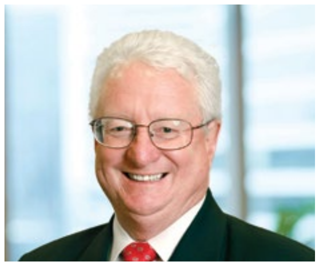
Experience: Belinda has extensive experience in non-executive roles including as Chairman of QBE Insurance Group, a Director of Telstra Corporation, Coles Myer, Crane Group, Energy Australia, TAB, Snowy Hydro Trading and Sydney Water. Her executive career included her role as an Executive Director of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

Bruce Phillips
BSc (Hons) PESA, ASEG

Non-executive Director since August 2007. Age 61.

Directorships: Chairman of AWE Limited and ALS Limited (commenced as a Director August 2015 and was appointed Chairman on 26 July 2016).

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), was previously Chairman and a Director of Platinum Capital Limited and was previously a Director of Sunshine Gas Limited.



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

Non-executive Director since March 2009. Age 65.

Directorships: Chairman of Australia Post, The Bionics Institute of Australia and Melbourne Jazz Limited, Chancellor of Deakin University, and a Member of the International Integrated Reporting Council's Governance and Nominations Committee.

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.

Composition of Board Committees as at 30 June 2016

Director	Status	Audit and Risk Management Committee	People and Performance Committee	Safety, Sustainability and Corporate Responsibility Committee	Nominations Committee
Belinda Hutchinson	Independent	✔	✔		✔
Bruce Phillips	Independent	✔		✔	✔
John Stanhope	Independent	Chair	✔		✔
Sandra McPhee	Independent	✔		Chair (up to 30 June 2016)	✔

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	79,787
Andy Vesey	143,316
Les Hosking	2,801
Graeme Hunt	1,500
Belinda Hutchinson	9,156
Bruce Phillips	40,601
John Stanhope	7,540
Jacqueline Hey	2,170

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

Sandra McPhee, a director up until her retirement on 30 June 2016, held 20,546 shares at that time.

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

Company Secretaries

John Fitzgerald was appointed Company Secretary on 1 October 2015. In December 2007, John was appointed General Counsel and continues to hold that position in addition to his role as Company Secretary. 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 has been practising in projects, mining and energy law for over 20 years.

Paul McWilliams stepped down as Company Secretary of AGL Energy Limited on 1 October 2015. Paul had served as Company Secretary from his appointment in August 2006.

Dividends

The annual dividend for the year ended 30 June 2016 was 68.0 cents per share compared with 64.0 cents per share for the prior year. This includes an interim dividend of 32.0 cents per share paid on 16 March 2016 and a final dividend of 36.0 cents per share payable on 22 September 2016.

For more information on dividends, refer to the Other Required Disclosures on page 59.

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	
Director's Name	A	B	A	B	A	B	A	B	A	B	A	B
Jeremy Maycock	11	11	3	4							4	4
Andy Vesey	10	11	4	4								
Jacqueline Hey	4	4	1	1	2	2			1	1	3	3
Les Hosking	11	11	4	4	6	6	4	4			4	4
Graeme Hunt	11	11	3	4			4	4	4	4	4	4
Belinda Hutchinson	11	11	3	4	6	6	4	4			4	4
Sandra McPhee	11	11	2	4	6	6			4	4	3	4
Bruce Phillips	10	11	3	4	6	6			4	4	3	4
John Stanhope	10	11	4	4	6	6	4	4			4	4

A – number of meetings attended as a member

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

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

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

Operating and Financial Review

For the year ended 30 June 2016

This Operating and Financial Review (pages 15 to 38) is attached to and forms part of, the Directors' Report.

Contents

1. AGL's Operations and Strategy

1.1 About AGL

AGL is one of Australia's leading integrated energy companies. It is taking action to gradually 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 with 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.

1.1.1 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;

> Operation of natural gas storage facilities;

> Extraction, production and sale of natural gas; and

> Sale of distributed generation technologies including solar, digital meters, storage and other business and residential energy services.

1.1.2 Operating Segments

AGL views the business as four interrelated segments collectively servicing customer's needs. AGL segments are:

> **Energy Markets** sells electricity, natural gas, and energy related products and services to Consumer Market, Business and Wholesale Customers, currently servicing approximately 3.7 million customer accounts. Energy Markets is also responsible for managing the wholesale risks associated with satisfying the customer requirements across the portfolios.

> **Group Operations** is a diverse power generation portfolio, spread across traditional thermal and renewable generation including hydro, wind and solar. Group Operations also undertakes natural gas extraction and production (a business operation AGL plans to exit) and gas storage operations.

> **New Energy** is responsible for driving AGL's capabilities in taking new and distributed technologies to market in Australia. The business unit comprises New Energy Services, which includes AGL Solar and commercial and industrial customer energy solutions; and Distributed Energy Services, including AGL's portfolio of low emission and renewable generation assets and Active Stream, AGL's digital meter installation and data provider business.

> **Investments** include equity accounted investments in various energy related business, including the ActewAGL Retail Partnership, Solar Analytics Pty Ltd, Sunverge Energy, Inc. and Diamantina Holding Company Pty Limited prior to its disposal.

1.2 Strategy and Prospects

1.2.1 Overview

In May 2015, AGL announced its strategic roadmap to deliver improved shareholder returns. The strategic focus for the year has been to deliver against this roadmap.

AGL's business definition is to harness insights to enrich the customer's energy experience.

AGL's strategic roadmap consists of three key components.

1. **Embrace Transformation**
   > Align structure with strategy
   > Create anticipatory mindset

2. **Drive Productivity**
   > Improve capital allocation
   > Improve operational efficiency

3. **Unlock Growth**
   > Grow retail energy's share of value
   > Invest in business models that exploit new technology

1.2.2 Embrace 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.

To survive and thrive in the changing environment, AGL is building agile business processes and systems able to anticipate, adapt and position it to take advantage of opportunities as they emerge.

AGL's new organisational structure is facilitating this internal cultural change. The company is also developing a deep and growing talent pool.

Throughout FY16, AGL undertook a comprehensive scenario planning exercise. This was led by the Executive Team and utilised global industry experts. The outputs of this session are currently being rolled out and will form the basis of future strategy and planning.

In February 2016, AGL announced that, following an internal review, it had taken a strategic decision that exploration and production of natural gas assets would no longer be a core business for the company due to the volatility of commodity prices and long development lead times.

Key focus areas for FY17 will include:

> Commencing a three year program to transform the customer's digital experience with AGL. This will include investment in core technologies, processes and people to enable transformation;

> Modernisation of EBAs at AGL Macquarie and AGL Loy Yang; and

> Embedding lean and agile processes throughout the organisation.

1.2.3 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.

1.2.3.1 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. To date $691 million of assets have been divested including a 50% share in the Macarthur Wind Farm and the Diamantina Power Station. Further asset divestments are planned for FY17.

In addition, AGL is targeting working capital reductions of $200 million by the end of FY17. During FY16, $72 million of this has been achieved.

1.2.3.2 Improve operational efficiency

AGL is targeting a $170 million real reduction in its normalised operating cost base over FY16 and FY17. During FY16, $122 million of this has been achieved.

In addition, a $100 million real reduction in sustaining capital expenditure is being targeted. AGL is on track to achieve this.

1.2.4 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.

On 27 July 2016, AGL announced QIC, on behalf of its clients the Future Fund and those invested in the QIC Global Infrastructure Fund, as its equity partner in the $2-3 billion Powering Australian Renewables Fund (PARF). The PARF is a landmark partnership created by AGL to develop, own and manage approximately 1,000 MW of large scale renewable energy.

Investing in new technology will be critical to successfully unlocking future growth. During FY16, AGL made a strategic investment in Sunverge Energy Inc, an emerging leader in demand response management for premises based energy storage.

During FY16, AGL leveraged the technology from its investment in Solar Analytics Pty Ltd. The AGL mobile app now includes real time solar monitoring to give customers more control over rooftop solar installations.

1.2.5 Financial Year 2017 Outlook

AGL will provide formal guidance of its FY17 earnings outlook at its Annual General Meeting on 28 September 2016.

2. AGL's FY16 Results Overview

The consolidated loss after tax attributable to shareholders was $408 million (FY15: $218 million profit). The underlying profit after tax was $701 million (FY15: $630 million).

The following tables reconcile Statutory (Loss)/Profit to Underlying Profit.

	Year ended 30 June 2016 $m	Year ended 30 June 2015 $m
Statutory (Loss)/Profit(1)	**(408)**	218
Adjust for the following after tax items:		
Significant items(2)	**692**	578
Changes in fair value of financial instruments(3)	**417**	(166)
Underlying Profit(1)	**701**	630

	cents	cents
EPS on Statutory (Loss)/Profit(4)	**(60.5)**	33.3
EPS on Underlying Profit(4)	**103.9**	96.4

(1) Attributable to owners of AGL Energy Limited
(2) Section 2.2
(3) Section 5
(4) EPS calculations have been based upon a weighted average number of ordinary shares of 674,712,378 (FY15: 653,725,754).

The terms 'Underlying Profit' and 'Operating EBIT' are the Statutory (Loss)/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 which are unrelated to the underlying performance of the business, thereby facilitating a more representative comparison of financial performance between financial periods.

> Changes in the fair value of financial instruments recognised in the statement of profit or loss thereby removing volatility caused by differences between amounts recognised for derivatives and the related underlying asset.

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.

2.1 Underlying Profit summary

	Year ended 30 June 2016 $m	Year ended 30 June 2015 $m
Revenue	**11,150**	10,678
Operating EBITDA	**1,689**	1,505
Operating EBIT	**1,211**	1,126
Less Net finance costs	**(222)**	(234)
Underlying Profit before income tax and non-controlling interest	**989**	892
Less Income tax expense	**(287)**	(262)
Less non-controlling interest	**(1)**	–
Underlying Profit	**701**	630

Underlying Profit for the year ended 30 June 2016 ('FY16') was 11.3% higher than the prior year ('FY15'). The increase was driven by improvements in consumer EBIT per customer, higher generation volumes and cost savings from the targeted operating cost initiatives.

Consumer EBIT per customer of $108 (FY15: $86) was up by 25.6%. The increase was delivered through disciplined price management leading to a gross margin improvement of 8.1%, and targeted operating cost initiatives reducing net operating costs by $18 million, which improved AGL net operating costs per customer by 3.6%. Customer churn rate also remained below the rest of the market at 15.7%.

Wholesale gross margin increased $148 million. The electricity margin increase of $83 million was delivered through higher volumes with a full year of AGL Macquarie and the commissioning of solar plants in Nyngan and Broken Hill. The favourable gas margin increase of $23 million was the result of improved wholesale prices and favourable oil position management. Eco-Markets gross margin increase of $42 million was driven by higher hydro generation and solar assets commissioning combined with LGC revenue reflecting higher market prices.

2.2 Significant Items

	Year ended 30 June 2016		Year ended 30 June 2015	
	Pre-tax $m	PAT $m	Pre-tax $m	PAT $m
Natural Gas impairment and exit charges				
Camden	**(32)**	**(23)**	–	–
Gloucester	**(166)**	**(119)**	(275)	(193)
Silver Springs	**(208)**	**(146)**	–	–
Spring Gully	**(14)**	**(14)**	–	–
Moranbah	**(375)**	**(338)**	(321)	(237)
Cooper Oil	**–**	**–**	(7)	(5)
Sub-total	**(795)**	**(640)**	(603)	(435)
Organisational restructuring costs	**(83)**	**(60)**	(25)	(18)
Asset disposals and acquisitions				
Sale of Macarthur Wind Farm	**7**	**5**	–	–
Sale of Diamantina Power Station	**3**	**3**	–	–
Acquisition of Macquarie Generation assets	**–**	**–**	(152)	(117)
Sub-total	**10**	**8**	(152)	(117)
Other significant items				
Other	**–**	**–**	(12)	(8)
Total significant items	**(868)**	**(692)**	(792)	(578)

2.2.1 Natural Gas impairment and exit charges

Current Year

On 4 February 2016, AGL announced that following a review of its natural gas assets (previously Upstream Gas), it has taken a strategic decision that exploration and production of natural gas assets will no longer be a core business for the company due to the volatility of commodity prices and long development lead times.

As a result, AGL has recognised an impairment of $795 million before tax ($640 million after tax).

The fall in global oil prices has had a consequent effect on long-term Queensland gas prices and this has resulted in an impairment to AGL's Queensland natural gas assets (including Moranbah, Silver Springs and Spring Gully).

Also, based on the lower than expected production volumes AGL will no longer proceed with the Gloucester Gas Project. Without the Gloucester Gas Project, there are limited opportunities for scale and efficiencies across projects, so AGL will also cease production at the Camden Gas Project by 2023 (12 years earlier than previously proposed).

The impairment charge includes approximately $44 million relating to an increase in the provision for environmental rehabilitation for the gas operations projects, a $6 million decrease in inventory value, and $10 million for various anticipated exit costs, including the establishment of an independent trust fund for the Gloucester community.

Prior Year

AGL recorded an impairment for three projects as follows:

> Due to delays in the production of first gas by the Gloucester project, coupled with revised estimates of gas volumes and development costs, AGL recognised an impairment of $275 million before tax ($193 million after tax) on this project;

> As a suitable buyer had not been identified for the Moranbah assets, they were de-designated from the accounting classification of 'held for sale' and a review of individual assets was undertaken. This led to an impairment of the Northern Queensland Energy business along with the recognition of onerous contract provisions (the Yabulu power purchase agreement and associated gas transportation agreement), a total cost of $321 million before tax ($237 million after tax); and

> An impairment of $7 million before tax ($5 million after tax) was recorded for the Cooper Oil assets representing the expected loss on sale.

2.2.2 Organisational restructuring costs

Current Year

As noted in section 1.2.2, a component of AGL's strategic roadmap is to 'embrace transformation', aligning structure with strategy. This recognises that the operating models of the past need to change and new organisational foundations are required to position AGL to succeed in the changing energy industry.

AGL's progression along this journey has led to significant restructuring, beginning with the new operating model announced in May 2015 and continuing throughout the year as we aligned all levels of the organisation to this model, including further restructuring towards the later part of FY16. AGL has also chosen to exit certain non-core business and home services activities, which are not considered to add long term value. These decisions have resulted in FY16 costs of $60 million after tax, primarily relating to:

> Cost reductions to better position AGL for the future. This included redundancy and other labour related restructuring costs totalling $43 million (after tax) incurred across all Business Units, which will result in benefits to future years through lower labour and related costs. FTE reductions totalled approximately 280.

> Strategic exiting and downsizing non-core businesses to focus on growth areas that deliver greater value totalling $17 million (after tax). This included the exit from the following non-core businesses: Matter Technology (formerly Greenbox), Business Energy Services technical, boilers, and bespoke thermal and electrical projects.

Prior Year

Restructuring costs of $25 million before tax ($18 million after tax) were recognised in relation to various organisational reviews, including the initial phases of the new operating model.

2.2.3 Asset disposals and acquisitions

Current Year

During the year, AGL sold its 50% share in the Macarthur Wind Farm joint venture to H.R.L Morrison & Co managed funds for a consideration of $532 million and recognised a gain on sale of $7 million before tax ($5 million after tax).

AGL also sold its 50% equity interest in the Diamantina Power Station to APA Group, its partner in the joint venture, for a consideration of $151 million and recognised a gain on sale of $3 million before tax ($3 million after tax).

These disposals are in line with AGL's strategic initiative to improve capital allocation as outlined at 1.2.3.1.

Prior Year

AGL completed the acquisition of the Macquarie Generation assets on 2 September 2014. There were $152 million before tax ($117 million after tax) of acquisition related costs recognised as significant items in the period including:

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

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

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

2.2.4 Other

Current Year

Nil.

Prior 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, totalling $12 million before tax ($8 million after tax).

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 2016 $m	Year ended 30 June 2015 $m
Statutory EBIT	**(256)**	567
Significant items	**868**	792
Change in fair value of financial instruments	**595**	(237)
Finance income included in Operating EBIT	**4**	4
Operating EBIT	**1,211**	1,126

3.1 Operating EBIT by segment

AGL's segment results are reported according to the internal management reporting structure at the reporting date. AGL has four reportable operating segments described in section 1.1.2.

	Year ended 30 June 2016 $m	Year ended 30 June 2015 $m
Operating EBIT by segment:		
Energy Markets	**2,286**	2,063
Group Operations	**(854)**	(729)
New Energy	**(21)**	2
Investments	**25**	26
Centrally Managed Expenses	**(225)**	(236)
Total Operating EBIT	**1,211**	1,126

AGL operates as an integrated business and uses a portfolio approach to manage the operations and assets to drive value and efficiency across the business. AASB 8 requires AGL to report segment information on the same basis as the internal management structure. As a result the Energy Markets segment, which is responsible for AGL's sales and managing risks associated with gas and electricity requirements, reports the revenue and margin associated with satisfying the gas and electricity requirements of AGL's wholesale, consumer and business customer portfolio. In contrast, the Group Operations segment is responsible for managing and maintaining AGL's portfolio of electricity generation assets, natural gas, gas storage and renewable assets, and reports the majority of expenses associated with these operations.

3.2 Energy Markets Operating EBIT:

Increased 10.8% to $2,286 million from $2,063 million

	Year ended 30 June 2016 $m	Year ended 30 June 2015 $m
Operating EBIT	**2,286**	2,063
Add back:		
Depreciation and amortisation	**99**	89
Operating EBITDA	**2,385**	2,152

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

Consumer Market sources its energy from Wholesale Markets. The transfer price for energy is calculated based on methodologies to reflect the prevailing wholesale market conditions and other energy costs in each State.

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

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 2016 $m	Year ended 30 June 2015 $m	Year ended 30 June 2016 $m	Year ended 30 June 2015 $m
Wholesale Markets	**1,828**	1,675	**1,837**	1,686
Consumer Market	**399**	321	**480**	391
Business Customers	**59**	67	**68**	75
Total Energy Markets	**2,286**	2,063	**2,385**	2,152

3.2.1 Wholesale Markets Operating EBIT:
Increased 9.1% to $1,828 million from $1,675 million

	Year ended 30 June 2016 $m	Year ended 30 June 2015 $m	Movement %
Wholesale Electricity	**1,383**	1,300	6.4
Wholesale Gas	**403**	380	6.1
Eco-Markets	**73**	31	135.5
Gross margin	**1,859**	1,711	8.6
Net Operating costs excluding D&A	**(22)**	(25)	(12.0)
Operating EBITDA	**1,837**	1,686	9.0
Depreciation and amortisation	**(9)**	(11)	(18.2)
Operating EBIT	**1,828**	1,675	9.1

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.

3.2.1.1 Wholesale Electricity Gross Margin:
Increased 6.4% to $1,383 million from $1,300 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.

The 6.4% increase in gross margin was due to the additional two months of the AGL Macquarie assets (acquired 2 September 2014), commissioning of solar generation at Nyngan and Broken Hill, and marginally higher generation. Generation volumes were higher in the first half of the year, maximising the favourable market conditions, however, several asset outages reduced generation supply in the second half.

Consumer Market volumes decreased 1.5% driven by mild autumn weather despite the favourable weather impacts in the first half.

3.2.1.2 Wholesale Gas Gross Margin:
Increased 6.1% to $403 million from $380 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 6.1% increase in gross margin was due to favourable oil position management and increased revenue reflecting higher wholesale market prices. Partially offset by commodity increases, lower Business Customers volumes due to the closure of a number of large customers' operations and lower Consumer Market volumes driven by mild autumn weather conditions, residential customer losses in NSW and a change in customer mix across residential and small business portfolios. Gross margin was unfavourable in the second half as a result of higher margin Queensland gas sales rolling off at the end of December which will continue into FY17.

3.2.1.3 Eco-Markets Gross Margin:
Increased 135.5% to $73 million from $31 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 increase in gross margin, particularly in the second half, was driven by higher hydro generation and solar assets commissioning, combined with Large-scale Generation Certificate (LGC) revenue reflecting the higher market prices.

3.2.2 Consumer Market Operating EBIT:
Increased 24.3% to $399 million from $321 million

	Year ended 30 June 2016 $m	Year ended 30 June 2015 $m	Movement %
Electricity gross margin	**463**	426	8.7
Gas gross margin	**334**	311	7.4
Gross margin	**797**	737	8.1
Net operating costs excluding D&A	**(317)**	(346)	(8.4)
Operating EBITDA	**480**	391	22.8
Depreciation and amortisation	**(81)**	(70)	15.7
Operating EBIT	**399**	321	24.3

3.2.2.1 Consumer Market Electricity Gross Margin:
Increased 8.7% to $463 million from $426 million

Electricity gross margin increased due to rate improvement through disciplined price management in highly competitive markets as part of the customer value strategy. Whilst there was a 1.5% reduction in volume there was minimal impact to margin due to the change in customer mix across the portfolio.

The mild autumn weather more than offset the favourable weather in the first half of the year, combined with the loss of high consuming multi-site customers in the small business portfolio this resulted in a slight decline in volume. Average consumption per customer declined 1.1% in line with volume, with underlying residential demand per customer continuing to show signs of flattening.

3.2.2.2 Consumer Market Gas Gross Margin:
Increased 7.4% to $334 million from $311 million

Gas gross margin increased 7.4% predominately due to disciplined price management driving margin expansion, partially offset by lower volumes.

The volume decrease of 5.7% year on year, or 3.4% adjusted for weather, was predominantly driven by mild autumn weather with the second warmest May on record, which more than offset the favourable winter weather in the first half. Volume was further impacted by a reduction in residential average customers and changing customer mix in New South Wales and Victoria. Note, the FY16 volumes include a prior period negative adjustment of 339 TJ relating to FY15, adjusting for this the total gas volume decrease is 4.6%, or 2.3% adjusted for weather.

3.2.2.3 Consumer Market Net Operating Costs:

Decreased 4.3% to ($398 million) from ($416 million)

	Year ended 30 June 2016 $m	Year ended 30 June 2015 $m	Movement %
Labour and contractor services	**(123)**	(126)	(2.4)
Bad and doubtful debts	**(68)**	(81)	(16.0)
Campaigns and advertising	**(94)**	(99)	(5.1)
Other expenditure	**(69)**	(76)	(9.2)
Fees and charges	**37**	36	2.8
Net operating costs excluding D&A	**(317)**	(346)	(8.4)
Depreciation and amortisation	**(81)**	(70)	15.7
Net operating costs	**(398)**	(416)	(4.3)

Net operating costs decreased $18 million, or 4.3%, with $41 million of targeted operating cost initiatives achieved, which have partially been offset by inflationary increases and the absorption of the ConnectNow acquisition (acquired June 2015), which is performing ahead of business case and the continued investment in digital and customer value capability. Details of cost initiatives achieved are included below.

Labour and contractor services costs decreased by $3 million, or 2.4%, due to targeted operating cost initiatives, which have more than offset inflationary increases, the additional ConnectNow resources, and continued growth and investment in digital capability.

The decrease in bad and doubtful debts of $13 million, or 16.0%, was driven by improved credit performance in the underlying portfolio, lower volumes and customer price reductions.

Campaign and advertising expenditure decreased $5 million, or 5.1%, due to an improved channel mix with a higher proportion of internally generated sales and a slight decrease of 3.4% in acquisition and retention sales numbers.

Other expenditure decreased $7 million, or 9.2%, due to the benefit of targeted operating cost initiatives, which included lower legal fees, recruitment costs and travel expenditure.

Depreciation and amortisation increased by $11 million, or 15.7%, driven by continued investment in digital capability and core systems improvements.

The project to substantially grow AGL's customer base in New South Wales successfully concluded at the end of June 2014. Total capitalised costs during the project were $125 million, which have been fully amortised at 30 June 2016.

3.2.2.4 Consumer Customer Profitability and Operating Efficiency

AGL's primary measure of customer profitability is EBIT per customer, with gross margin per customer used as a secondary measure.

The primary measure of customer operating efficiency is net operating costs as a percentage of gross margin, along with net operating costs per customer. As a secondary measure cost to serve is analysed.

	Year ended 30 June 2016	Year ended 30 June 2015	Movement %
Consumer gross margin	**$797m**	$737m	8.1
Consumer net operating costs	**($398m)**	($416m)	(4.3)
Consumer EBIT	**$399m**	$321m	24.3
Average customer accounts	**3,692,402**	3,726,904	(0.9)
Consumer gross margin per customer account	**$216**	$198	9.1
Consumer net operating costs per customer account	**$108**	$112	(3.6)
Consumer EBIT per customer account	**$108**	$86	25.6
Consumer net operating costs as percentage of gross margin	**49.9%**	56.5%	(6.6 ppts)

Gross margin increased by 8.1% as detailed in sections 3.2.2.1 and 3.2.2.2. Net operating costs decreased by 4.3% as detailed in section 3.2.2.3. EBIT per customer increased 25.6% and net operating costs as percentage of gross margin decreased by 6.6 ppts, driven by incremental gross margin through disciplined and effective price management, change in customer mix driving improved average value of customers, and reduced operating costs through targeted operating cost initiatives.

3.2.2.4.1 Cost to Serve Analysis

	Operating costs year ended 30 June			Cost per account year ended 30 June		
	2016 $m	2015 $m	Movement %	2016 $	2015 $	Movement %
Cost to Serve	**(253)**	(270)	(6.3)	**(69)**	(72)	(4.2)
Cost to Grow	**(145)**	(146)	(0.7)	**(89)**	(87)	2.3
Net Operating costs	**(398)**	(416)	(4.3)	**(108)**	(112)	(3.6)

Cost to Serve per customer account decreased by 4.2% predominately due to lower bad and doubtful debts and achieving targeted operating cost initiatives as described in section 3.2.2.3, partially offset by increased depreciation and a decline in average customer numbers following the launch of the inactive and unidentified consumption program.

Cost to Grow decreased $1 million, or 0.7%, with a reduction in channel, campaign and advertising costs being offset by increased labour, as a result of the ConnectNow acquisition and continued investment in digital and customer experience enhancement. This coupled with a modest decrease of 3.4% in acquisitions and retentions, resulted in a slight deterioration from $87 to $89 per account.

Net operating costs per customer account decreased $4 or 3.6%, driven by targeted operating cost initiatives partially offset by inflationary increases and the absorption of the ConnectNow acquisition as described in section 3.2.2.3, and average customer numbers declining 0.9%.

3.2.3 Business Customers Operating EBIT:

Decreased 11.9% to $59 million from $67 million

	Year ended 30 June 2016 $m	Year ended 30 June 2015 $m	Movement %
Electricity gross margin	**35**	42	(16.7)
Gas gross margin	**61**	60	1.7
Gross margin	**96**	102	(5.9)
Net operating costs excluding D&A	**(28)**	(27)	3.7
Operating EBITDA	**68**	75	(9.3)
Depreciation and amortisation	**(9)**	(8)	12.5
Operating EBIT	**59**	67	(11.9)

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

Electricity gross margin declined due to lower volumes following the loss of low margin customers and a highly competitive market.

Gas gross margin increased with improved average customer profitability across the portfolio, despite lower volumes. Lower volumes were a result of the closure of a number of large customers' operations combined with customer losses in a competitive market.

3.2.4 Customer Numbers

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

	30 June 2016 ('000)	30 June 2015 ('000)	Movement ('000)	Movement %
Consumer Electricity				
New South Wales	**808**	806	2	0.2
Victoria	**636**	646	(10)	(1.5)
South Australia	**408**	422	(14)	(3.3)
Queensland	**395**	387	8	2.1
	2,247	2,261	(14)	(0.6)
Consumer Gas				
New South Wales	**674**	700	(26)	(3.7)
Victoria	**533**	544	(11)	(2.0)
South Australia	**132**	132	–	–
Queensland	**79**	79	–	–
	1,418	1,455	(37)	(2.5)
Total Consumer Accounts	**3,665**	3,716	(51)	(1.4)
Total Business Customer Accounts	**16**	19	(3)	(15.8)
Total Customer Accounts	**3,681**	3,735	(54)	(1.4)

Strong competition in the market continued, with AGL's churn increasing by 0.8 ppts to 15.7% (14.9% at 30 June 2015). As part of the credit improvement program the inactive and unidentified consumption initiative commenced reducing negative value customer numbers by approximately 46,000. Adjusting for this initiative churn only marginally increased by 0.2 ppts to 15.1%. The Rest of Market churn decreased 0.6 ppts to 19.7% (20.3% at 30 June 2015), decreasing the favourable gap between AGL and the rest of the market by 1.4 ppts to 4.0%. This favourable gap is supported by strong product offers and customer satisfaction levels.

3.3 Group Operations Operating EBIT:

Decreased 17.1% to ($854 million) from ($729 million)

	Year ended 30 June 2016 $m	Year ended 30 June 2015 $m
Operating EBIT	**(854)**	(729)
Add back:		
Depreciation and amortisation	**331**	254
Operating EBITDA	**(523)**	(475)

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

AGL operates as an integrated business and uses a portfolio approach to manage the operations and assets to drive value and efficiency across the business. AASB 8 requires AGL to report segment information on the same basis as the internal management structure. The Group Operations segment is responsible for managing and maintaining AGL's portfolio of electricity generation assets, natural gas, and gas storage assets, and reports the majority of expenses associated with these operations. The Energy Markets segment reports the revenue and margin associated with satisfying the gas and electricity requirements of AGL's wholesale, consumer and business customer portfolio.

Group Operations Business Units

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	

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

The decrease in Group Operations Operating EBIT is largely attributed to the additional two months of AGL Macquarie (acquired 2 September 2014), costs attributed to newly commenced solar and gas storage operations, higher depreciation and general inflation escalations.

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

	Operating EBIT		Operating EBITDA	
	Year ended 30 June 2016 $m	Year ended 30 June 2015 $m	Year ended 30 June 2016 $m	Year ended 30 June 2015 $m
Thermal	**(675)**	(574)	**(416)**	(372)
Renewables	**(64)**	(77)	**(43)**	(40)
Natural Gas	**(45)**	(23)	**(10)**	(12)
Other	**(70)**	(55)	**(54)**	(51)
Total Group Operations	**(854)**	(729)	**(523)**	(475)

3.3.1 Thermal Operating EBIT:
Decreased 17.6% to ($675 million) from ($574 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 is the largest natural gas power station in Australia.

AGL Macquarie produces approximately 13% 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 the additional two months of the AGL Macquarie assets (acquired 2 September 2014) totalling approximately $43 million, the previously announced non-cash accounting changes to asset lives increasing depreciation and overburden expenses ($55 million), incremental generation costs ($6 million), higher depreciation driven by a higher asset base and CPI and wage escalation. This is partly offset by the realignment of net coal royalties to cost of sales within Energy Markets ($17 million cost less $5 million Loy Yang B reimbursement), cost initiatives implemented throughout the year associated with maintenance optimisation and labour optimisation activities.

3.3.2 Renewables Operating EBIT:
Increased 16.9% to ($64 million) from ($77 million)

AGL is the largest ASX listed owner, operator and developer of renewable energy generation in Australia. AGL has already invested over $3 billion in renewable investments and recently completed 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. The 420 MW Macarthur Wind Farm, made up of 140 turbines, is currently the largest of its kind in the southern hemisphere.

AGL has completed the development of 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 $447 million, with $167 million provided by the Federal Government's Australian Renewable Energy Agency (ARENA) and $65 million from the NSW Government.

The Macarthur Wind Farm divestment was finalised in September 2015 contributing to lower depreciation. This is partly offset by the completion of the solar plants in the current financial year with the commissioning of Nyngan in October 2015 and Broken Hill in January 2016, contributing to higher operational costs ($2 million).

3.3.3 Natural Gas Operating EBIT:
Decreased 95.7% to ($45 million) from ($23 million)

On 4 February 2016, AGL announced that following a detailed review of its natural gas assets, it has taken a strategic decision that exploration and production of natural gas assets will no longer be a core business for the company due to commodity prices and long development lead times.

A number of assets including the Hunter Gas Project licence interests (PELs 4 and 267), the Hunter related agriculture assets, AGL's interests in PEL 2 (adjacent to the Camden Gas Project) and AGL's interests in Cooper Oil (ATP 1056P) have been divested. A divestment process is underway in relation to several other assets in this area including Moranbah and Spring Gully Project. The Gloucester Gas Project will no longer proceed and AGL will also cease production at the Camden Gas Project by 2023 (12 years earlier than previously proposed).

Natural Gas Operating EBIT is lower as a result of increased operating expense and depreciation from the first full year of operation of the Newcastle Gas Storage Facility ($19 million), increased Moranbah joint venture operating costs with the impact of capital expenditure now recognised as operating expense following the impairment ($7 million) and additional depreciation ($7 million), and losses arising from the sale of the Hunter and related agriculture assets.

3.3.4 Gas Sales

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

AGL share of operations	Year ended 30 June 2016	Year ended 30 June 2015	Movement %
Gas sales volume (PJ)	**10.2**	11.1	(8.1)
Sales revenue ($m)	**40**	43	(7.0)
Average gas price ($/GJ)	**3.88**	3.87	0.3

3.3.5 Other Operations EBIT:
Decreased 27.3% to ($70 million) from ($55 million)

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

The decrease in EBIT is mainly attributed to the addition of AGL Macquarie's operational support costs, higher property $7 million costs, higher depreciation expense $7 million and building central capabilities in engineering and project management.

3.4 New Energy Operating EBIT:
Decreased to ($21 million) from $2 million

	Year ended 30 June 2016 $m	Year ended 30 June 2015 $m
Operating EBIT	**(21)**	2
Add back:		
Depreciation and amortisation	**18**	11
Operating EBITDA	**(3)**	13

The New Energy business unit is responsible for driving AGL's capabilities in taking new and distributed technologies to market in Australia. The business unit comprises New Energy Services, which includes AGL Solar, franchisee management and commercial and industrial customer energy solutions; and Distributed Energy Services, including AGL's portfolio of low emission and renewable generation assets and Active Stream, AGL's digital meter installation and data provider business.

3.4.1 Gross Margin:
Increased 5.2% to $61 million from $58 million

	Year ended 30 June 2016 $m	Year ended 30 June 2015 $m	Movement %
Revenue	**127**	119	6.7
Cost of goods sold	**(66)**	(61)	8.2
Gross Margin	**61**	58	5.2

Gross margin increased $3 million predominantly due to increased solar installs and income from operating assets.

3.4.2 Operating Costs:
Increased 46.4% to ($82 million) from ($56 million)

	Year ended 30 June 2016 $m	Year ended 30 June 2015 $m	Movement %
Labour and contractor services	**(42)**	(28)	50.0
Campaigns and advertising	**(8)**	(5)	60.0
Other	**(14)**	(12)	16.7
Operating costs excluding D&A	**(64)**	(45)	42.2
Depreciation and amortisation	**(18)**	(11)	63.6
Operating costs	**(82)**	(56)	46.4

Operating costs excluding depreciation and amortisation increased $19 million, predominantly relating to increased investment to unlock growth in distributed energy solutions, including capabilities in new technology areas, increased marketing and costs relating to Digital Metering business establishment.

Depreciation and amortisation increased $7 million, predominantly relating to Digital Metering business establishment totalling $3 million and accelerated depreciation in operating assets totalling $4 million.

3.5 Investments Operating EBIT:
Decreased 3.8% to $25 million from $26 million

	Year ended 30 June 2016 $m	Year ended 30 June 2015 $m
Operating EBIT	**25**	26
Add back:		
Depreciation and amortisation	**–**	–
Operating EBITDA	**25**	26

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

	Year ended 30 June 2016 $m	Year ended 30 June 2015 $m
ActewAGL	**30**	31
Diamantina Power Station Joint Venture	**(2)**	(5)
Sunverge Energy Inc	**(2)**	–
Other investments	**(1)**	–
Operating EBIT	**25**	26

3.5.1 ActewAGL (50% AGL Ownership) Operating EBIT:
Decreased 3.2% to $30 million from $31 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 $30 million for the year compared with $31 million for the prior corresponding period. The decrease is due to lower consumption experienced specifically across the gas market segment.

3.5.2 Diamantina Power Station Joint Venture Operating EBIT:
Increased 60.0% to ($2 million) from ($5 million)

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.

On 31 March 2016, AGL completed the disposal of its 50% equity interest in the Diamantina Power Station joint venture to APA Group for a consideration of $151 million.

3.5.3 Sunverge Energy Inc Operating EBIT:
On 4 February 2016, AGL completed the acquisition of 22% interest in Sunverge Energy, Inc (Sunverge) for a consideration of $28 million (USD $20 million). The investment will enhance AGL's energy management capabilities through a strategic partnership with Sunverge, which will provide AGL with exclusive access in Australia to Sunverge's proprietary technology and products.

AGL recognised its share of losses in the associate of $2 million since acquisition.

3.6 Centrally Managed Expenses Operating EBIT:
Increased 4.7% to ($225 million) from ($236 million)

	Year ended 30 June 2016 $m	Year ended 30 June 2015 $m
Operating EBIT	**(225)**	(236)
Add back:		
Depreciation and amortisation	**30**	25
Operating EBITDA	**(195)**	(211)

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

	Year ended 30 June 2016 $m	Year ended 30 June 2015 $m
Labour	**(82)**	(86)
Hardware and software costs	**(58)**	(57)
Consultants and contractor fees	**(11)**	(12)
Insurance premiums	**(23)**	(26)
Depreciation and amortisation	**(30)**	(25)
Other	**(21)**	(30)
Total	**(225)**	(236)

The decrease in centrally managed expenses was largely due to a reduction in labour associated with organisational reviews conducted throughout the period, reductions in insurance premiums and a reduction in other costs due to initiatives to reduce discretionary spending. This has been partially offset by an increase in depreciation and amortisation due to the delivery of various information technology projects.

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.

Of the amounts reported as centrally managed expenses, $128 million (FY15: $134 million) has been incurred on behalf of business units including $65 million (FY15: $66 million) for Energy Markets, $60 million (FY15: $65 million) for Group Operations and $3 million (FY15: $3 million) for New Energy.

3.7 Net Finance Costs:

Decreased 5.1% to ($222 million) from ($234 million)

	Year ended 30 June 2016 $m	Year ended 30 June 2015 $m
Statutory finance costs	**(236)**	(250)
Statutory finance income	**18**	20
Remove finance income included in EBITDA	**(4)**	(4)
Net finance costs	**(222)**	(234)

The 5.1% decrease in net finance costs is predominately driven by a decrease in average net debt to $3,240 million compared with $3,398 million in FY15. Statutory finance income reduced by $2 million due to a decrease in overall AUD interest rates throughout FY16. Capitalised interest for FY16 was $6 million.

3.8 Income Tax Expense:

Underlying income tax increased 9.5% to ($287 million) from ($262 million)

	Year ended 30 June 2016 $m	Year ended 30 June 2015 $m
Statutory income tax benefit/(expense)	**67**	(119)
Income tax (benefit) from significant items	**(176)**	(214)
Income tax (benefit)/expense from fair value movements	**(178)**	71
Underlying tax expense	**(287)**	(262)

The increase in the underlying tax expense was due to a 10.9% improvement in underlying earnings. The effective tax rate of 29.0% was consistent to FY15 (29.4%).

3.9 Portfolio Market Reporting

3.9.1 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 3.2 and 3.3) 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 2016	Year ended 30 June 2015*	Movement %
Consumer Market ($m)	**463**	426	8.7
Business Customers ($m)	**35**	42	(16.7)
Wholesale Electricity ($m)	**1,383**	1,300	6.4
Eco-Markets ($m)	**69**	27	155.6
Group Operations (Thermal & Renewables) ($m)	**(739)**	(651)	13.5
Portfolio margin ($m)	**1,211**	1,144	5.9
Generation volumes (GWh)	**43,774**	38,249	14.4
Consumer Market (GWh)	**14,634**	14,857	(1.5)
Business Customers & Wholesale Markets (GWh)	**23,205**	22,017	5.4
Sold volumes (GWh)	**37,839**	36,874	2.6
Revenue ($/MWh)[1]	**157.4**	171.4	(8.2)
Cost of generation ($/MWh)[2]	**(35.5)**	(34.8)	2.0
Net portfolio management ($/MWh)[1]	**2.6**	(4.7)	155.3
Average Wholesale cost of sales ($/MWh)[3]	**(36.7)**	(39.6)	(7.3)
Total cost of sales ($/MWh)[1]	**(125.5)**	(140.4)	(10.6)
Portfolio margin ($/MWh)[1]	**32.0**	31.0	3.2

* Prior period restated to reflect recognition of volumes associated with feed-in tariffs from solar customers

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

The net 5.9% increase in the Electricity portfolio margin is discussed in sections 3.2.1.1 (Wholesale Markets Electricity), 3.2.2.1 (Consumer Market Electricity), 3.2.3 (Business Customers Electricity), 3.3.1 (Group Operations – Thermal) and 3.3.2 (Group Operations – Renewables).

AGL generated volumes have increased 14.4% due to the additional two months of AGL Macquarie, commissioning of the Solar flagship assets, higher generation in the first half of the year maximising the favourable market conditions, however, several asset outages reduced generation supply in the second half.

Consumer Market volumes decreased 1.5% for the year driven by a mild autumn despite favourable weather impacts in the first half. Average consumer consumption per customer declined 1.1% in line with volume, with underlying residential demand per customer continuing to show signs of flattening.

Business Customers and Wholesale Markets volumes increased 5.4% due to the additional two months of large wholesale contracts from the Macquarie Generation acquisition.

The change in the portfolio margin $ per MWh rate was driven by market price favourability and lower network and generation costs with the majority of the additional demand generated by AGL Macquarie.

	Year ended 30 June 2016 $m	Year ended 30 June 2015 $m	Movement %
Consumer Market	**463**	426	8.7
Business Customers	**35**	42	(16.7)
Wholesale Electricity	**1,383**	1,300	6.4
Eco-Markets	**69**	27	155.6
Group Operations (Thermal & Renewables)	**(739)**	(651)	13.5
Portfolio margin	**1,211**	1,144	5.9
Revenue			
Consumer Market	**3,813**	4,023	(5.2)
Business Customers, Wholesale Electricity & Eco-Markets	**2,055**	2,208	(6.9)
Group Operations (Thermal & Renewables)	**89**	90	(1.1)
Total revenue	**5,957**	6,321	(5.8)
Consumer Market network costs	**(1,893)**	(2,091)	(9.5)
Consumer Market other cost of sales	**(450)**	(439)	2.5
Business Customers network costs	**(751)**	(937)	(19.9)
Business Customers other cost of sales	**(198)**	(201)	(1.5)
Fuel	**(731)**	(560)	30.5
Generation costs	**(543)**	(536)	1.3
Depreciation & Amortisation (Group Operations)	**(280)**	(238)	17.6
Costs of generation	**(1,554)**	(1,334)	16.5
Pool generation revenue	**2,312**	1,301	77.7
Pool purchase costs	**(2,211)**	(1,549)	42.7
Net derivative (cost)/revenue	**(1)**	73	(101.4)
Net Portfolio Management	**100**	(175)	(157.1)
Wholesale markets cost of sales	**(1,454)**	(1,509)	(3.6)
Total cost of sales	**(4,746)**	(5,177)	(8.3)
Portfolio margin	**1,211**	1,144	5.9

The net 5.9% increase in the Electricity portfolio margin is discussed in sections 3.2.1.1 (Wholesale Markets Electricity), 3.2.2.1 (Consumer Market Electricity), 3.2.3 (Business Customers Electricity), 3.3.1 (Group Operations – Thermal) and 3.3.2 (Group Operations – Renewables).

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

	Year ended 30 June 2016	Year ended 30 June 2015*	Movement %
Generation volumes (GWh)	**43,774**	38,249	14.4
Consumer Market	**14,634**	14,857	(1.5)
Business Customers & Wholesale Markets	**23,205**	22,017	5.4
Sold volumes (GWh)	**37,839**	36,874	2.6
Consumer Market[1]	**260.6**	270.8	(3.8)
Business Customers & Wholesale Markets[1]	**88.6**	100.3	(11.7)
Revenue ($/MWh)[1]	**157.4**	171.4	(8.2)
Consumer Market network costs ($/MWh)[1]	**(129.4)**	(140.7)	(8.0)
Consumer Market other cost of sales ($/MWh)[1]	**(30.8)**	(29.5)	4.4
Business Customers network costs ($/MWh)[1]	**(61.2)**	(73.3)	(16.5)
Business Customers other cost of sales ($/MWh)[1]	**(16.1)**	(15.7)	2.5
Fuel[2]	**(16.7)**	(14.6)	14.4
Generation costs[2]	**(12.4)**	(14.0)	(11.4)
Depreciation & Amortisation (Group Operations)[2]	**(6.4)**	(6.2)	3.2
Cost of generation ($/MWh)[2]	**(35.5)**	(34.8)	2.0
Pool generation revenue[2]	**52.8**	34.0	55.3
Pool purchase costs[3]	**(55.8)**	(40.7)	37.1
Net derivative (cost)/revenue[3]	**–**	1.9	(100.0)
Net Portfolio Management ($/MWh)[1]	**2.6**	(4.7)	(155.3)
Average Wholesale cost of sales ($/MWh)[3]	**(36.7)**	(39.6)	(7.3)
Total cost of sales ($/MWh)[1]	**(125.4)**	(140.4)	(10.7)
Gross margin ($/MWh)[1]	**32.0**	31.0	3.2

* Prior period restated to reflect recognition of volumes associated with feed-in tariffs from solar customers
Note: $/MWh calculated on the basis of: 1) Sold volumes; 2) Generation volumes; or 3) Demand volumes.

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

Purchased volumes	Year ended 30 June 2016 GWh	Year ended 30 June 2015* GWh	Movement %
Consumer Market	**15,671**	15,897	(1.4)
Business Customers & Wholesale Markets	**23,949**	22,819	5.0
Total demand	**39,620**	38,716	2.3
AGL generated	**43,774**	38,249	14.4
Pool sales	**(43,774)**	(38,249)	14.4
Pool purchases	**39,620**	38,716	2.3
Total supply	**39,620**	38,716	2.3
Energy losses	**(1,781)**	(1,842)	(3.3)
Total sold	**37,839**	36,874	2.6

* Prior period restated to reflect recognition of volumes associated with feed-in tariffs from solar customers

3.9.2 Gas portfolio

The gross margin for AGL's gas portfolio is set out in the following table. This analysis combines the Wholesale Markets, Consumer Markets and Business Customers businesses (described in section 3.2) to reflect the procurement and hedging of AGL's gas requirements and the margin from external customers.

	Year ended 30 June 2016	Year ended 30 June 2015	Movement %
Consumer Market	**334**	311	7.4
Business Customers	**61**	60	1.7
Wholesale Markets	**403**	380	6.1
Eco-Markets	**4**	4	–
Portfolio margin	**802**	755	6.2
Consumer Market	**59.4**	63.0	(5.7)
Business Customers & Wholesale Markets	**174.8**	171.1	2.2
Sold volumes (PJ)	**234.2**	234.1	0.0
Revenue ($/GJ)	**12.1**	12.2	(0.8)
Average Wholesale cost of sales ($/GJ)	**(6.0)**	(5.7)	5.3
Total cost of sales ($/GJ)	**(8.7)**	(9.0)	(3.3)
Portfolio margin ($/GJ)	**3.4**	3.2	6.2

The net 6.2% increase in the Gas portfolio margin is discussed in sections 3.2.1.2 (Wholesale Markets Gas), 3.2.2.2 (Consumer Market Gas) and 3.2.3 (Business Customers Gas).

Consumer gas volumes decreased 3.6 PJ or 5.7% year on year and average demand per customer declined 4.0%, normalising for weather volume decreased 3.4%. This was driven by mild autumn weather with the second warmest May on record which more than offset the favourable winter weather in the first half, a reduction in average customers and a change in customer mix.

Business Customers and Wholesale Markets volumes increased 2.2% driven by higher Torrens Island power station generation to manage demand, partially offset by the closure of a number of large customers' operations and business customer losses in a competitive market.

The change in the portfolio margin $ per GJ rates was due to oil position management and higher wholesale gas price. The Consumer Market decrease in network costs was offset by increased haulage costs enabling gas supply from southern states to NSW demand centres.

	Year ended 30 June 2016 $m	Year ended 30 June 2015 $m	Movement %
Consumer Market	**334**	311	7.4
Business Customers	**61**	60	1.7
Wholesale Markets	**403**	380	6.1
Eco-Markets	**4**	4	–
Portfolio margin	**802**	755	6.2
Revenue			
Consumer Market	**1,417**	1,495	(5.2)
Business Customers & Wholesale Gas and Eco-Markets	**1,418**	1,359	4.3
Total revenue	**2,835**	2,854	(0.7)
Consumer Market network costs	**(520)**	(646)	(19.5)
Consumer Market other cost of sales	**(37)**	(28)	32.1
Business Customers network costs	**(68)**	(75)	(9.3)
Business Customers other cost of sales	**(14)**	(14)	–
Gas purchases	**(1,069)**	(1,041)	2.7
Haulage & storage	**(325)**	(295)	10.2
Average Wholesale cost of sales	**(1,394)**	(1,336)	4.3
Total cost of sales	**(2,033)**	(2,099)	(3.1)
Portfolio margin	**802**	755	6.2

The net 6.2% increase in the Gas portfolio margin is discussed in sections 3.2.1.2 (Wholesale Markets Gas), 3.2.2.2 (Consumer Market Gas) and 3.2.3 (Business Customers Gas).

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

	Year ended 30 June 2016	Year ended 30 June 2015	Movement %
Consumer Market	**59.4**	63.0	(5.7)
Business Customers & Wholesale Markets	**174.8**	171.1	2.2
Sold volumes (PJ)	**234.2**	234.1	0.0
Consumer Market	**23.9**	23.7	0.8
Business Customers & Wholesale Markets	**8.1**	7.9	(2.5)
Revenue ($/GJ)	**12.1**	12.2	(0.8)
Consumer Market network costs ($/GJ)	**(8.8)**	(10.3)	(14.6)
Consumer Market other cost of sales ($/GJ)	**(0.6)**	(0.4)	50.0
Business Customers network costs ($/GJ)	**(0.9)**	(0.9)	–
Business Customers other cost of sales ($/GJ)	**(0.2)**	(0.2)	–
Gas purchases	**(4.6)**	(4.4)	4.5
Haulage & storage	**(1.4)**	(1.3)	7.7
Average Wholesale cost of sales ($/GJ)	**(6.0)**	(5.7)	5.3
Total cost of sales ($/GJ)	**(8.7)**	(9.0)	(3.3)
Portfolio margin ($/GJ)	**3.4**	3.2	6.2

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

Gas volumes	Year ended 30 June 2016 PJ	Year ended 30 June 2015 PJ	Movement %
Consumer Market	**59.4**	63.0	(5.7)
Business Customers & Wholesale Markets	**174.8**	171.1	2.2
Total demand	**234.2**	234.1	0.0
Gas purchases	**236.9**	237.1	(0.1)
Less:			
Energy losses	**(2.7)**	(3.0)	(10.0)
Total supply	**234.2**	234.1	0.0

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 2016 $m		Year ended 30 June 2015 $m
Operating EBITDA		**1,689**		1,505
Equity accounted income (net of dividend received)		**(8)**		4
Accounting for onerous contracts		**(42)**		(14)
Working capital movements				
(Increase)/decrease in receivables	**138**		77	
Increase/(decrease) in creditors	**(109)**		74	
(Increase)/decrease in inventories	**(10)**		(62)	
Increase/(decrease) in carbon liability	**–**		(139)	
Net derivative premiums paid/roll-offs	**(82)**		15	
(Increase)/decrease in futures margin calls	**(52)**		(5)	
Net movement in green assets/liabilities	**25**		53	
Other	**39**		19	
Total working capital movements		**(51)**		32
Operating cash flow before interest, tax & significant items		**1,588**		1,527
Net finance costs paid		**(172)**		(194)
Income tax paid		**(166)**		(147)
Underlying operating cash flow		**1,250**		1,186
Cash flow relating to significant items		**(64)**		(142)
Statutory net cash provided by operating activities		**1,186**		1,044

Operating cash flow before interest, tax & significant items was up $61 million compared with the prior corresponding period.

EBITDA growth, partially offset by an unfavourable working capital movement, has driven a favourable movement in underlying operating cash flow. The working capital movement is favourably impacted in receivables due to lower electricity and gas volumes, the implementation of the credit improvement program, and lower revenue rates from reductions in network costs. The lower volumes and network costs resulted in lower creditors, which more than offset the favourability in receivables.

4.2 Underlying Operating Cash Flow before Interest and Tax

Increase 4.0% to $1,588 million from $1,527 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 2016 $m	Year ended 30 June 2015 $m
Statutory net cash provided by operating activities	**1,186**	1,044
Cash flow relating to significant items	**64**	142
Underlying Operating Cash Flow	**1,250**	1,186
Net finance costs paid	**172**	194
Income tax paid	**166**	147
Underlying Operating Cash Flow before interest and tax	**1,588**	1,527

AGL incurred cash expenses in the period relating to redundancy costs. These payments are discussed further in Section 2.2.2.

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.

In accordance with Australian Accounting Standard AASB 139 *Financial Instruments: Recognition and Measurement* ('AASB 139'), the Consolidated Statement of Profit or Loss includes the movements in the fair value of derivatives that are not designated as hedges and the ineffective portion of designated hedges. Due to the complexity of exposures to energy price risks, the fair value movements on a significant portion of AGL's energy derivatives portfolio is recognised in this way (i.e. directly in the Consolidated Statement of Profit or Loss). As discussed in section 2, AGL exclude these movements from Underlying Profit as AGL believe this provides useful information by removing the volatility caused by differences between amounts recognised for derivatives and the related underlying asset.

AASB 139 requires the effective portion of all designated cash flow hedges to be recorded in equity. For AGL this is predominantly related to AGL interest rate and foreign exchange rate derivative portfolios.

The change in fair value of derivatives recognised in profit and loss for the year ended 30 June 2016 was ($595 million) before tax, or ($417 million) after tax. This included a change in a material long-term electricity supply contract of ($349 million) before tax, or ($244 million) after tax. The change under AASB 139 comprised a reversal of prior period fair value movements of $82 million before tax, or $57 million after tax, and a reduced fair value of the contract of $267 million before tax, or $187 million after tax and reflects a claim consistent with the terms of the contracts by the relevant counterparties leading to a reduced likelihood that the contract will run to term. For the year ended 30 June 2015 change in fair value of derivatives was $237 million before tax, or $166 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 2016 is presented in the following table.

	Net Assets (Liabilities)		
	30 June 2016 $m	30 June 2015 $m	Change $m
Energy derivative contracts	**(115)**	403	(518)
Cross currency and interest rate swap derivative contracts	**19**	2	17
Total net assets/(liabilities) for derivative contracts	**(96)**	405	(501)
Change in derivative net asset	**(501)**		
Premiums paid	**(102)**		
Premium roll off	**92**		
Total change in fair value	**(511)**		
Recognised in equity hedge reserve	**41**		
Recognised in borrowings	**42**		
Recognised in profit and loss – pre tax			
Net finance costs	**1**		
Changes in fair value of financial instruments	**(595)**		
Total change in fair value	**(511)**		

6. Funding and Capital Expenditure

Total borrowings, as at 30 June 2016 was $3.1 billion (FY15: $3.9 billion), a decrease of 20.5% mainly due to the retirement of the AGL Loy Yang debt from the Macarthur Wind Farm sale proceeds. Following the repayment of the $315 million AGL Loy Yang debt, AGL restructured the remaining CPI Bond which allowed for the removal of the Security Trust Deed (STD) and the security provisions over the Loy Yang assets. A $100 million bridging facility was repaid in August 2015 and the facility subsequently cancelled.

AGL engaged Moody's credit rating agency to provide a credit rating to the company and its senior debt facilities. In January 2016, Moody's assigned a Baa2 rating (BBB equivalent) with a stable outlook. This was announced to the market on 8 February 2016.

AGL's Gearing (Net Debt/(Net Debt + Equity)) as at 30 June 2016 was 25.7% (FY15: 28.6%).

Total capital expenditure was $529 million, $265 million lower than FY15. 'Sustaining' capital expenditure was $390 million (FY15: $368 million) and related mostly to plant maintenance at AGL Macquarie and AGL Loy Yang. Capital expenditure on growth initiatives net of government grants was $139 million (FY15: $426 million) and included expenditure in relation to the solar generation plants, New Energy projects and Natural Gas.

7. Business Acquisitions and Disposals

There were no acquisitions of subsidiaries and businesses made during the year ended 30 June 2016.

On 7 September 2015, AGL completed the disposal of its 50% participating interest in the Macarthur Wind Farm joint venture to H.R.L Morrison & Co managed funds for a consideration of $532 million. The divestment included the disposal of 100% of the shares in Macarthur Wind Farm Pty Ltd and MWF Finance Pty Ltd.

On 31 March 2016, AGL completed the disposal of its 50% equity interest in the Diamantina Power Station (DPS) joint venture to APA Group, its joint venture partner in DPS for a consideration of $151 million.

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.	**Anticipatory and performance driven culture**	The ability of AGL to develop and maintain an engaged and anticipatory employee mindset that is aligned with strategy and is performance driven. > AGL has a strong, engaged culture. To maintain this AGL will rely on its people – in particular AGL leaders. As a result, mitigation for this risk is closely linked to AGL's approach around human capital where key controls including leadership and development programs, further reinforcement of AGL's strategy and values and linkage to day to day operations and individual roles.
2.	**Strong and appropriate governance**	The ability to effectively maintain, and demonstrate, a strong and appropriate governance structure which encourages a culture of transparency and accountability. > AGL has well-defined formal Board and subcommittee and management structures and routine reporting and updates on all material governance related matters. Coupled with delegated authorities, documented policies and procedures and independent assurance/oversight provided by AGL's 3 Lines of Defence model, the control framework is well positioned to mitigate this risk.
3.	**Building resilience capability**	The ability to build a resilient organisation with capability to readily adapt and respond to changing business environments and/or to anticipate, manage, recover and learn from significant impact events. > AGL's Business Continuity Management framework operates to facilitate the identification of material risks, put in place processes to prevent interruption events from occurring, and to identify, respond to and recover from interruptions. AGL's emergency response, disaster recovery, business continuity and crisis management plans are key components of this framework.
4.	**Safe and reliable assets**	The ability to safely, reliably and efficiently manage operational assets to the end of their commercial life whilst optimising AGL's short, medium and long term wholesale market position. > AGL has a comprehensive asset maintenance plan to monitor that assets are operated safely, sustainably and reliably. Metrics are in place and reported on across the business and support functions.
5.	**Optimising wholesale energy markets**	The ability to effectively optimise AGL gas, electricity and environmental positions to deliver an appropriate and competitive energy solution to the consumer. > AGL models supply and demand scenarios and gathers market intelligence to identify future market risks and opportunities and maintain a diversity of supply options. For gas this includes long-term gas contracts and access to gas storage assets. For electricity AGL have a fleet of generation assets including base load, renewables and peaking facilities that back AGL's portfolio of customer supply requirements.

	Risk	Description and Mitigation
6.	**Transition to low emission assets**	The ability to effectively transition the mix of AGL's operational asset portfolio to optimally meet growth targets while demonstrating leadership in the transition to a carbon constrained future. > AGL has made public commitments in relation to the retirement of coal fired power generation and withdrawal from gas exploration. AGL is committed to an orderly transition away from high emission thermal generation and will continue to invest in renewables when opportunities arise.
7.	**Valued and valuable human capital**	The ability of AGL to attract, recruit and retain the right talent, have the right people in the right roles and to continually develop the skill sets of AGL's people and quality of performance via targeted investment. > AGL has a number of programs and focus areas aimed at attracting, retaining and developing AGL people, including leadership development programs, succession planning and skill sets around flexibility and adaptability.
8.	**Proactive stakeholder management**	The ability to identify and engage all stakeholders in an appropriate, targeted and consistent manner in order to achieve operational objectives, drive growth, develop trust and manage reputational risk. > AGL communicates frequently with all key stakeholder groups. To ensure AGL communications are effective AGL will look to develop honest and consistent messages to both internal (employee) and external stakeholder groups.
9.	**Financial management and innovation**	The ability to maintain financial performance underpinning balance sheet strength and develop financing innovation for continued growth. > AGL continues to review opportunities to improve financial performance, through growth, revenue opportunities and cost efficiencies. AGL's organisational transformation program is geared to developing a structure that provides AGL the best chance of meeting the challenges AGL face and allows AGL to exploit opportunities as they arise. In parallel AGL has also announced a significant cost reduction program that is currently in progress and on track.
10.	**Data and IT security management**	The ability to effectively, efficiently and appropriately create, collect, manage, store, retrieve, dispose of, secure and protect the integrity of data. > AGL leverage industry best practices in determining AGL cyber security policies, processes and technologies. AGL continues to educate its people on cyber threats and required protections.
11.	**High performing retailer**	The ability to position AGL to a 'personalised' retailer of energy and energy services with a continual focus on the customer experience. > A significant amount of work is underway to better, and continually, understand and focus on the customer, including work around brand and customer proposition, technology and the customer experience, and new products and services.
12.	**Policy and regulation outcomes**	The ability to effectively influence and drive policy and regulation outcomes aligned to strategic direction, future growth and commercial outcomes. > 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.

Remuneration Report

For the year ended 30 June 2016

This Remuneration Report (pages 39 to 58) is attached to and forms part of, the Directors' Report.

Contents

Message from the Chair of the People and Performance Committee

Dear Shareholders,

On behalf of the Board, I am pleased to introduce AGL's FY16 Remuneration Report, for which we will seek your support at the 2016 Annual General Meeting (AGM).

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. This Report intends to highlight this link, and provide information on the remuneration framework and outcomes for the financial year ended 30 June 2016 (FY16).

In FY15, shortly after Mr Vesey commenced in the role of Managing Director/Chief Executive Officer (MD/CEO), he conducted a full review of the Company's strategic direction, organisational capabilities and structure. The strategic roadmap presented to the market builds on our strengths, and provides a platform for increased business productivity, driving retail profit growth and positioning the Company for success as the energy industry transforms.

The strategic roadmap comprises three key components – embrace transformation, drive productivity, and unlock growth. These objectives promote improved efficiency from the existing asset base, while facing head-on the challenges from new technology and development of new earnings streams.

During FY16, the new executive team together with their people, under the MD/CEO's leadership, performed strongly against the strategic objectives and continue to open options for us to invest in new growth assets or to otherwise increase shareholder returns. The Company exited gas exploration and production, invested in new initiatives to grow the business in a carbon constrained future resulting in early mover advantage in the market, introduced the 'Powering Australian Renewables Fund' to lead new innovative renewable investment funding and continue to drive real operating expenditure (OPEX) reductions of $170 million by the end of FY17.

As such, AGL's statutory net profit after tax (NPAT), attributable to shareholders, was ($408 million) and statutory operating cash flow was $1,186 million, up 14% from FY15. AGL reported an underlying NPAT of $701 million, an increase of 11% from the previous reporting period.

For many years, AGL has used underlying profit to more meaningfully track company performance. Underlying profit is calculated by excluding significant items and fair value movements in derivative financial instruments from the statutory profit, calculated in accordance with Australian Accounting Standards. Therefore, it facilitates a more representative comparison of financial performance between financial years. The Company also aligns this metric with the short-term incentives (STI) for executives.

The Board considers whether individual significant items should be included or excluded from the determination of performance for this purpose. This ensures that executives are not unfairly advantaged or disadvantaged by items outside of their control. The underperformance of the upstream gas business was taken into account where executives' FY15 STI payments were adjusted downwards. The expenditure in significant items attributed to restructure and reorganisation costs is part of setting up AGL to deliver on its transformation plan including the $170 million OPEX reduction.

The FY16 financial results reflect successful progress against our transformation measures, including real OPEX reduction of $122 million, asset sales of $691 million, and achieved working capital improvements of $72 million. In addition, the Company is on track to achieve a $100 million real reduction in sustaining capital expenditure (CAPEX) by the end of FY17.

Therefore, as a result of the strong underlying financial and non-financial performance, the delivery of between target and maximum STI awards were made to executives.

These strong results also contributed to the Company delivering for our shareholders through a higher dividend and an increase in the share price for the period ended 30 June 2016. The annual total shareholder return (TSR) growth was 22.3% and we achieved a relative percentile of 74.5 against the ASX100. This resulted in a 2x and a 1.36x multiplier for the performance hurdles with respect to the vesting under the LTI banking plan, which closed during the year and is now subject to transitional arrangements.

The Company undertook a holistic review of its remuneration framework during FY16. As a result, some executives' pay mix were adjusted to better align with the market, the STI objectives were expanded to include team and individual objectives, and a new LTI plan was introduced.

The LTI structure continues to evolve to ensure that it is appropriately aligned with our strategy. The previous LTI 'banking' plan ceased in FY16. The new LTI plan, whereby Share Performance Rights are granted to executives and subject to two performance measures (relative TSR (RTSR) and return on equity (ROE)), is measured over a three year performance period. The new LTI plan is designed to generate long-term value for shareholders by linking the performance of executives with the achievement of its new strategy.

The RTSR measure was selected as this best represents alignment with shareholders' interests. The ROE measure was selected as the best measure combining both earnings improvement and capital efficiency. We will continue to review the targets to ensure they reflect a challenging and stretching yet realistic measure for executives so that the award is motivating, valued and retentive.

A review of executive fixed remuneration was undertaken in September 2015, with eligible executives receiving market adjustments to ensure remuneration remains market-competitive to attract and retain the required talent in building the succession pipeline.

Minimum shareholding guidelines were implemented for executives and non-executive directors during the year. This provides for further alignment with shareholders' interests.

The base Board and Committee fees were increased by approximately 2.5%, effective 1 January 2016.

I invite you to read this Report and trust that you will find it helpful to understand AGL's approach to remuneration and its continued link with our performance. We thank you for your continued support.

Yours sincerely,

Les Hosking
People and Performance Committee Chair

Introduction

The directors present the Remuneration Report for AGL Energy Limited and its consolidated entities for the year ended 30 June 2016 (FY16), prepared in line with the Corporations Act 2001 (Cth) (the Act). The Remuneration Report forms part of the Directors' Report, and provides shareholders with an understanding of the remuneration principles in place for key management personnel (KMP).

Organisation and KMP

This Report details the FY16 remuneration framework and outcomes for the KMP of AGL. The KMP are the Managing Director/Chief Executive Offer (MD/CEO), certain AGL executives (together referred to in this Report as 'executives'), and the non-executive directors.

During FY16, the executive team restructure was completed with the permanent appointment of Mr Jackson to the role of Executive General Manager (EGM) Group Operations on 9 November 2015.

In light of the executive team restructure, AGL reviewed the assessment of which executives represent KMP. It has been determined that the KMP are the MD/CEO, the CFO and those EGMs that head the three major operating segments (Energy Markets, Group Operations and New Energy). As a result, the EGM People and Culture and EGM Organisational Transformation are not considered KMP and are not included in this Report, even though they were disclosed for the part year in the FY15 Report.

In addition, there has been the following movements in KMP during FY16:

> As disclosed in the FY15 Remuneration Report, the role of Group General Manager Merchant Energy, was made redundant and as a result, Mr Fowler ceased employment with AGL on 1 July 2015. Mr Fowler's remuneration disclosed in this Report includes all termination benefits.

> Ms Hey joined the Board as a non-executive director on 21 March 2016.

> Mr England, EGM New Energy, ceased employment with AGL on 29 April 2016. Mr England's role is being filled in a temporary acting capacity by Mr Preston from 1 January 2016 while a permanent solution is found. Mr England's remuneration is disclosed in this Report for the duration he was a KMP, and includes all termination benefits. Mr Preston is considered a KMP from the date he began acting in this role.

> Ms McPhee, Non-executive Director, retired and ceased to be a member of the Board on 30 June 2016.

The following table lists the KMP for FY16, and period they were KMP:

Name	Position	Dates
Non-executive directors		
Current		
Jeremy Maycock	Chairman	Full year
Jacqueline Hey	Non-executive director	From 21 March 2016
Les Hosking	Non-executive director	Full year
Graeme Hunt	Non-executive director	Full year
Belinda Hutchinson	Non-executive director	Full year
Bruce Phillips	Non-executive director	Full year
John Stanhope	Non-executive director	Full year
Former		
Sandra McPhee	Non-executive director	Until 30 June 2016
Executives		
Current		
Andy Vesey	MD/CEO	Full year
Doug Jackson[1]	EGM Group Operations	Full year
Stephen Mikkelsen	EGM Energy Markets	Full year
Alistair Preston	Acting EGM New Energy	From 1 January 2016
Brett Redman	Chief Financial Officer (CFO)	Full year
Former		
Marc England	EGM New Energy	Until 29 April 2016
Anthony Fowler	Group General Manager Merchant Energy	Until 1 July 2015

1. Mr Jackson was permanently appointed into the role of EGM Group Operations on 9 November 2015. Prior to this, Mr Jackson was acting in this role, and as such, is considered a KMP for the full FY16.

Section 1: Alignment of performance, strategy and reward

FY16 AGL performance and alignment to business strategy and remuneration outcomes

In respect of FY16, AGL reported an underlying net profit after tax (NPAT) of $701 million, which represents growth of 11% from FY15. Underlying earnings per share (EPS) also increased, up 7.5 cents from FY15 to 103.9 cents in FY16. AGL has targeted operating expenditure (OPEX) reductions of $170 million by the end of FY17, which it is well on its way to achieving.

AGL is also on track to achieve other transformation goals around working capital and capital expenditure. In particular, $72 million of the $200 million working capital reduction goal has been achieved through optimising green assets, gas inventories and coal inventories. The delivery of these initiatives is in line with key business objectives of driving productivity and value. This has been achieved through significant transformation, including exiting non-productive businesses and streamlining roles and processes.

AGL uses underlying profit to track company performance. Underlying profit is statutory profit adjusted for significant items and changes in the fair value of financial instruments. AGL believes that underlying profit provides a better understanding of its financial performance and allows for a more relevant comparison of financial performance between financial periods. Underlying profit is useful as it removes:

> 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

> changes in the fair value of financial instruments recognised in the statement of profit or loss thereby removing volatility caused by differences between amounts recognised for derivatives and the related underlying asset.

AGL uses underlying profit as one of the key measures to determine short-term incentives for executives. The Board considers whether individual significant items should be included or excluded from the determination of performance for this purpose. This ensures that executives are not unfairly advantaged or disadvantaged by items outside of their control.

The significant items in FY16 related to restructure costs and natural gas impairments. AGL took a strategic decision that the exploration and production of natural gas assets will no longer be a core business due to the volatility of commodity prices and long development lead times. The two major drivers of the impairment charge in relation to the natural gas impairments have been the fall in global oil prices with consequent effect on long-term Queensland gas prices and Waukivory Pilot well data indicating lower than expected production volumes for the Gloucester Gas Project.

The underperformance of the upstream gas business was taken into account where executives' FY15 STI payments were adjusted downwards.

The expenditure in significant items attributed to restructure and reorganisation costs is part of setting up AGL to deliver on its transformation plan.

The FY16 remuneration outcomes show STI and LTI vesting at between target and maximum opportunity levels. These results are aligned with the increased underlying business performance detailed above and actions taken in FY16 to set AGL up to deliver on its strategy. AGL will continue to focus on its core competencies, transforming the business to capitalise on the evolution occurring in the energy sector and to meet its customers' rapidly changing needs and expectations.

FY12-FY16 AGL performance and alignment to remuneration outcomes

AGL's financial performance for the last five financial years is detailed below.

Element	FY12	FY13	FY14	FY15	FY16
Statutory Profit/(Loss)[1] ($m)	115	375	570	218	**(408)**
Underlying Profit[1] ($m)	482	585	562	630	**701**
Statutory EPS[1 & 2] (cents)	22.9	65.5	98.2	33.3	**(60.5)**
Underlying EPS[1 & 2] (cents)	96.1	102.2	96.9	96.4	**103.9**
Dividends (cents)	61.0	63.0	63.0	64.0	**68.0**
Return on Equity (ROE)[3] (%)	7.5	8.0	7.5	7.2	**8.3**

1. FY13 restated for adoption of revised accounting standard AASB 119 *Employee Benefits*.
2. FY12 to FY14 restated for the bonus element of the one-for-five share rights issue completed in September 2014.
3. Used to calculate a portion of executives' LTI outcome for the FY16 grant.

Variable reward outcomes

The People and Performance (P&P) Committee, and the Board, continue to focus on ensuring the alignment of executive reward and company financial and strategic outcomes.

STI outcomes

Table 1.1 provides the STI outcomes for executives over the last five financial years, which can be compared to the financial results across the same period.

A key component of the annual STI plan is performance against profit-based targets, with more than half of the award being linked to AGL's financial performance over the year.

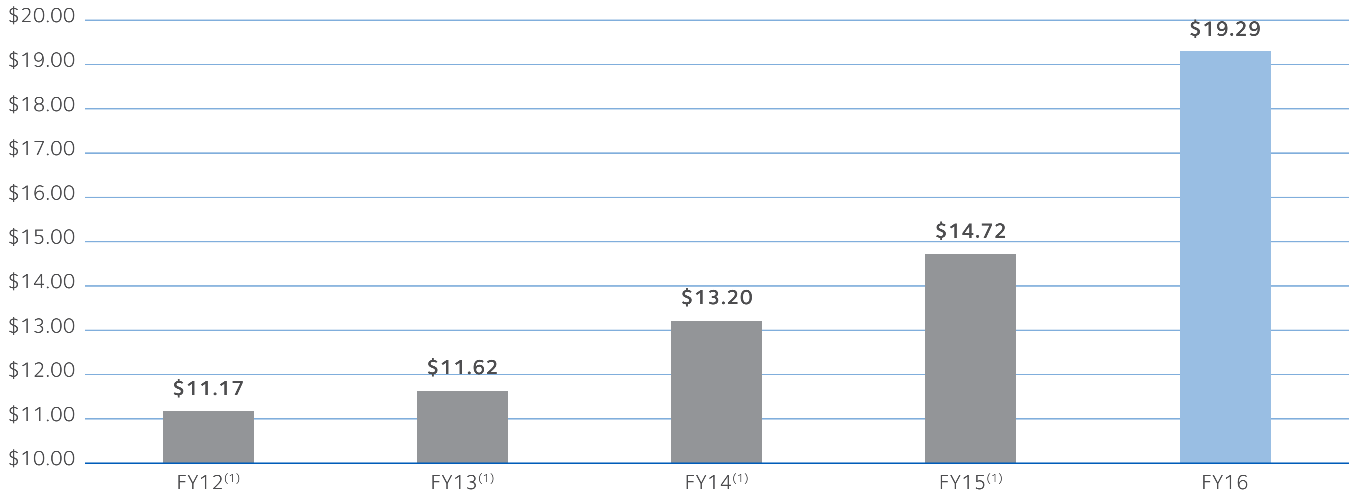
Table 1.1: FY12–FY16 STI payment outcomes

FY	Underlying Profit performance	Average STI payment outcome
FY16	$701 million (11% increase from FY15)	127% of STI opportunity earned
FY15	$630 million (12% increase from FY14)	80% of STI opportunity earned
FY14	$562 million (4% decrease from FY13)	40% of STI opportunity earned
FY13	$585 million (21% increase from FY12)	67% of STI opportunity earned
FY12	$482 million (12% increase from FY11)	96% of STI opportunity earned

LTI outcomes

The LTI plan is directly linked to share price performance, ensuring that only in years where shareholders receive returns on their investment in AGL are executives' awards made under the LTI plan. The LTI plan strongly aligns remuneration outcomes (i.e. whether there were additions to, deductions from, or no allocation made to the bank) over the past five years with shareholder experience as illustrated in the next three diagrams.

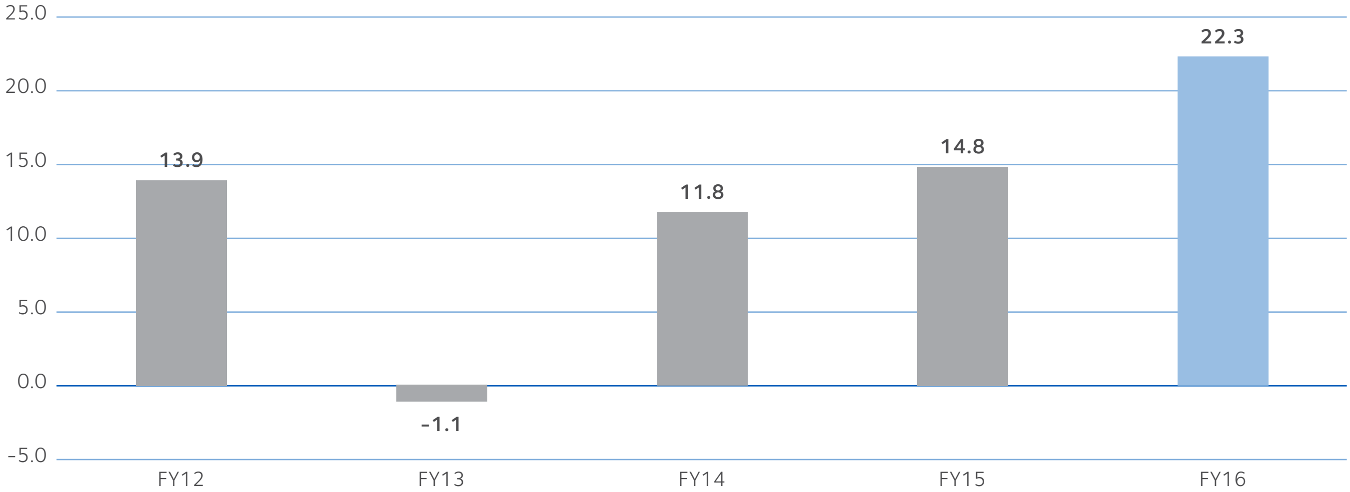
AGL Share Price at 30 June



FY12	FY13	FY14	FY15	FY16
Increase from FY11: 11%	Increase from FY12: 4%	Increase from FY13: 13.6%	Increase from FY14: 11.5%	Increase from FY15: 31%

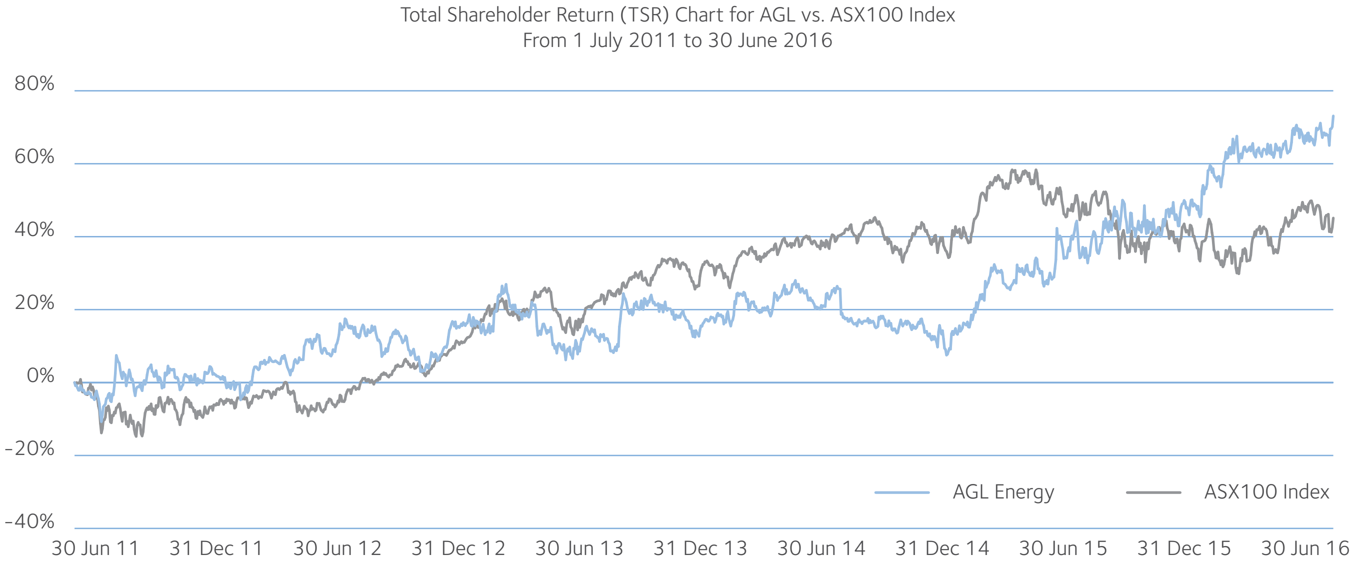
1. Closing share price adjusted for dividends and rights issues.

Absolute Total Shareholder Return (TSR): AGL



FY12	FY13	FY14	FY15	FY16
Actual Growth: 13.9%	Actual Growth: (1.1%)	Actual Growth: 11.8%	Actual Growth: 14.8%	Actual Growth: 22.3%
Deposit: 1.98x	No Allocation	Deposit: 1.56x	Deposit: 2.0x	Deposit: 2.0x

Relative TSR (RTSR): AGL and ASX100



RTSR replaced EBIT/Funds Employed as an LTI measure in FY14	FY14	FY15	FY16
	Percentile Ranking: 34.7th	Percentile Ranking: 47th	Percentile Ranking: 74.5th
	No Allocation	Deposit: 0.47x	Deposit: 1.36x

Section 2: Remuneration highlights

FY16 Remuneration highlights/snapshot

The table below provides highlights/snapshots of key activities and outcomes under the relevant remuneration framework elements throughout FY16.

Element	Highlights
Fixed Remuneration (FR)	As they were appointed into their roles in late FY15, Mr Mikkelsen and Mr England did not receive any FY16 fixed remuneration increase. Mr Redman received a retrospective fixed remuneration increase of 12%, backdated to 1 May 2015, which was approved during FY16. No further increases applied for him in FY16. Mr Jackson and Mr Vesey received FY16 increases as part of the annual remuneration review at 2.5% and 11% respectively. Mr Jackson subsequently received a promotional increase of 11% upon permanent appointment into his role in November 2015.
Short-Term Incentive (STI)	Strong financial and non-financial performance resulted in the delivery of between target and maximum short-term incentives to executives.
Long-Term Incentive (LTI)	The LTI structure continues to evolve to ensure that it is appropriately aligned with AGL's strategy. The previous 'banking' method under the LTI ceased in FY16. Instead, a new LTI was implemented, whereby Share Performance Rights were granted to executives, subject to two performance measures – relative total shareholder return (RTSR) and return on equity (ROE). The details of the new LTI are provided section 3.C of this Report. Annual vesting under the FY15 LTI occurred during FY16 under the old LTI banking plan.
AGL Share Purchase Plan	The AGL Share Purchase Plan continued to operate in FY16, providing eligible employees with the opportunity to purchase AGL shares using their pre-tax salary. Shares were purchased under the plan three times throughout FY16 on behalf of all participants, which remain restricted for up to seven years.
Non-executive director fees	During FY16, the Board resolved to increase Board and Committee base fees by approximately 2.5%, effective 1 January 2016.

Looking ahead to FY17

The below table provides highlights/snapshots of the planned activities under the relevant remuneration framework elements planned for FY17.

Element	Highlights
Fixed Remuneration (FR)	Market benchmarking is conducted in relation to executives as part of the annual remuneration review. Following the completion of this review, along with FY16 performance reviews, fixed increases will apply from 1 September 2016.
Short-Term Incentive (STI)	The STI will continue to operate under the current scorecard structure, with executives being assessed against a series of financial, strategic, team and individual measures.
Long-Term Incentive (LTI)	The LTI will continue under the same methodology for FY17, with RTSR and ROE used as the two performance measures. AGL continues to review the targets to ensure that it reflects a challenging yet realistic measure.
AGL Share Purchase Plan	Two changes are proposed to the FY17 Share Purchase Plan. Firstly, share acquisitions will occur quarterly during the year (twice-yearly for executives). Secondly, purchased shares will now be subject to a restriction on dealing for approximately four years from acquisition. There are no executives enrolled in the plan for FY17.

Section 3: Remuneration framework

Remuneration policy and strategy

AGL's remuneration policy is designed to:

> be set at comparative 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.

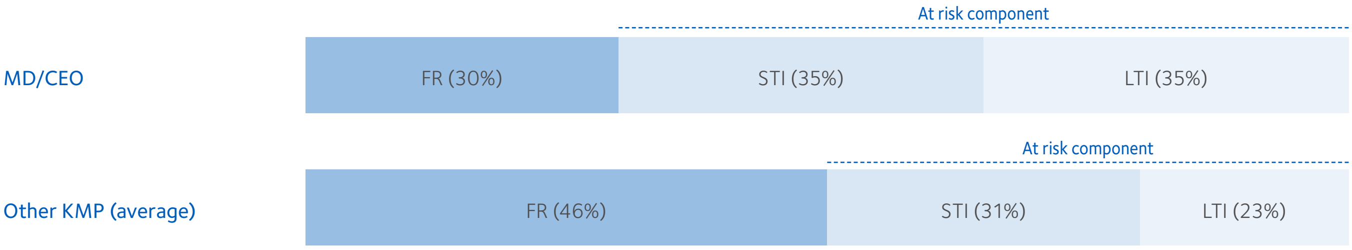
AGL's remuneration strategy strives to ensure that executives are focused on delivering business priorities within a framework designed to promote success aligned with shareholder interests.

Remuneration structure

Executive remuneration arrangements at AGL are comprised of three elements: fixed remuneration (FR) and variable ('at-risk') reward in the form of a short-term incentive (STI) and a long-term incentive (LTI). A broad-based employee share plan (the Share Purchase Plan) is also in operation at AGL. The Board is committed to reviewing the remuneration framework on an ongoing basis to ensure that it drives a performance culture.

In line with the review of the framework and strategy, remuneration levels and arrangements are reviewed annually to ensure alignment to the market.

The executives' remuneration mix in FY16 is summarised as:



The FY16 executive remuneration structure, and link to AGL's strategy, is summarised in Table 3.1. The total remuneration mix is designed to attract, retain and motivate appropriately.

Table 3.1: FY16 Remuneration structure

Element	Purpose and link to strategy	Summary	Discussion in Remuneration Report
Fixed Remuneration (FR)	> To attract (including internationally), retain and motivate executives required to deliver AGL's strategy and drive business performance. > To provide market competitive fixed reward which drives employee engagement and commitment to AGL.	> Reviewed annually by the Board considering a number of factors including, but not limited to, external benchmarks (and relevant market analysis), scope and nature of the role and responsibilities, individual expertise, skills and experience, responsibility, contribution and performance. > All employees, including executives, are able to choose the method in which they receive FR, being a mix of cash salary, compulsory superannuation and any other salary sacrificed items. > AGL's approach is to initially set pay at a level that allows progressive increases to apply as the individual becomes more capable and competent in their role.	Section 3.A
Short-term Incentive (STI)	> To drive annual profitability, strategic priorities and individual performance in line with the strategic roadmap. > Financial objectives remain a key measure under the plan. This ensures strong discipline is maintained. Underlying profit is aligned with budget and should drive dividends and share price growth for shareholders. > Performance against objectives under the plan is intended to translate to improved shareholder return. > To recognise and reward individual contributions in line with the achievement against the strategic roadmap. > The deferral into shares provides alignment with shareholders' interest following the successful delivery of annual targets.	> An at-risk component, where awards are made as a combination of cash and deferred equity subject to the achievement of pre-determined targets, as approved by the Board. > The MD/CEO's STI is awarded as 50% Restricted Shares, with the remainder payable in cash. > Other executives are awarded 10% of the STI in Restricted Shares, with the remainder payable in cash. > Restricted shares vest after a period of twelve months, subject to continued service and forfeiture conditions, but no further performance conditions apply.	Section 3.B
Long-term Incentive (LTI)	> To reward executives for long-term performance, encourage long-term shareholding and deliver long-term value creation for shareholders. > The LTI is continuing to evolve in line with the evolution of AGL's strategy.	> An at-risk component, where executives receive an annual grant of Share Performance Rights, subject to a three-year performance period and two pre-determined performance conditions. > The FY16 performance conditions with equal 50% weighting are: – relative TSR, compared to AGL's peer group; and – return on equity (ROE).	Section 3.C
AGL Share Purchase Plan	> To encourage employee shareholdings and link the interests of employees with those of shareholders.	> An employee share purchase plan, whereby employees are given the opportunity to salary sacrifice their pre-tax pay towards the acquisition of AGL shares. > Annual limit of $5,000 applies.	Section 3.D

3.A Fixed remuneration (FR)

FR comprises of cash, mandatory employer superannuation contributions, and any other salary sacrificed items (e.g. novated vehicles, additional superannuation contributions, contributions to the AGL Share Purchase Plan). Executives may also receive non-monetary benefits (access to energy discounts, car parking, relocation assistance where relevant, etc.) in addition to their FR and includes Fringe Benefits Tax where relevant.

FR is generally reviewed on an annual basis in July-August, with any changes effective from 1 September. When reviewing FR levels, the P&P Committee takes into consideration a number of internal and external factors, such as company performance during the year, external market data and the AGL employee salary review principles.

Market data provides a starting point against which to assess the external competitiveness of remuneration levels. AGL does not advocate a pay policy where it benchmarks all roles to a reference point, for instance, to the market median. Rather, regard is given to each role (e.g. job size, complexity, budget responsibility, criticality to AGL) and other individual factors (e.g. tenure, experience, contribution and performance).

3.B Short-term incentive (STI) plan

The STI is an annual incentive plan whereby an award may be delivered subject to the achievement of pre-determined company and individual performance objectives under a scorecard approach.

The scorecard is weighted 70% financial measures and 30% strategic measures. To generate a payment under the STI, individual/team performance and at least one of the scorecard measures must be achieved at or above threshold levels.

The FY16 STI methodology for executives was:

Performance measures

Fixed Reward ($) X STI opportunity (%) X Scorecard outcome (%) X Individual outcome/Payout moderator (%) = STI award ($)

The key terms of the FY16 STI plan are summarised in Table 3.2.

Table 3.2: Terms of the FY16 STI

Element	Details
STI opportunity	The target STI opportunity is a set percentage of fixed remuneration, and varies by executive depending on role. The target STI opportunity for the MD/CEO is 120%, and on average 67.5% for other executives.
Performance measures	Awards under the plan are subject to performance against a combination of financial, strategic, team and individual objectives set at the beginning of the financial year. The Board has the discretion to assess STI outcomes by considering the quality of the results in making any adjustments to the STI outcomes. The intention of allowing Board discretion is to ensure that any outcomes are appropriately aligned to the underlying performance of AGL and the interest of shareholders. *Scorecard measures* Scorecard measures were set and approved by the Board for the MD/CEO, and by the MD/CEO for all other executives, based on 70% financial and 30% strategic weightings. Each measure is assessed at the end of the financial year to determine the level of performance against each objective, weighted according to importance of achievement, to derive an overall scorecard outcome (0-120%). *Individual measures* In addition to the assessment of the scorecard, each executive is also assessed on the achievement of business unit, team and individual objectives, relevant to the executive's area of responsibility. Each measure is assessed at the end of the financial year to determine the level of performance against each objective, weighted according to importance of achievement, to derive an overall individual outcome/payout moderator (0-120%).
STI deferral component	The deferral of a portion of the STI award into Restricted Shares provides further alignment between executive and shareholder's interests. The level of deferral for the MD/CEO represents 50% of the overall award, and 10% for all other executives. The Restricted Shares are subject to a mandatory twelve-month restriction period and continued employment. Participants are entitled to voting rights and dividends in respect of the Restricted Shares. The Board has absolute discretion as to whether executives retain their unvested Restricted Shares upon ceasing employment, taking into consideration the circumstances of their departure.
Cessation of employment	Under the policy, generally if an executive ceases employment prior to 1 September 2016 they will become ineligible to receive an award under the STI. Exceptional circumstances may be approved by the Board in the event of redundancy, retirement, or incapacity.

FY16 STI awards

The FY16 scorecard and individual measures were set at the beginning of the financial year. The scorecard is weighted 70% financial and 30% strategic measures. The measures were set to ensure there was strong focus on delivering efficiency and transformation goals. The scorecard measures and weightings are subject to change each year, depending on strategic priorities.

For FY16, the scorecard and individual measures are provided below. Based on the STI formula provided on the previous page, the scorecard outcome is multiplied by the individual outcome to arrive at the overall performance outcome. Both outcomes are weighted at 50% of the scorecard. Scorecard measures are generally company-based objectives, whereas individual measures are based on a participant's performance across the financial year. As such, the individual outcome acts as the moderator in terms of reducing or increasing the STI outcome depending on individual contributions.

	Scorecard measures (50%)		Individual measures (50%)		
Executives[1]	Financial effectiveness[2]	Strategic effectiveness[3]	Team effectiveness[4]	Individual effectiveness[5]	FY16 Overall outcomes
MD/CEO	70%	30%	50%	50%	Between target and maximum
EGM Group Operations	70%	30%	35%	65%	Between target and maximum
EGM Energy Markets	70%	30%	37.5%	62.5%	Between target and maximum
Acting EGM New Energy	70%	30%	50%	50%	Between target and maximum
CFO	70%	30%	37.5%	62.5%	Between target and maximum

1. Table reports only executives who were KMP at 30 June 2016.
2. Financial effectiveness includes AGL underlying NPAT and business unit OPEX.
3. Strategic effectiveness includes strategic and business unit objectives.
4. Team effectiveness includes alignment with AGL Core Indicators (such as meeting safety, employee engagement and diversity objectives) and demonstration of AGL values and core expectations.
5. Individual effectiveness includes jointly agreed objectives relevant to the role.

To receive a payment under the STI, threshold performance must be achieved on at least one of the scorecard and individual measures. Scorecard measures are independently weighted, and all measures are not required to be achieved in order to deliver a payment under the plan.

Executive STI outcomes for FY16 are summarised in Table 3.3. The cash component of the FY16 STI awards will be paid in September 2016. The Restricted Shares will be allocated once the full-year financial results have been disclosed to the market, generally in August/September.

Table 3.3: FY16 STI outcomes

Executives[1]	Total STI award ($)	Cash ($)	Restricted Shares ($)	Total STI paid as % of target opportunity (%)	Total STI forfeited as % of maximum opportunity (%)
Andy Vesey	3,447,360	1,723,680	1,723,680	136.8	7.2
Doug Jackson	529,200	476,280	52,920	108.0	36.0
Stephen Mikkelsen	798,000	718,200	79,800	120.0	24.0
Alistair Preston	633,600	570,240	63,360	132.0	12.0
Brett Redman	869,400	782,460	86,940	138.0	6.0

1. Table 3.3 reports only executives who were KMP at 30 June 2016.

FY17 STI targets

It is intended that the same STI structure be implemented in respect of the FY17 plan, with measures aligned to AGL's strategic priorities. Objectives and performance against these will be disclosed in the FY17 Remuneration Report.

3.C Long-term incentive (LTI) plan

With the appointment of Andy Vesey as MD/CEO in early 2015, AGL embarked on a new strategic direction and restructured the executive team to ensure that it is positioned to execute this strategy. As a result, a detailed review of the LTI plan was undertaken to ensure that the FY16 plan aligns with market practice and AGL's strategy, whilst providing an incentive that appropriately rewards executives and delivers value to shareholders.

As a result, the Board resolved to change the operation of the LTI plan. An LTI structure aligned to common market practice was implemented as AGL continues to review and evolve the remuneration structure in line with its strategy.

The new LTI plan is designed to generate long-term value creation for shareholders by linking the performance of executives with the achievement of AGL's strategy. Therefore, relative TSR and ROE were selected as both measures deliver value creation – relative TSR from the share price and ROE by improving earnings and the efficiency of the use of capital.

AGL reviews its incentives as a whole variable reward (i.e. STI and LTI together as one holistic variable reward). It continues to evolve both the STI and LTI plans to focus on key strategic objectives (i.e. optimising the existing asset base and transformation, leading to long-term growth).

The key terms for the FY16 LTI plan are summarised in Table 3.4.

Table 3.4: Terms of the FY16 LTI

Element	Details	
MD/CEO offer	Following approval at the 2015 AGM on 30 September 2015, the MD/CEO's FY16 LTI offer was granted on the same day.	
Performance Period	The performance period for the LTI is three years from 1 July 2015 to 30 June 2018. The Board considers three years to be an appropriate performance period as it is sufficiently long-term to influence the desired outcomes, and is generally aligned to market practice.	
LTI opportunity	The value of the LTI for each executive is determined at the beginning of the performance period, based on a percentage of FR. The number of Share Performance Rights granted in association with the offer is based on the 30-day volume-weighted average AGL share price up to and including 30 June 2015.	
Performance Measures	The FY16 LTI is subject to two performance measures, weighted equally at 50% and assessed at the end of the three-year performance period. The Board determined the measures as follows: 1. *Relative TSR (RTSR):* RTSR is a common LTI measure across ASX-listed companies and is strongly aligned with shareholder returns. It is also well understood by executives and shareholders in the market. TSR provides shareholder alignment by taking into consideration the increase in share price as well as dividends paid. The relative measure supports competitive returns against other comparable organisations. AGL's peer group is based on a select group of ASX-listed companies with similar qualities to AGL based on market beta, market capitalisation and qualitative factors. 2. *Return on Equity (ROE):* ROE measures the amount of net income earned as a percentage of shareholders' equity. It measures a company's profitability by revealing how much profit a company generates with the money shareholders have invested. It is calculated as underlying NPAT divided by rolling twelve-month average equity.	
RTSR vesting schedule	**AGL's TSR ranking relative to comparator group**	**% Share Performance Rights which vest**
	Below 50th percentile	Nil
	50th – 75th percentile	50-100%
	At or above 75th percentile	100%
ROE vesting schedule	**AGL's average ROE**	**% Share Performance Rights which vest**
	Below 10%	Nil
	10%-12%	50%-75%
	12%-15%	75%-100%
	At or above 15%	100%
Cessation of employment	Under the policy, generally if an executive ceases employment prior to the vesting date, they will forfeit all awards under the LTI. Exceptional circumstances may be approved by the Board in the event of redundancy, retirement, or incapacity, and may result in a pro-rata number of awards being retained, subject to post-employment vesting.	

FY16 LTI awards

The allocation of FY16 LTI awards under the new plan were made to executives as per Table 3.5.

Table 3.5: FY16 LTI Share Performance Rights

Executive	Grant date	Vesting date	Number of awards granted	Value at grant date ($)[1]	Maximum value yet to vest ($)[2]
Current					
Andy Vesey	30 September 2015	30 June 2018	158,093	1,827,553	1,827,553
Doug Jackson	30 September 2015	30 June 2018	21,958	253,834	253,834
Stephen Mikkelsen	30 September 2015	30 June 2018	29,800	344,488	344,488
Alistair Preston	30 September 2015	30 June 2018	25,095	290,096	290,096
Brett Redman	30 September 2015	30 June 2018	28,231	326,348	326,348
Former					
Marc England[3]	30 September 2015	30 June 2018	17,566	203,063	–

1. The value at grant date is calculated based on the fair values shown in note 38, being $9.00 for RTSR and $14.12 for ROE.
2. The maximum value is calculated based on the fair values shown in note 38, being $9.00 for RTSR and $14.12 for ROE. The minimum total value of the grant is zero.
3. The number of awards shown for Mr England represent the full FY16 LTI grant. However, upon ceasing employment, Mr England forfeited his awards under the Plan due to resignation.

FY17 LTI awards

For FY17, AGL will maintain the current two performance measures under the LTI, being RTSR and ROE, assessed across the three year performance period. AGL continues to review the measures to ensure that it reflects a challenging and stretching yet realistic measure, and monitor how the remuneration framework reflects the performance levels and changes that are required to deliver on its strategic priorities. AGL may consider changes to the whole variable reward in the future.

3.D AGL Share Purchase Plan

AGL currently operates a Share Purchase Plan, which allows eligible employees to salary sacrifice up to $5,000 each financial year of their pre-tax pay into acquiring AGL shares. Shares are acquired three times a year at the relevant market price on that date. The detail of any shares acquired under the AGL Share Purchase Plan for executives (if any) are detailed in section 7.

3.E Prior year equity arrangements

FY15 STI deferral

Restricted Shares allocated in respect of the FY15 STI deferral are currently outstanding as detailed in Table 3.6.

Table 3.6: FY15 STI Restricted Share awards

Executive[1]	Allocation date	Number	Value at allocation date ($)[2]	Vesting date
Andy Vesey	25 August 2015	33,510	570,000	25 August 2016
Doug Jackson	25 August 2015	2,284	38,840	25 August 2016
Stephen Mikkelsen	25 August 2015	2,982	50,710	25 August 2016
Brett Redman	25 August 2015	2,634	44,800	25 August 2016

1. Table 3.6 reports only executives who were KMP at 30 June 2016. As Mr Preston joined AGL on 1 June 2015, there was no FY15 STI award made.
2. The value at allocation date is calculated based on the allocation price, being $17.01 (based on the actual weighted average price paid for AGL shares for all participants participating in the STI deferral), rounded down to approximately the nearest $10, aligned with values reported in Table 4.1.

FY14 STI deferral

Restricted Shares which vested during FY16 in respect of the FY14 STI deferral are detailed in Table 3.7.

Table 3.7: FY14 STI Restricted Share awards

Executive[1]	Allocation date	Number	Value vested ($)[2]	Vesting date
Doug Jackson	1 September 2014	2,424	39,972	1 September 2015

1. Table 3.7 reports only executives who were KMP at 30 June 2016. There was no FY14 STI deferral for Mr Mikkelsen and Mr Redman. Mr Vesey and Mr Preston were not employed by AGL in FY14.
2. The value vested is calculated based on the closing share price on the vesting date, being $16.49.

FY15 LTI awards

In prior years, the AGL LTI plan operated by way of the use of notional bank accounts, which held the executives' balance of Share Performance Rights, and which were adjusted each year depending on company performance against pre-defined measures. A number of Share Performance Rights were allocated initially, which are subject to testing each year. Depending on the result of the testing, additional units would be allocated or clawed back for executives, with 40% of the remaining bank balance vesting each year. The remaining 60% balance was 'banked' over the long-term, subject to share price risk and clawback (if applicable) each year.

This LTI methodology was fit for purpose at the time, however required a review to assess relevance to AGL's strategic roadmap. As such, the banking method ceased and a new LTI plan for FY16 was introduced (explained in section 3.C). As a result of the change to the LTI plan, the balance of the bank accounts for the prior plan will be closed down over a two-year period.

Therefore, transitional arrangements will apply to the existing executive bank accounts. The first part of this process for closure is that the bank balances will continue to be subject to performance testing for the next two years. This process involves:

> in August 2016, testing was conducted against the relevant performance hurdles. If performance had not been achieved at the required levels, clawback would have applied. Following any adjustment required, if the performance hurdles had been met, 50% of each remaining bank balance vested. The outcome of this testing for FY16 is detailed in Table 3.8; and

> in August/September 2017, testing will be conducted against the relevant performance hurdles. If performance has not been achieved at the required levels, clawback will apply. Following any adjustment required, if the performance hurdles have been met, the remaining bank balances will vest. The detail of this testing will be disclosed in the FY17 Remuneration Report.

The second element of the transitional arrangement is that select executives will be provided with a transitional grant, in September 2016 and September 2017, to make up for the foregone annual vesting opportunity. These grants will be provided in the form of AGL shares, to continue to encourage executive shareholdings. The number of shares allocated as part of these grants will be disclosed in the FY17 and FY18 Remuneration Reports.

Due to an administrative oversight, Mr Vesey did not receive his contractual entitlement in respect of the FY15 LTI. Therefore, to put him in the same economic position as if he had received the FY15 offer, the Board resolved:

> that the MD/CEO be granted 74,509 awards under the FY15 LTI on a pro-rata basis from his effective date;

> the outcomes of the FY15 annual test (that is, the performance testing which was conducted for other executives in August 2015) would be applied and vest 40% of the notional bank account, consistent with other participants under the plan. The result of this was an upwards adjustment of the LTI bank account to 92,017, with 40% (36,806 awards) vesting effective 30 June 2016;

> to carry forward the remaining 60% of Share Performance Rights (55,211) in the notional bank account for testing and vesting in FY16 and FY17; and

> that a transitional grant would be provided to make up for the forgone annual vesting opportunity, consistent with other participants under the plan.

The FY16 testing has been conducted for the relevant performance measures, and the adjustments and vestings have occurred as per table 3.8. Note that 50% vesting applies after the FY16 testing adjustments have been made, in accordance with the plan closure terms. The remaining bank account balance will vest subject to testing in FY17. This finalises the closure of the FY15 LTI plan.

Table 3.8: FY15 LTI bank balance movement for the year ended 30 June 2016

Executive[1]	Performance hurdles	Opening balance	Balance after adjustments for FY16 performance	Vested – 50% released after adjustments made	Closing balance to carry forward
Andy Vesey[2]	ATSR	44,705	89,410	(44,705)	44,705
	RTSR	10,506	14,288	(7,144)	7,144
	Total	**55,211**	**103,698**	**(51,849)**	**51,849**
Doug Jackson	ATSR	3,659	7,318	(3,659)	3,659
	RTSR	568	772	(386)	386
	Total	**4,227**	**8,090**	**(4,045)**	**4,045**
Stephen Mikkelsen	ATSR	31,160	62,320	(31,160)	31,160
	RTSR	4,172	5,673	(2,836)	2,837
	Total	**35,332**	**67,993**	**(33,996)**	**33,997**
Brett Redman	ATSR	22,156	44,312	(22,156)	22,156
	RTSR	3,686	5,012	(2,506)	2,506
	Total	**25,842**	**49,324**	**(24,662)**	**24,662**

1. Table 3.8 reports only executives who were KMP at 30 June 2016. Mr Preston did not participate in the FY15 LTI.
2. As disclosed in this Report, Mr Vesey received an LTI allocation relating to the FY15 grant during FY16, therefore, starting balance as at 1 July 2015 has been disclosed as if the grant had occurred and FY15 testing had been conducted at the same time as the other participants.

Section 4: Executive remuneration

Table 4.1 includes the detail of executive KMP remuneration and benefits for FY16, prepared in accordance with the statutory accounting requirements.

Table 4.1: Remuneration of executives

		Short-Term Benefits			
Executive	Year	Cash Salary/ Fees ($)[1]	Total Cash Incentive ($)[2]	Non-Monetary Benefits ($)[3]	Other Short-Term Benefits ($)[4]
Current					
Andy Vesey	**FY16**	**2,066,667**	**1,723,680**	**120,515**	**–**
	FY15 (From 12 Jan 2015)	1,909,621	570,000	115,036	–
Doug Jackson	**FY16**	**654,093**	**476,280**	**–**	**–**
	FY15 (From 4 May 2015)	97,964	349,560	–	–
Stephen Mikkelsen	**FY16**	**938,022**	**718,200**	**–**	**20,447**
	FY15	882,467	456,390	–	118,053
Alistair Preston	**FY16 (From 1 Jan 2016)**	**400,000**	**570,240**	**–**	**–**
Brett Redman	**FY16**	**897,359**	**782,460**	**–**	**–**
	FY15	756,217	403,200	–	–
Former					
Mark England[9]	**FY16 (Until 29 Apr 2016)**	**615,844**	**–**	**–**	**–**
	FY15 (From 1 May 2015)	91,370	232,875	–	–
Anthony Fowler[10]	**FY16 (Until 1 Jul 2015)**	**359,743**	**–**	**–**	**–**
	FY15	828,477	551,250	–	–
Michael Fraser	FY15 (Until 11 Feb 2015)	2,816,557	2,203,443	–	–
Michael Moraza	FY15 (Until 18 Feb 2015)	1,355,090	–	–	–
TOTAL	**FY16**	**5,931,728**	**4,270,860**	**120,515**	**20,447**
	FY15	8,737,763	4,766,718	115,036	118,053

1. Represents cash salary including any salary sacrificed items (such as additional superannuation contributions and novated motor vehicles) and accrued annual and long service leave paid out on termination of employment. FY15 numbers for Mr Fowler have been reclassified to include salary sacrificed superannuation previously reported under Superannuation/Pension.
2. Represents cash payments under the STI achieved in the year, excluding the Restricted Share portion which is allocated in August/September following the relevant financial year-end. FY15 amounts have been reclassified to exclude the Restricted Share portion. The Restricted Share portion is disclosed under the 'STI Restricted Shares' column.
3. Includes the provision of expatriate costs and fringe benefits tax on all benefits, where applicable. The FY15 value for Mr Mikkelsen has been removed and now shows under Other Short-Term Benefits to be consistent with the methodology for FY16. Benefits included are in respect of the FBT year ended 31 March 2016.
4. Includes allowances such as, but not limited to, living away from home allowances. The FY15 value for Mr Mikkelsen has been reclassified to be consistent with the methodology for FY16.
5. Includes the value of all STI Restricted Shares which are expected to be granted in relation to the performance year. FY15 amounts have been reclassified to include the value of FY15 STI Restricted Shares.
6. Includes a proportion of the fair value of all outstanding LTI offers (including the FY15 LTI transitional grant) at the start of the year, or which were offered during the year. Under Australian Accounting Standards, the fair value is determined as at the offer date and is apportioned on a straight-line basis across the expected vesting period after adjusting at each reporting date for an estimation of the number of shares that will ultimately vest. FY15 amounts for Mr Vesey have been disclosed to take into consideration the allocation of awards under the FY15 LTI during the year.
7. Includes a proportion of the fair value of all Restricted Shares held at the start of the year, or which were granted during the year, generally for retention or sign-on purposes.
8. Represents the sum of cash STIs and Share Performance Rights/Restricted Shares/Other Equity as a percentage of total remuneration, excluding termination payments. FY15 numbers have been reclassified to be consistent with the methodology used for FY16.
9. Mr England exited the business on 29 April 2016, and forfeited all of his outstanding LTI awards and his FY15 STI Restricted Shares.
10. Mr Fowler exited the business on 1 July 2015, and as such, there are no share-based payments.

Post-Employment Benefits	Share-Based Payments					
Super-annuation/ Pension ($)	STI Restricted Shares ($)[5]	Share Performance Rights ($)[6]	Other Equity ($)[7]	Total ($)	Performance Related (%)[8]	Termination Benefits ($)
–	**1,723,680**	**1,307,477**	**–**	**6,942,019**	**68.5%**	**–**
–	570,000	134,663	1,103,760	4,403,080	54.0%	–
19,308	**52,920**	**111,922**	**–**	**1,314,523**	**48.8%**	**–**
2,985	38,840	29,210	–	518,559	80.5%	–
19,308	**79,800**	**326,126**	**–**	**2,101,903**	**53.5%**	**–**
18,783	50,710	327,751	–	1,854,154	45.0%	–
–	**63,360**	**106,043**	**–**	**1,139,643**	**64.9%**	**–**
19,308	**86,940**	**277,426**	**–**	**2,063,493**	**55.6%**	**–**
18,783	44,800	187,624	–	1,410,624	45.1%	–
16,090	**–**	**–**	**–**	**631,934**	**0.0%**	**–**
2,985	25,875	103,376	–	456,481	79.3%	–
–	**–**	**–**	**–**	**359,743**	**0.0%**	**730,052**
18,783	–	451,910	–	1,850,420	54.2%	–
302,378	–	1,521,589	–	6,843,967	54.4%	836,324
105,688	–	–	–	1,460,778	0.0%	–
74,014	**2,006,700**	**2,128,994**	**–**	**14,553,258**		**730,052**
470,385	730,225	2,756,123	1,103,760	18,798,063		836,324

Section 5: Remuneration governance

Role of People and Performance (P&P) Committee

The primary purpose of the P&P Committee is to assist the Board in fulfilling its responsibilities to shareholders, customers, employees and the broader community through the appropriate recruitment, retention and remuneration of executives with the capabilities and skills necessary to execute AGL's strategy.

The P&P Committee reviews and makes remuneration recommendations to the Board on the remuneration arrangements for the MD/CEO, non-executive directors and executives. More generally, the P&P Committee provides assistance to the Board in relation to matters such as monitoring remuneration and employment policies, procedures and programs. In addition to its remuneration responsibilities, the P&P Committee's duties include overseeing talent/leadership development, providing guidance in respect of employee relations and improving employee engagement, and other people matters as they may arise. The complete P&P Charter is reviewed at least every two years, and is available on AGL's website: www.agl.com.au.

The P&P Committee comprises independent members of the Board, which are reviewed periodically. To assist in performing its duties, and making recommendations to the Board, the P&P Committee has access to management and independent external consultants to seek advice on various remuneration-related matters, as required. The Board's protocols in respect of the engagement of remuneration advisers are outlined in the next section.

Engagement of remuneration advisers

Any recommendations made by consultants in relation to remuneration arrangements of KMP must be made directly to the Board without any influence from management. There are arrangements in place to ensure any advice is independent of management.

During FY16, *3 degrees consulting* was engaged to provide market practice information and independent advice on certain governance and remuneration related matters. *3 degrees consulting* did not provide any 'remuneration recommendations' as defined in the Corporations Act 2001 during the 2016 financial year.

Minimum shareholding policy

Prior to FY16, AGL did not have a minimum shareholding policy in place for executives or non-executive directors. Although there is no legislative requirement to maintain such a policy, the P&P Committee consider it appropriate to encourage KMP to hold a reasonable number of AGL shares with a view to further align the interests of executives with those of shareholders. In order to ensure this, during FY16 two minimum shareholding policies were implemented, one for executives and one for the non-executive directors. The policy which applies in relation to non-executive directors is disclosed in section 6 of this Report

The minimum shareholding policy for executives stipulates that:

> The MD/CEO should accumulate, and thereafter maintain, an interest in AGL securities which is equal to 100 per cent of FR.

> The CFO should accumulate, and thereafter maintain, an interest in AGL securities which is equal to 75 per cent of FR.

> Remaining executives should accumulate, and thereafter maintain, an interest in AGL securities which is equal to 50 per cent of FR.

> The target minimum shareholding should be accumulated within five years from the end of FY16 for existing executives, or up to five years from the date of appointment in respect of new executives.

The details of executive shareholdings as at 30 June 2016, and the movements during FY16, are detailed in section 7. Executives are expected to demonstrate meaningful progress towards meeting their minimum shareholding level across the required period. From FY17, this progress will be reported in section 7, in conjunction with the disclosure of actual shares held by each executive.

Hedging policy

To ensure alignment between executive incentives and shareholder interests, and that the variable components remain at-risk, AGL has a policy in place that prevents executives from entering into any derivative or other financial product in relation to the LTI or other equity-based incentive plans.

Executive contract terms

Remuneration and other terms of employment for the executives are formalised in service agreements. The service agreements provide for participation in the short and long-term incentives in accordance with the terms of the respective plans. All service agreements are for an unlimited duration.

Specific information relating to the service agreements of the executives are set out in the table below.

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

1. Table reports only executives who were KMP at 30 June 2016.
2. AGL can, at its election, make a payment in lieu of part or all of the notice period.
3. Maximum termination payment (exclusive of any payment in lieu of notice) payable if AGL terminates the executive's employment other than for cause.
4. Mr Vesey may also terminate his agreement with three 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 twelve months' FR.
5. Executives may also terminate their agreement with three 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 nine months' FR.
6. AGL will provide six months' notice in circumstances of unsatisfactory performance.

Section 6: Non-Executive Directors

Fee pool

The maximum aggregate fee pool approved by shareholders at the 2012 AGM for non-executive directors is $2.5 million per annum (inclusive of superannuation). The aggregate fee pool is generally reviewed by the Board annually and, if appropriate, adjusted, having regard to the anticipated time commitment, workload and responsibilities attaching to that office and having regard to the level of fees paid by comparable organisations in the market. The fee pool did not increase for FY16.

Fee policy

Non-executive directors receive a base fee for their services as a director of the Board. In addition, members of a Committee will receive a Committee fee, to recognise the higher workload and extra responsibilities. Chairing a Committee attracts a higher fee rate. The Chairman of the Board receives a higher base fee in recognition of the additional responsibility and time commitment, however does not receive any extra remuneration for participating in or chairing any Committees.

In setting the non-executive directors' fees, the following considerations are taken into account to enable the Board to attract and retain directors:

> time commitment;

> workload;

> risk and responsibility;

> individual background, skills and experience; and

> market benchmark data, sourced from companies with a similar market capitalisation.

In order to ensure independence, non-executive directors do not receive performance-related remuneration. This allows the focus of the Board to be on the governance and both short and long-term strategic direction of AGL.

Minimum shareholding policy

As disclosed in section 5 of this Report, AGL has implemented a minimum shareholding policy for non-executive directors in FY16.

The minimum shareholding policy for non-executive directors stipulates that:

> Each current director should accumulate over a four-year period, and thereafter maintain, an interest in AGL securities which is equal to 100 per cent of the base annual director's fees.

> Half of the above requirement should be accumulated within two years from the adoption of the policy (being 4 December 2015), or within two years from the date of appointment in respect of new non-executive directors.

> Each newly appointed director is encouraged to acquire an interest in AGL securities which is equal to at least 10 per cent of the base annual director's fees by the end of the financial year in which they are appointed.

The details of non-executive director shareholdings as at 30 June 2016, and the movements during FY16, are detailed in section 7. Directors are expected to demonstrate meaningful progress towards meeting their minimum shareholding level across the required period. From FY17, this progress will be reported in section 7, in conjunction with the disclosure of actual shares held by each non-executive director.

Current fee structure

The fee structure for non-executive directors, effective 1 January 2016, is as follows:

Table 6.1: FY16 Non-executive director fees

Board/Committee	Chair fee ($)	Member fee ($)
Board base fee	532,700	184,700
Audit and Risk Management Committee	50,700	25,400
Other Committees	36,900	18,000

The above fees are inclusive of superannuation. There are no additional committee fees applicable in relation to the Nominations Committee.

Remuneration paid to non-executive directors

Details of non-executive director remuneration for the financial year are set out in Table 6.2.

Table 6.2: Non-executive director remuneration

Non-executive director	Year	Cash fees ($)[1]	Superannuation ($)	Total ($)
Current				
Jeremy Maycock	**FY16**	**506,892**	**19,308**	**526,200**
	FY15	493,567	18,783	512,350
Jacqueline Hey	**FY16**	**59,007**	**5,457**	**64,464**
Les Hosking	**FY16**	**224,592**	**19,308**	**243,900**
	FY15	218,617	18,783	237,400
Graeme Hunt	**FY16**	**198,995**	**18,905**	**217,900**
	FY15	193,653	18,397	212,050
Belinda Hutchinson	**FY16**	**205,903**	**19,297**	**225,200**
	FY15	200,388	18,762	219,150
Bruce Phillips	**FY16**	**205,903**	**19,297**	**225,200**
	FY15	233,426	21,724	255,150
John Stanhope	**FY16**	**230,892**	**19,308**	**250,200**
	FY15	224,717	18,783	243,500
Former				
Sandra McPhee	**FY16**	**224,592**	**19,308**	**243,900**
	FY15	218,617	18,783	237,400
TOTAL	**FY16**	**1,856,776**	**140,188**	**1,996,964**
	FY15	1,782,985	134,015	1,917,000

1. Represents cash fees Including any salary sacrificed items such as additional superannuation and Share Purchase Plan contributions. FY15 values have been reclassified to align with the calculation method for FY16 values.

Section 7: Equity disclosures for KMP

Movement in AGL shares

The movement during FY16 in the number of AGL shares, including Restricted Shares, held by each director and executive, including their related parties, is shown in Table 7.1. Restricted Shares generally relate to the STI deferral, or for attraction/retention purposes in certain circumstances.

Table 7.1: KMP shareholdings

FY16	Balance at start of the year	Acquired during the year[1]	Other changes during the year[2]	Balance at end of year
Non-executive director				
Current				
Jeremy Maycock	79,499	288	–	79,787
Jacqueline Hey	–	2,170	–	2,170
Les Hosking	2,801	–	–	2,801
Graeme Hunt	1,500	–	–	1,500
Belinda Hutchinson	9,156	–	–	9,156
Bruce Phillips	40,601	–	–	40,601
John Stanhope	4,669	2,871	–	7,540
Former				
Sandra McPhee	20,546	–	(20,546)	–
Non-executive director total	**158,772**	**5,329**	**(20,546)**	**143,555**

FY16	Balance at start of the year	Granted/ Acquired during the year[3]	Received upon vesting/ exercise[4]	Other changes during the year[5]	Balance at end of year	Share Performance Rights vested but not yet allocated[6]
Executive						
Current						
Andy Vesey	73,000	33,510	36,806	–	143,316	51,849
Doug Jackson	4,866	2,458	2,818	–	10,142	4,045
Stephen Mikkelsen	43,057	2,982	25,438	(15,000)	56,477	33,996
Alistair Preston	–	–	–	–	–	–
Brett Redman	17,316	2,634	17,692	(9,000)	28,642	24,662
Former						
Marc England	8,610	–	10,185	(18,795)	–	–
Anthony Fowler	15,366	–	–	(15,366)	–	–
Executive total	**162,215**	**41,584**	**92,939**	**(58,161)**	**238,577**	**114,552**
Grand total	**320,987**	**46,913**	**92,939**	**(78,707)**	**382,132**	**114,552**

1. Includes the purchase/sale of ordinary shares during FY16, including the dividend reinvestment plan and the AGL Share Purchase Plan.
2. Includes balance adjustments for directors joining or leaving KMP.
3. Includes shares acquired during FY16, including Restricted Shares allocated under the FY15 STI.
4. Includes shares acquired upon vesting of LTI awards during FY16.
5. Includes the sale of ordinary shares during FY16, including balance adjustments for executives joining or leaving KMP.
6. Includes shares which have vested under the LTI, however will not be allocated as shares to executives until August/September 2016.

Movement in Share Performance Rights

The movement during FY16 in the number of Share Performance Rights held by each executive is shown in Table 7.2. Share Performance Rights are issued under the LTI.

Table 7.2: Executive Share Performance Right holdings

Executive	Balance at start of the year[1]	Acquired during the year as part of remuneration	Share Performance Rights vested but not yet allocated[2]	Other changes during the year[3]	Balance at end of year
Current					
Andy Vesey[4]	55,211	158,093	(51,849)	48,487	209,942
Doug Jackson	4,227	21,958	(4,045)	3,863	26,003
Stephen Mikkelsen	35,332	29,800	(33,996)	32,661	63,797
Alistair Preston	–	–	–	25,095	25,095
Brett Redman	25,842	28,231	(24,662)	23,482	52,893
Former					
Marc England	15,277	17,566	–	(32,843)	–
Anthony Fowler[5]	–	–	–	–	–
Grand total	**135,889**	**255,648**	**(114,552)**	**100,745**	**377,730**

1. Starting balances have been disclosed to align with the information reported in Section 3, specifically Table 3.8 (i.e. FY15 LTI annual testing has already been adjusted from the starting balance).
2. Includes Share Performance Rights which have vested under the LTI, however will not be allocated as shares to executives until August/September 2016.
3. Represents increase/decrease from annual LTI performance testing before any vesting, balance adjustments for executives joining or leaving KMP and any units forfeited during FY16.
4. As disclosed in section 3.E, Mr Vesey received an LTI allocation relating to the FY15 grant during FY16. Therefore, starting balance as at 1 July 2015 has been disclosed as if the grant had occurred and FY15 testing had been conducted at the same time as the other participants.
5. Mr Fowler ceased employment on 1 July 2015. His full holding under the FY15 LTI vested as part of the FY15 annual testing due to his termination, and as such, the opening balance of Share Performance Rights for FY16 is nil.

Other Required Disclosures

These Other Required Disclosures (pages 59 to 61) are attached to and form part of the 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 31 of the Financial Report 2016.

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 $91,000 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.

Auditor's Independence Declaration

A copy of the external auditor's declaration under Section 307C of the Corporations Act in relation to the audit for the financial year is attached to the AGL Financial Report 2016.

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 Secretary, 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.

Rounding

AGL is an entity to which ASIC Corporations Instrument 2016/191 applies and in accordance with that Instrument, amounts in the Financial Report and the Directors' Report have been rounded off to the nearest million dollars, unless otherwise stated.

Information on Audits

This report has been derived from the AGL Financial Report 2016 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 2016 also released to the market on 10 August 2016.

Dividends

The annual dividend for the year ended 30 June 2016 was 68.0 cents per share compared with 64.0 cents per share for the prior year.

The following dividends have been paid or declared by the Directors since 30 June 2015:

Final dividend of 34.0 cents per share (100% franked) paid on 24 September 2015	$230 million
Interim dividend of 32.0 cents per share (100% franked) paid on 16 March 2016	$216 million
Final dividend of 36.0 cents per share (100% franked) payable on 22 September 2016	$243 million

The record date to determine shareholders' entitlements to the final dividend is 25 August 2016. Shares will commence trading ex-dividend on 24 August 2016.

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.

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 arithmetic average of the daily volume-weighted average price at which AGL shares trade during each of the 10 days commencing on 29 August 2016. AGL will buy shares on market to satisfy the DRP. The last date for shareholders to elect to participate in the DRP for the FY16 final dividend is 5pm on 26 August 2016.

Subsequent Events

On 27 July 2016, AGL announced QIC, on behalf of its clients the Future Fund and those invested in the QIC Global Infrastructure Fund, as its equity partner in the $2-3 billion Powering Australian Renewables Fund (PARF).

PARF is a landmark partnership created by AGL to develop, own and manage approximately 1,000 MW of large-scale renewable energy infrastructure assets and projects. QIC on behalf of its managed clients including the Future Fund will provide $800 million and AGL will provide $200 million in equity funding to PARF.

The PARF expects to acquire AGL's existing 102 MW Nyngan and 53 MW Broken Hill solar plants as seed assets. It is anticipated that AGL's proposed wind farms in Silverton (up to 200 MW) in New South Wales and Coopers Gap (up to 350 MW) in Queensland will be the first two projects offered to the PARF.

The Directors are not aware of any other matters or circumstances which has arisen since 30 June 2016 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.

Corporate Governance

A copy of AGL's Corporate Governance Statement can be found on the AGL website at: agl.com.au/CorporateGovernance

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 the Federal and State Government levels.

Table 1 sets out non-compliances that became subject of environmental and planning regulation under relevant legislation during the financial year (that is, those which resulted in regulatory action such as a penalty infringement notice and/or 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 to the relevant regulator, and reported under the AGL site licence conditions, as required under relevant legislation.

More information on the Group's environmental performance is published in AGL's Sustainability Performance Report 2016, available on the AGL website.

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

Site	Key Environment and Planning legislation	Comments
Broken Hill Solar Plant, Broken Hill, NSW	Environmental Planning and Assessment Act 1979	On 2 May 2016, the NSW Department of Planning & Environment (DPE) confirmed that AGL breached condition B31 of the Broken Hill Solar Plant Project Approval requiring the upgrade of the intersection of the Barrier Highway Broken Hill and the site access road prior to the construction of the solar plant and to the satisfaction of, and at no cost to, RMS. DPE issued a Penalty Improvement Notice of $3,000. On 12 May 2016, AGL signed an undertaking to complete the works required under the Project Approval.
AGL Macquarie **Liddell Power Station and Bayswater Power Station, NSW**	Protection of the Environment Operations Act 1997	On 4 August 2015, AGL Macquarie received one $15,000 Penalty Notice from the NSW Environment Protection Authority (NSW EPA) in relation to ammoniated water entering Tinkers Creek via Discharge Point 7 on 9 April 2015 which resulted in elevated pH levels exceeding the threshold set out in the environment protection licence (EPL). The penalty notice was issued for contravention of EPL condition L3.6 and two Official Cautions for a breach of Section 64 of the Protection of the Environment Operations Act (POEO Act) for not operating plant and equipment in a proper and efficient manner and for the pollution of water under section 120 of the POEO Act. On 16 December 2015, AGL Macquarie received two $15,000 Penalty Notices from the NSW EPA in relation to the release of approximately 6000L of sulphuric acid solution into Tinkers Creek via an onsite stormwater drain on 24 November 2015, resulting in pH levels below the threshold set out in the EPL. The penalty notices were issued for contravention of EPL conditions and pollution of water under section 120 of the POEO Act. Two Official Cautions were also received in relation to a breach of Section 64 of the POEO Act and for not operating plant and equipment in a proper and efficient manner. On 7 March 2016, AGL Macquarie received one $15,000 Penalty Notice and an Official Caution from the NSW EPA in relation to an ash pipeline failure that occurred on 21 December 2015 that resulted in ash laden water entering Bayswater Creek. The penalty notice was issued for pollution of water under section 120 of POEO Act. The Official Caution was received for not operating plant and equipment in a proper and efficient manner.

Definitions and Abbreviations

The key terms used in this Report are detailed below.

Term	Definition
ATSR	Absolute total shareholder return. Refer TSR.
EBIT	Earnings before interest and tax.
EBITDA	Earnings before interest, tax, depreciation and amortisation
KMP	Key Management Personnel. Those persons having authority and responsibility for planning, directing and controlling the major activities of AGL, directly or indirectly, including any director (whether executive or otherwise), as listed in the introduction to the Remuneration Report.
ROE	Return on equity. Measures the amount of net income returned as a percentage of shareholders equity. It measures a company's profitability by revealing how much profit a company generates with the money shareholders have invested. It is calculated as underlying NPAT divided by rolling twelve-month average equity.
RTSR	Relative total shareholder return. The return on investment of a company relative to a peer group of companies.
TSR	Total shareholder return. Total return on investment of a security, taking into account both capital appreciation and distributed income that was reinvested.

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 10th day of August 2016.

Jeremy Maycock
Chairman

AGL Concise Financial Report 2016

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 2016, 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 2016 via the internet by visiting agl.com.au and selecting 'Investor Centre' from the 'About AGL' menu.

AGL Energy Limited and controlled entities

Consolidated Statement of Profit or Loss

For the year ended 30 June 2016

	Note	2016 $m	2015 $m
Continuing operations			
Revenue	4	11,150	10,678
Other income		25	–
Expenses		(10,979)	(9,759)
Share of profits of associates and joint ventures		26	27
Profit before net financing costs, depreciation and amortisation		222	946
Depreciation and amortisation		(478)	(379)
(Loss)/profit before net financing costs		(256)	567
Finance income		18	20
Finance costs		(236)	(250)
Net financing costs		(218)	(230)
(Loss)/profit before tax		(474)	337
Income tax benefit/(expense)		67	(119)
(Loss)/profit for the year		(407)	218
(Loss)/profit attributable to:			
Owners of AGL Energy Limited		(408)	218
Non-controlling interests		1	–
		(407)	218
Earnings per share			
Basic earnings per share		(60.5 cents)	33.3 cents
Diluted earnings per share		(60.4 cents)	33.3 cents

AGL Energy Limited and controlled entities

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2016

	Note	2016 $m	2015 $m
(Loss)/profit for the year		**(407)**	218
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement (loss)/gain on defined benefit plans		**(111)**	135
Income tax relating to items that will not be reclassified subsequently		**33**	(40)
		(78)	95
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges			
Gain/(loss) in fair value of cash flow hedges		**12**	(22)
Reclassification adjustments transferred to profit or loss		**29**	94
Share of other comprehensive income of a joint venture		**(1)**	(14)
Reclassification of joint venture losses transferred to profit or loss on disposal of investment	7	**15**	–
Income tax relating to items that may be reclassified subsequently		**(12)**	(22)
		43	36
Other comprehensive income for the year, net of income tax		**(35)**	131
Total comprehensive income for the year		**(442)**	349
Total comprehensive income attributable to:			
Owners of AGL Energy Limited		**(443)**	349
Non-controlling interests		**1**	–
		(442)	349

AGL Energy Limited and controlled entities

Consolidated Statement of Financial Position

As at 30 June 2016

	2016 $m	2015 $m
Current assets		
Cash and cash equivalents	252	259
Trade and other receivables	1,975	1,894
Inventories	414	396
Other financial assets	267	156
Other assets	232	262
	3,140	2,967
Assets classified as held for sale	447	492
Total current assets	3,587	3,459
Non-current assets		
Trade and other receivables	44	44
Inventories	30	32
Other financial assets	147	596
Investments in associates and joint ventures	70	91
Exploration and evaluation assets	–	130
Oil and gas assets	47	544
Property, plant and equipment	6,482	6,958
Intangible assets	3,232	3,266
Deferred tax assets	953	682
Other assets	12	31
Total non-current assets	11,017	12,374
Total assets	14,604	15,833
Current liabilities		
Trade and other payables	1,519	1,377
Borrowings	22	443
Provisions	226	191
Current tax liabilities	102	86
Other financial liabilities	460	269
Other liabilities	–	7
	2,329	2,373
Liabilities directly associated with assets classified as held for sale	224	–
Total current liabilities	2,553	2,373
Non-current liabilities		
Borrowings	3,086	3,439
Provisions	487	456
Other financial liabilities	301	387
Other liabilities	251	363
Total non-current liabilities	4,125	4,645
Total liabilities	6,678	7,018
Net assets	7,926	8,815
Equity		
Issued capital	6,696	6,696
Reserves	(24)	(65)
Retained earnings	1,243	2,175
Total equity attributable to owners of AGL Energy Limited	7,915	8,806
Non-controlling interests	11	9
Total equity	7,926	8,815

AGL Energy Limited and controlled entities

Consolidated Statement of Changes in Equity

For the year ended 30 June 2016

	Attributable to owners of AGL Energy Limited						
	Issued capital $m	Employee equity benefits reserve $m	Hedging reserve $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
Balance at 1 July 2015	**6,696**	**3**	**(68)**	**2,175**	**8,806**	**9**	**8,815**
Loss for the year	–	–	–	(408)	(408)	1	(407)
Other comprehensive income for the year, net of income tax	–	–	43	(78)	(35)	–	(35)
Total comprehensive income for the year	–	–	43	(486)	(443)	1	(442)
Transactions with owners in their capacity as owners:							
Issue of ordinary shares	–	–	–	–	–	1	1
Payment of dividends	–	–	–	(446)	(446)	–	(446)
Share-based payments	–	(2)	–	–	(2)	–	(2)
Balance at 30 June 2016	**6,696**	**1**	**(25)**	**1,243**	**7,915**	**11**	**7,926**
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

AGL Energy Limited and controlled entities

Consolidated Statement of Cash Flows

For the year ended 30 June 2016

	Note	2016 $m	2015 $m
Cash flows from operating activities			
Receipts from customers		11,903	11,587
Payments to suppliers and employees		(10,397)	(10,236)
Dividends received		19	32
Finance income received		13	24
Finance costs paid		(186)	(216)
Income taxes paid		(166)	(147)
Net cash provided by operating activities		1,186	1,044
Cash flows from investing activities			
Payments for property, plant and equipment		(533)	(744)
Payments for exploration and evaluation assets		(7)	(34)
Payments for oil and gas assets		(6)	(28)
Payments for investments in associates and joint ventures		(30)	(80)
Payments for businesses and subsidiaries, net of cash acquired			
acquisitions in current period		–	(1,348)
acquisitions in prior periods		(33)	(32)
Government grants received		8	32
Proceeds from sale of property, plant and equipment		8	6
Proceeds from sale of exploration and evaluation assets		1	–
Proceeds from sale of businesses and subsidiaries, net of cash disposed	7	673	–
Loans advanced to related parties		–	(3)
Proceeds from repayment of related party loans		–	56
Net cash provided by/(used in) investing activities		81	(2,175)
Cash flows from financing activities			
Proceeds from issue of shares, net of transaction costs		–	1,210
Proceeds from issue of shares to non-controlling interests		1	8
Purchase of shares on-market for equity based remuneration		(8)	(7)
Proceeds from borrowings		550	2,647
Repayment of borrowings		(1,371)	(2,580)
Payments for settlement of derivative financial instruments		–	(10)
Dividends paid		(446)	(344)
Net cash (used in)/provided by financing activities		(1,274)	924
Net decrease in cash and cash equivalents		(7)	(207)
Cash and cash equivalents at the beginning of the financial year		259	466
Cash and cash equivalents at the end of the financial year		252	259

AGL Energy Limited and controlled entities

Notes to the Concise Financial Statements

For the year ended 30 June 2016

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 2016. 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 Interpretations that are relevant to its operations and effective for the current reporting period.

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

Note 3 – Segment information

Operating segments

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

AGL's segment results are viewed as four interrelated segments collectively servicing our customer's needs. AGL's segments are:

> **Energy Markets** sells electricity, natural gas, and energy related products and services to Consumer Market, Business and Wholesale Customers, currently servicing approximately 3.7 million customer accounts. Energy Markets is also responsible for managing the wholesale risks associated with satisfying the customer requirements across the portfolios.

> **Group Operations** is a diverse power generation portfolio, spread across traditional thermal and renewable generation including hydro, wind and solar. Group Operations also undertakes natural gas extraction and production (business operations we plan to exit) and gas storage operations.

> **New Energy** is responsible for driving AGL's capabilities in taking new and distributed technologies to market in Australia. The business unit comprises New Energy Services, which includes AGL Solar and commercial and industrial customer energy solutions; and Distributed Energy Services, including AGL's portfolio of low emission and renewable generation assets and Active Stream, AGL's digital meter installation and data provider business.

> **Investments** include equity accounted investments in various energy related business, including the ActewAGL Retail Partnership, Solar Analytics Pty Ltd, Sunverge Energy, Inc. and Diamantina Holding Company Pty Limited prior to its disposal.

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

Segment financial results

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

AGL operates as an integrated business and uses a portfolio approach to manage the operations and assets to drive value and efficiency across the business. AASB 8 requires AGL to report segment information on the same basis as the internal management structure. As a result the Energy Markets segment, which is responsible for AGL's sales and managing risks associated with gas and electricity requirements, reports the revenue and margin associated with satisfying the gas and electricity requirements of AGL's wholesale, consumer and business customer portfolio. In contrast, the Group Operations segment is responsible for managing and maintaining AGL's portfolio of electricity generation assets, natural gas and gas storage assets, and reports the majority of expenses associated with these operations.

For the purposes of reviewing the carrying values of AGL assets via impairment testing, the segments impute a revenue transfer between Energy Markets and Group Operations. Revenues are derived to approximate prices similar to transactions with third parties.

2016	Energy Markets $m	Group Operations $m	New Energy $m	Investments $m	Other $m	Total $m
Revenue						
Total segment revenue	10,937	161	123	–	1	11,222
Inter-segment revenue	(14)	(30)	(28)	–	–	(72)
External revenue	10,923	131	95	–	1	11,150
Earnings before interest, tax, depreciation and amortisation (EBITDA)	2,385	(523)	(3)	25	(195)	1,689
Depreciation and amortisation	(99)	(331)	(18)	–	(30)	(478)
Operating EBIT	2,286	(854)	(21)	25	(225)	1,211
Net financing costs						(222)
Underlying profit before income tax						989
Income tax expense						(287)
Non-controlling interests						(1)
Underlying profit						701
Segment assets	5,156	7,572	172	68	92	13,060
Segment liabilities	1,540	967	38	–	162	2,707
Other segment information						
Share of profits of associates and joint ventures	–	1	–	25	–	26
Investments in associates and joint ventures	–	2	–	68	–	70
Additions to non-current assets	57	474	43	30	14	618
Other non-cash expenses	(73)	–	–	–	(6)	(79)

2015	Energy Markets $m	Group Operations $m	New Energy $m	Investments $m	Other $m	Total $m
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)

Note 3 – Segment information (continued)

	Note	2016 $m	2015 $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		**11,221**	10,739
Elimination of inter-segment revenue		**(72)**	(61)
Total revenue for reportable segments		**11,149**	10,678
Other		**1**	–
Total revenue		**11,150**	10,678
Revenue from major products and services			
The following is an analysis of AGL's revenue from its major products and services:			
Electricity		**5,779**	6,175
Gas		**2,649**	2,755
Generation sales to pool		**2,370**	1,438
Other goods and services		**352**	310
Total revenue		**11,150**	10,678
Segment Operating EBIT reconciliation to the statement of profit or loss			
Reconciliation of segment Operating EBIT to (loss)/profit before tax is as follows:			
Operating EBIT for reportable segments		**1,436**	1,362
Other		**(225)**	(236)
		1,211	1,126
Amounts excluded from underlying results:			
– (loss)/gain in fair value of financial instruments		**(595)**	237
– significant items	6	**(868)**	(792)
Finance income included in Operating EBIT		**(4)**	(4)
Finance income		**18**	20
Finance costs		**(236)**	(250)
(Loss)/profit before tax		**(474)**	337

	2016 $m	2015 $m
Segment assets reconciliation to the statement of financial position		
Reconciliation of segment assets to total assets is as follows:		
Segment assets for reportable segments	**12,968**	14,119
Other	**92**	117
	13,060	14,236
Cash and cash equivalents	**252**	259
Deferred tax assets	**953**	682
Derivative financial instruments	**339**	656
Total assets	**14,604**	15,833
Segment liabilities reconciliation to the statement of financial position		
Reconciliation of segment liabilities to total liabilities is as follows:		
Segment liabilities for reportable segments	2,545	2,276
Other	162	118
	2,707	2,394
Borrowings	3,108	3,882
Current tax liabilities	102	86
Derivative financial instruments	435	252
Deferred consideration and other contractual liabilities	326	404
Total liabilities	6,678	7,018

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 per cent or more of AGL's total external revenue (2015: none).

Note 4 – Revenue

	2016 $m	2015 $m
Revenue from sale of goods	**10,971**	10,533
Revenue from rendering of services	**179**	145
	11,150	10,678

Note 5 – Dividends

	2016 $m	2015 $m
Recognised amounts		
Final dividend		
Final dividend for 2015 of 34.0 cents per share, fully franked at 30%, paid 24 September 2015 (2015: Final dividend for 2014 of 33.0 cents per share, fully franked at 30%, paid 30 September 2014)	**230**	185
Interim dividend		
Interim dividend for 2016 of 32.0 cents per share, fully franked at 30%, paid 16 March 2016 (2015: Interim dividend for 2015 of 30.0 cents per share, fully franked, paid 25 March 2015)	**216**	202
Total dividends	**446**	387
Dividends satisfied by the issue of shares under the AGL Dividend Reinvestment Plan	**–**	(43)
Dividends paid as per the statement of cash flows	**446**	344
Unrecognised amounts		
Since the end of the financial year, the Directors have declared a final dividend for 2016 of 36.0 cents per share, fully franked at 30%, (2015: 34.0 cents fully franked), payable 22 September 2016.	**243**	230

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 2017 financial year.

Dividend reinvestment plan

The AGL Dividend Reinvestment Plan (DRP) will operate in respect of the dividend. Shares will be bought on-market and allotted at no discount to the simple average of the daily weighted average market price at which AGL's ordinary shares are traded on the ASX during each of the 10 trading days commencing on 29 August 2016. The last date for shareholders to elect to participate in the DRP for the FY16 final dividend is 5pm on 26 August 2016.

	2016 $m	2015 $m
Dividend franking account		
Adjusted franking account balance	**52**	57
Impact on franking account balance of dividends proposed after the reporting date but not recognised as a liability	**(104)**	(98)

Note 6 – Significant items

More information on significant items is contained in the Operating and Financial Review contained in the Directors' Report.

The loss for the year includes the following significant items.

Impairment loss and exit charges

On 4 February 2016, AGL announced that following a review of its natural gas assets (Upstream Gas), it has taken a strategic decision that exploration and production of natural gas assets will no longer be a core business for the company due to the volatility of commodity prices and long development lead times.

As a result, AGL has recognised an impairment of $640 million after tax (2015: $435 million).

Organisational restructuring costs

Following the new operating model announced on May 2015, AGL has undertaken significant restructuring throughout the year as all levels of the Company's management and staff were aligned to this model. AGL has also chosen to exit certain non-core business and home services activities. As a result, AGL has recognised restructuring costs of $60 million after tax (2015: $18 million).

Asset disposals and acquisitions

During the year, AGL sold its interest in the Macarthur Wind Farm joint venture and Diamantina Power Station joint venture, recognising gains on disposal of $5 million and $3 million after tax respectively (2015: $nil).

There were no acquisitions during the year.

In 2015, AGL acquired the Macquarie Generation assets and recorded $117 million after tax of acquisition related costs after tax.

Other

There were no other significant items during the year (2015: $8 million after tax).

Note 7 – Disposal of subsidiaries and businesses

2016

Disposal of Macarthur Wind Farm Pty Ltd

On 7 September 2015, AGL completed the disposal of its 50% participating interest in the Macarthur Wind Farm joint venture to H.R.L. Morrison & Co managed funds for a consideration of $532 million. The divestment included the disposal of 100% of the shares in Macarthur Wind Farm Pty Ltd and MWF Finance Pty Ltd.

Disposal of AGL DPS Pty Limited

On 31 March 2016, AGL completed the disposal of its 50% interest in the Diamantina Power Station (DPS) joint venture to APA Group for a consideration of $151 million. The divestment included the disposal of 100% of the shares in AGL DPS Pty Limited.

The major classes of assets and liabilities disposed were as follows:

	MWF $m	DPS $m	2016 $m
Assets			
Other financial assets	–	81	81
Investments in associates and joint ventures	–	52	52
Property, plant and equipment	491	–	491
Liabilities			
Deferred tax liabilities	(1)	–	(1)
Net assets disposed	490	133	623
Consideration			
Consideration received in cash	532	151	683
Consideration receivable	2	–	2
Costs directly attributable to the disposal	(10)	–	(10)
Liability assumed	(27)	–	(27)
	497	151	648
Gain on disposal of subsidiaries and businesses			
Consideration	497	151	648
Net assets disposed	(490)	(133)	(623)
	7	18	25
Cumulative loss reclassified from equity on disposal	–	(15)	(15)
	7	3	10
Net cash inflow on disposal of subsidiaries and businesses			
Consideration received in cash	532	151	683
Costs directly attributable to the disposal paid	(10)	–	(10)
	522	151	673

2015

There were no disposals of subsidiaries and businesses made during the year ended 30 June 2015.

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:

Powering Australian Renewables Fund

On 27 July 2016, AGL announced QIC, on behalf of its clients the Future Fund and those invested in the QIC Global Infrastructure Fund, as its equity partner in the $2-3 billion Powering Australian Renewables Fund (PARF).

PARF is a landmark partnership created by AGL to develop, own and manage approximately 1,000 MW of large-scale renewable energy infrastructure assets and projects. QIC on behalf of its managed clients including the Future Fund will provide $800 million and AGL will provide $200 million in equity funding to PARF.

The PARF expects to acquire AGL's existing 102 MW Nyngan and 53 MW Broken Hill solar plants as seed assets. It is anticipated that AGL's proposed wind farms in Silverton (up to 200 MW) in New South Wales and Coopers Gap (up to 350 MW) in Queensland will be the first two projects offered to the PARF.

Final dividend

On 10 August 2016, the Directors of AGL resolved to pay a fully franked final dividend of 36.0 cents per share, amounting to $243 million. The record date for the final dividend is 25 August 2016 with payment to be made on 22 September 2016. Shares will commence trading ex-dividend on 24 August 2016.

The AGL Dividend Reinvestment Plan (DRP) will operate in respect of the dividend. Shares will be bought on-market and allotted at no discount to the simple average of the daily weighted average market price at which AGL's ordinary shares are traded on the ASX during each of the 10 trading days commencing on 29 August 2016. The last date for shareholders to elect to participate in the DRP for the FY16 final dividend is 5pm on 26 August 2016.

Directors' Declaration

For the year ended 30 June 2016

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, 10 August 2016

To the Directors of AGL Energy Limited

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

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Deloitte.

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

10 August 2016

Dear Board Members

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 2016, 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

Report of the Independent Auditor to the Members of AGL Energy Limited

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

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Report on the Concise Financial Report

Opinion

The Concise Financial Report, which comprises the Consolidated Statement of Financial Position as at 30 June 2016, 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, are derived from the audited financial report of AGL Energy Limited for the year ended 30 June 2016.

In our opinion, the Concise Financial Report complies with Accounting Standard AASB 1039 *Concise Financial Reports*.

Concise Financial Report

The Concise Financial Report does not contain all the disclosures required by the Australian Accounting Standards. Reading the Concise Financial Report and the auditor's report thereon, therefore, is not a substitute for reading the audited financial report and the auditor's report thereon. The Concise Financial Report and the audited financial report do not reflect the effects of events that occurred subsequent to the date of our report on the audited financial report.

The Audited Financial Report and Our Report Thereon

We expressed an unmodified audit opinion on the audited financial report in our report dated 10 August 2016. That report also includes the communication of key audit matters. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the year ended 30 June 2016. We set out below the matters that were key audit matters. All note references below are to the notes in the financial report.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Unbilled revenue Unbilled revenue of $1,032 million disclosed in Note 11 represents the value of electricity and gas supplied to customers between the date of the last meter reading and the reporting date where no bill has been issued by AGL to the customer at the end of the reporting period. Detailed financial models utilising estimates of the electricity and gas consumption of AGL's customers and applicable pricing are used to determine the estimate of unbilled revenue. We focused on this area as it involves significant management judgement to estimate customer consumption between the last invoice date and the end of the reporting period to determine the gas and electricity unbilled revenue at the reporting date.	Our procedures included but were not limited to: > obtaining an understanding of the key controls management has in place to determine the estimate of unbilled revenue; > understanding and challenging management's assumptions relating to volume and pricing used in determining the level of estimated revenue by: – on a sample basis agreeing volume data underlying the calculation of the estimated volumes into purchases, sales and other systems having performed sample testing of the key controls in those systems; and – comparing the prices applied with historical and current data; and > in conjunction with our data analytics experts we calculated an independent estimate of the expected unbilled revenue on an individual meter basis using AGL's purchase volumes and pricing data and compared our independent estimate to AGL's reported unbilled revenue. We also considered the adequacy of the Group's disclosures in respect of unbilled revenue.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Unbilled distribution costs AGL recognises distribution costs as gas and electricity is delivered to the customer. Management estimates energy consumption between the date of the last invoice from the distributor to AGL and the end of the reporting period when determining distribution costs for the financial year. Detailed financial models utilising estimates of the electricity and gas consumption of AGL's customers and applicable distribution tariff rates are used to determine the estimated unbilled distribution costs accrual of $453 million as disclosed in Note 21. We focused on this area as it involves significant management judgement to estimate consumption between the last invoice date from the individual distributors and the end of the reporting period to determine distribution costs payable at the reporting date.	Our procedures included but were not limited to: > obtaining an understanding of the key controls management has in place to determine the estimate of the unbilled distribution costs accrual; > understanding and challenging management's assumptions relating to volume and tariffs used in determining the distribution costs accrual by: – on a sample basis agreeing volume data underlying the calculation of the estimated volumes into purchases, sales and other systems having performed sample testing of the key controls in those systems; and – comparing the prices applied by individual distributors with current tariff tables; and > in conjunction with our data analytics experts we assessed the appropriateness of AGL's unbilled distribution costs accrual at 30 June 2016 by calculating an independent expectation of the accrual on an individual meter basis utilising information supplied to AGL by individual distributors and compared our independent estimate to AGL's reported distribution costs payable. We also considered the adequacy of the Group's disclosures in respect of unbilled distribution costs.
Carrying value of property, plant and equipment and intangible assets, including goodwill Property, plant and equipment totaling $6,482 million as disclosed in Note 18 and intangible assets totaling $3,232 million which includes goodwill of $2,791 million as disclosed in Note 19 represent significant balances recorded in the consolidated statement of financial position. The evaluation of the recoverable amount of these assets requires significant judgement in determining the key assumptions supporting the expected future cash flows of the business and the utilisation of the relevant assets.	Our procedures included but were not limited to: > obtaining an understanding of the key controls associated with the preparation of the valuation models used to assess the recoverable amount of AGL's cash generating units; > critically evaluating management's methodologies and their documented basis for key assumptions utilised in the valuation models which are described in Note 19; > in conjunction with our valuation experts we assessed and challenged: – the identification of cash generating units, including the allocation of goodwill and property, plant and equipment and the associated identification and allocation of cash flows for the purposes of assessing the recoverable amount of the cash generating units; – the key assumptions for long-term growth rates in the forecast cash flows by comparing them to historical results, economic and industry forecasts; and – the discount rate applied; > we checked the mathematical accuracy of the cash flow models, agreed forecast cash flows to the latest Board approved forecasts and assessed the historical accuracy of forecasting by AGL; > we performed sensitivity analyses around the key drivers of growth rates used in the cash flow forecasts and the discount rate used; and > we assessed management's consideration of the sensitivity to a change in key assumptions that either individually or collectively would be required for assets to be impaired and considered the likelihood of such a movement in those key assumptions arising. We have also assessed the appropriateness of the disclosures included in Notes 1, 18 and 19 to the financial report.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Carrying value of natural gas assets On 4 February 2016, AGL announced that following a review of its natural gas assets, it had taken a strategic decision that exploration and production of natural gas assets would no longer be a core business for the company. The company's decision was influenced by a number of factors including the volatility of commodity prices and long development lead times, the fall in global oil prices with a consequent effect on long-term gas prices and the lower than expected production volumes from pilot wells at the Gloucester Gas Project. As a result AGL conducted a review of its natural gas carrying values and recognised an impairment of $795 million before tax ($640 million after tax) in respect of these assets (as disclosed in Note 8). We focused on this area because the assessment to determine whether an impairment charge was necessary involved significant judgements by management about the future results of the natural gas business, the utilisation of the relevant assets and the anticipated cost of any rehabilitation.	Our procedures included but were not limited to: > obtaining an understanding of the key processes associated with management's review of the natural gas asset carrying values; > where there were indicators of impairment we utilised our valuation experts to assist us in assessing the following key assumptions underlying the forecast cash flows and their respective impact on the carrying value of the assets: – forecast gas prices; – forecast gas production capacity; – project commencement and commencement of gas delivery; – anticipated cost of rehabilitation; – capital expenditure estimates; and – discount rate. We have also assessed the appropriateness of the disclosures included in Note 8 to the financial report.
Financial instruments AGL enters into various financial instruments including derivative financial instruments to hedge the company's exposure to variability in interest rates, foreign exchange movements and energy prices. As at 30 June 2016, derivative financial assets totaled $339 million (current assets of $192 million and non-current assets of $147 million) as disclosed in Note 13 and derivative financial liabilities totaled $435 million (current liabilities of $356 million and non-current liabilities of $79 million) as disclosed in Note 24. These financial instruments are recorded at fair value as required by the relevant accounting standard. We have focused on this area due to the complexities associated with the valuation and accounting for these financial instruments.	Our procedures included but were not limited to: > obtaining an understanding of the internal risk management procedures and the systems and controls associated with the origination and maintenance of complete and accurate information relating to derivative contracts; > utilising our treasury experts we also tested on a sample basis the existence and valuation of derivative contracts as at 30 June 2016. Our audit procedures focused on the integrity of the derivative valuation models and the incorporation of the contract terms and the key assumptions, including future price assumptions and discount rates; and > obtaining an understanding of key financial instrument contract terms to assess the appropriateness of accounting reflected in the financial report. We have also assessed the appropriateness of the disclosures included in Note 41 to the financial report.
Electricity hedging contract AGL has a long-term electricity hedging contract to supply electricity at a fixed price for the period November 2016 to December 2036. In the current year the counterparties have provided AGL with claims (in accordance with the terms of the contract) which potentially allow the counterparties to cancel the contract. This reduces the likelihood that the contract will run to its full term. AGL has reassessed the fair value of the contract by reference to the remaining term (following receipt of the claims) to be $33 million at 30 June 2016 and as a result has recorded a decrease in fair value of $349 million. The balance of $33 million is included in Other financial assets –current and non-current energy derivatives – economic hedges in Note 13. We focused on this area because the estimation of the fair value of this derivative contract involves management judgement to estimate the probability weighted risk of the ongoing viability of the contract.	Our procedures included but were not limited to: > obtaining an understanding of the processes used by management to assess the ongoing viability of the contract including management's assessment of the claims which potentially allow the counterparties to cancel the contract; and > utilising our treasury experts to assist in testing the valuation of the contract as at 30 June 2016 taking into account the remaining contractual term. We have also assessed the appropriateness of the disclosures included in Note 41 to the financial report.
Deferred tax asset relating to tax losses As disclosed in Note 9, at 30 June 2016 the Group has recorded a deferred tax asset of $861 million relating to tax losses incurred by the subsidiary AGL Loy Yang. The recoverability of this deferred tax asset is dependent on the generation of sufficient future taxable profit to utilise these tax losses. Significant judgement is required in forecasting future taxable profit.	We have assessed and challenged management's judgements relating to the forecasts of future taxable profit and evaluated the reasonableness of the assumptions underlying the preparation of these forecasts. We have also assessed the appropriateness of the disclosures included in Note 9 in respect of current and deferred tax balances.

Responsibilities of the Directors 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 management determines is necessary to enable the preparation of the Concise Financial Report.

The Directors are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibility

Our responsibility is to express an opinion on whether the Concise Financial Report, complies in all material respects, with AASB 1039 *Concise Financial Reports* based on our procedures, which were conducted in accordance with Auditing Standard ASA 810 *Engagements to Report on Summary Financial Statements.*

Report on the Remuneration Report

The following paragraphs are copied from our Report on the Remuneration Report for the year ended 30 June 2016.

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 41 to 58 of the Directors' Report for the year ended 30 June 2016.

In our opinion, the Remuneration Report of AGL Energy Limited, for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001.*

Responsibilities

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.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

G. Couttas

G Couttas
Partner
Chartered Accountants

Sydney, 10 August 2016

The following information is provided regarding the Issued Capital of AGL as at 10 August 2016:

1. The Issued Capital consisted of 674,712,378 fully-paid ordinary shares.
2. There were 108,189 holders of these ordinary shares.
3. There were 2,283 holders of less than a marketable parcel of 26 shares.
4. The distribution of holders was:

	NO. OF HOLDERS	%
1 – 1,000	52,929	48.92
1,001 – 5,000	45,184	41.76
5,001 – 10,000	6,692	6.19
10,001 – 100,000	3,284	3.04
100,001 and over	100	0.09
	108,189	**100**

5. The location of holders was:

LOCATION	NO. OF HOLDERS	%	NO. OF SHARES	%
Australia	104,981	97.03	664,652,232	98.51
Hong Kong	46	0.04	86,981	0.01
New Zealand	2,245	2.08	8,912,792	1.32
United Kingdom	299	0.28	400,744	0.06
USA and Canada	446	0.41	397,455	0.06
Others	172	0.16	262,174	0.04
	108,189	**100**	**674,712,378**	**100**

6. The class of holders was:

CLASS OF HOLDER	NO. OF HOLDERS	%	NO. OF SHARES	%
Individuals	73,565	68.00	144,296,565	21.39
Companies and other	34,624	32.00	530,415,813	78.61
	108,189	**100**	**674,712,378**	**100**

7. The twenty largest holders held 60.86% of the Issued Capital:

TWENTY LARGEST HOLDERS AS AT 10 AUGUST 2016	FULLY-PAID ORDINARY SHARES	% OF TOTAL ISSUED SHARES
HSBC Custody Nominees (Australia) Limited	137,829,613	20.43
J P Morgan Nominees Australia Limited	94,089,009	13.95
National Nominees Limited	59,810,897	8.86
Citicorp Nominees Pty Limited	38,210,400	5.66
BNP Paribas Nominees Pty Limited	20,292,270	3.01
Citicorp Nominees Pty Limited	10,788,675	1.60
RBC Investor Services Australia Nominees Pty Limited	9,373,929	1.39
AMP Life Limited	6,742,568	1.00
Australian Foundation Investment Company Limited	5,589,789	0.83
BNP Paribas Nominees Pty Limited	4,361,601	0.65
Argo Investments Limited	3,650,000	0.54
Custodial Services Limited	3,531,663	0.52
RBC Investor Services Australia Nominees Pty Limited	2,715,128	0.40
HSBC Custody Nominees (Australia) Limited	2,698,313	0.40
Milton Corporation Limited	2,677,869	0.40
CS Fourth Nominees Pty Limited	2,643,980	0.39
IOOF Investment Management Limited	1,537,743	0.23
Navigator Australia Limited	1,444,375	0.21
Carlton Hotel Limited	1,355,356	0.20
Gwynvill Investments Pty Limited	1,263,150	0.19
	410,606,328	**60.86**

The following information is provided regarding the Subordinated Notes of AGL as at 10 August 2016:

1. There were 6,500,000 Subordinated Notes.
2. There were 10,182 holders of these Subordinated Notes.
3. There were nine holders of less than a marketable parcel of 5 Subordinated Notes.
4. The distribution of holders was:

	NO. OF HOLDERS	%
1 – 1,000	9,602	94.30
1,001 – 5,000	522	5.13
5,001 – 10,000	32	0.31
10,001 – 100,000	19	0.19
100,001 and over	7	0.07
	10,182	**100**

5. The location of holders was:

LOCATION	NO. OF HOLDERS	%	NO. OF NOTES	%
Australia	10,109	99.28	6,347,724	97.66
Hong Kong	5	0.05	9,700	0.15
New Zealand	28	0.27	27,618	0.42
Taiwan	3	0.03	92,725	1.43
United Kingdom	7	0.07	4,104	0.06
Others	30	0.29	18,129	0.28
	10,182	**100**	**6,500,000**	**100**

6. The class of holders was:

CLASS OF HOLDER	NO. OF HOLDERS	%	NO. OF NOTES	%
Individuals	3,235	31.77	1,256,457	19.33
Companies and other	6,947	68.23	5,243,543	80.67
	10,182	**100**	**6,500,000**	**100**

7. The twenty largest holders held 35.75% of the Subordinated Notes:

TWENTY LARGEST HOLDERS AS AT 10 AUGUST 2016	SUBORDINATED NOTES	% OF TOTAL NOTES
Citicorp Nominees Pty Limited	413,750	6.37
HSBC Custody Nominees (Australia) Limited	296,320	4.56
IOOF Investment Management Limited	245,210	3.77
National Nominees Limited	227,519	3.50
J P Morgan Nominees Australia Limited	191,281	2.94
National Nominees Limited <DB A/C>	160,591	2.47
BNP Paribas Nominees Pty Limited	140,572	2.16
Mr Ting-Tzu Kuo	90,000	1.38
Australian Executor Trustees Limited	89,074	1.37
Navigator Australia Limited	79,945	1.23
Nulis Nominees (Australia) Limited	67,217	1.03
RBC Investor Services Australia Nominees Pty Limited	65,176	1.00
IOOF Investment Management Limited <N A/C>	50,078	0.77
National Nominees Limited <N A/C>	46,649	0.72
HSBC Custody Nominees (Australia) Limited – A/C 2	42,402	0.65
Longhurst Management Services Pty Ltd	36,000	0.55
Citicorp Nominees Pty Limited	28,050	0.43
Edsgear Pty Limited	20,400	0.31
Netwealth Investments Limited	19,540	0.30
Sellers Holdings Pty Limited	15,290	0.24
	2,325,064	**35.75**

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 36.0 cents per share fully franked, will be paid on 22 September 2016. 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 allocated under the Plan, free of transaction costs. The rate of discount, if any, applied to shares allocated under the Plan will be determined by the Directors at the time each dividend is declared. A zero discount was applied to the 2016 interim dividend and the same will apply to the 2016 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

The Corporations Act requires AGL to 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

John Fitzgerald BA MA LLB

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

*In October 2016, AGL's Registered Office will move to: 200 George St, Sydney, NSW, 2000

Locked bag 1837
St Leonards NSW 2065

Telephone:	02 9921 2999
Fax:	02 9921 2552
Web:	**agl.com.au**

Annual General Meeting Details

AGL's Annual General Meeting will be held at the Sydney Recital Hall, commencing at 10:30am on Wednesday 28 September 2016. Full details are available in the Notice of Meeting or on AGL's website **agl.com.au/agm**

Financial Calendar

10 August 2016
2016 full year result and final dividend announced

24 August 2016
Ex-dividend trading commences

25 August 2016
Record date for 2016 final dividend

22 September 2016
Final dividend payable

28 September 2016
Annual General Meeting

9 February 2017
2017 interim result and interim dividend announced (indicative)

10 August 2017
2017 full year result and final dividend announced (indicative)

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