AGL Energy Limited
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Energy in action.®

ASX Release

Annual Report 2014

17 September 2014

AGL Energy Limited is about to commence dispatch of its Annual Report 2014. A copy is attached.

Paul McWilliams

Company Secretary

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About AGL

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

Solutions. Today & Tomorrow.

ANNUAL REPORT 2014

Energy in action®

Since 1837

AGL

Contents

AGL Financial Calendar

20 August 2014
2014 full year result & final dividend announced

2 September 2014
Ex-dividend trading commences

4 September 2014
Record date for 2014 final dividend

30 September 2014
Final dividend payable

23 October 2014
Annual General Meeting

February 2015
2015 interim result and interim dividend announced

August 2015
2015 full year result and final dividend announced

Annual General Meeting Details

AGL's Annual General Meeting will be held at the City Recital Hall, Angel Place, Sydney commencing at 10.30am on Thursday, 23 October 2014.

About this Report

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

Our 2014 Annual Report includes the concise Financial Report of AGL and its consolidated entities for the financial year ending 30 June 2014. AGL's Corporate Governance Statement is available online at **agl.com.au**. Copies of the AGL full Financial Report for the year can be downloaded from AGL's online Investor Centre at agl.com.au or shareholders can contact AGL's Share Registry to request a copy. See page 88 for contact details.

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

Solutions.
Today &
Tomorrow.

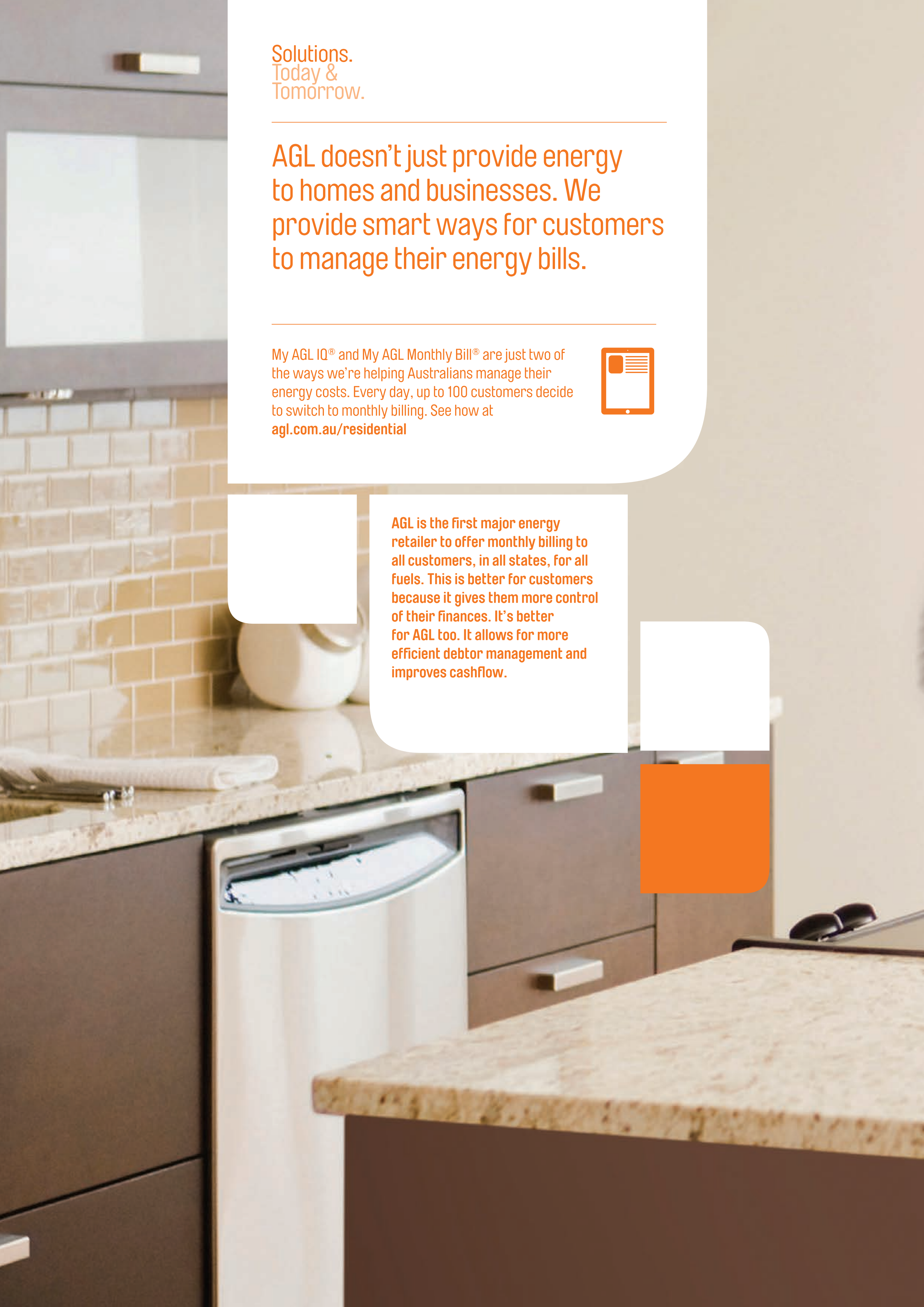
Providing innovative solutions for our customers is at the core of AGL.

Innovation has made AGL part of Australia's success story for over 175 years. Today, we're the largest private owner, operator and developer of renewable generation assets.

As a leading Australian company, we're also proud to support organisations such as The Smith Family, St Vincent de Paul Society, Cancer Council Australia and the Julian Burton Burns Trust.

Since creation in 1837, AGL has always asked the questions: what next? What technology will provide reliable energy to tomorrow's communities? And what can we do to help our customers manage their energy costs?

By pushing for answers we'll meet tomorrow's energy needs. Just as we're meeting the needs of over 3.8 million electricity and gas customers today.

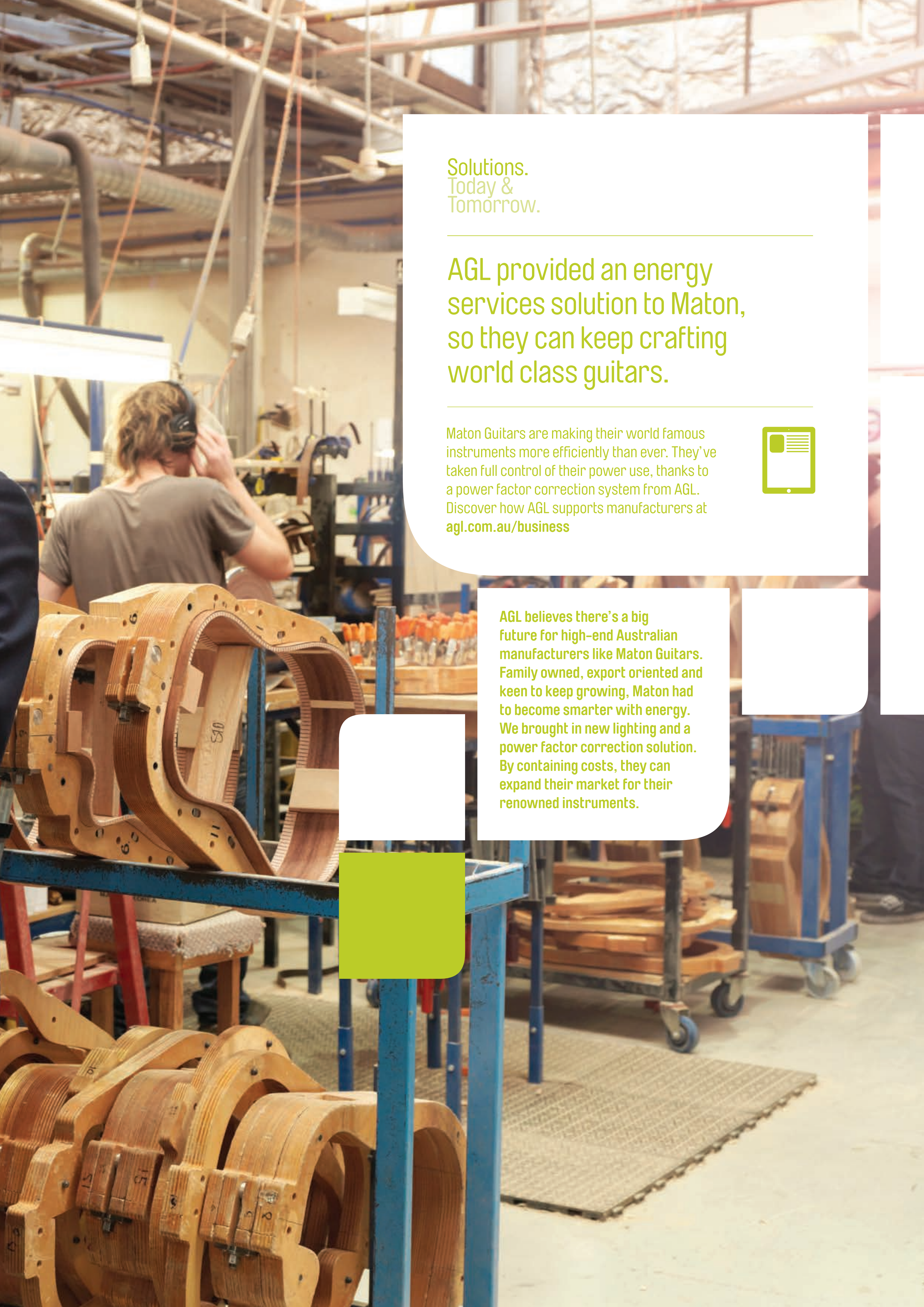


Solutions.
Today &
Tomorrow.

AGL doesn't just provide energy to homes and businesses. We provide smart ways for customers to manage their energy bills.

My AGL IQ® and My AGL Monthly Bill® are just two of the ways we're helping Australians manage their energy costs. Every day, up to 100 customers decide to switch to monthly billing. See how at **agl.com.au/residential**

AGL is the first major energy retailer to offer monthly billing to all customers, in all states, for all fuels. This is better for customers because it gives them more control of their finances. It's better for AGL too. It allows for more efficient debtor management and improves cashflow.



Solutions.
Today &
Tomorrow.

AGL provided an energy services solution to Maton, so they can keep crafting world class guitars.

Maton Guitars are making their world famous instruments more efficiently than ever. They've taken full control of their power use, thanks to a power factor correction system from AGL. Discover how AGL supports manufacturers at **agl.com.au/business**

AGL believes there's a big future for high-end Australian manufacturers like Maton Guitars. Family owned, export oriented and keen to keep growing, Maton had to become smarter with energy. We brought in new lighting and a power factor correction solution. By containing costs, they can expand their market for their renowned instruments.

Solutions.
Today &
Tomorrow.

We're setting a new direction for the transport industry with AGL Smart CNG.

AGL Smart CNG is Compressed Natural Gas. It's also a fuel for the future. It burns cleaner than most conventional fuels. For the transport sector, it means a smaller carbon footprint and lower operating costs. Learn more at **agl.com.au/business**

The transport sector is the second most energy intensive industry in Australia, with a rising proportion of our road transport sector fuelled by foreign crude and fuel imports. Smart CNG is a fuel product made specifically for the Australian transport and logistics industry. It's an innovation that brings efficiency and helps ensure the nation's long term energy security.


3
CNG

Our Highlights

Earnings were affected by record warm winter weather conditions and a continuing decline in consumer demand for energy. The successful acquisition of the Australian Power and Gas business added more than 350,000 new customers.

Total injury frequency rate

2.8

44% DECREASE

Employees (FTE)

2,680

2.7% DECREASE

Dual fuel customers

1.94M

15.9% INCREASE

Customers

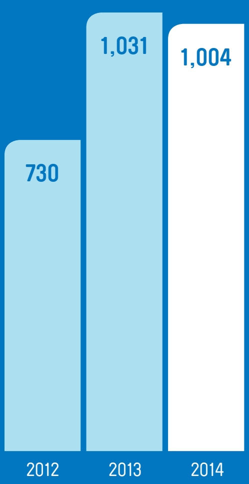
3.8M

8.0% INCREASE

Operating EBIT ($ million)

1,004

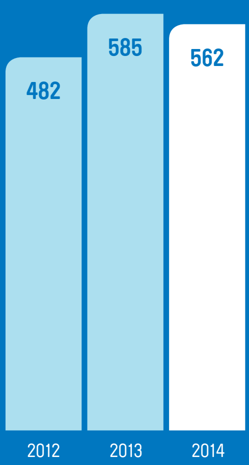
2.6% DECREASE



Underlying profit ($ million)

562

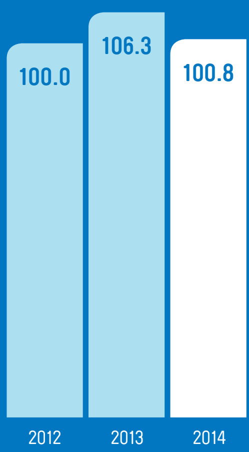
3.9% DECREASE



Earnings per share – underlying (cents)

100.8

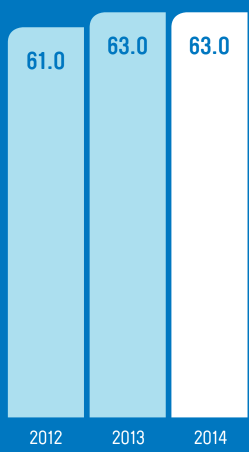
5.2% DECREASE



Dividends per share (cents)

63.0

0% CHANGE



Five Year Financial Summary

Year ended 30 June		2014	2013	2012	2011	2010
Profitability			(Restated)			
Revenue	$m	9,543	9,716	7,456	7,073	6,611
Statutory Profit	$m	570	375	115	559	356
Underlying Profit	$m	562	585	482	431	429
Financial position and cash flow						
Total assets	$m	13,975	13,366	14,738	9,696	8,691
Gearing (Net Debt/Net Debt + Equity)	%	29.8	27.9	26.3	6.9	6.7
Operating cashflow before interest, tax and significant items	$m	1,149	1,179	751	715	670
Shareholder value						
Statutory EPS	cents	102.2	68.2	23.8	118.5	76.8
Underlying EPS	cents	100.8	106.3	100.0	91.4	92.5
Dividends	cents	63.0	63.0	61.0	60.0	59.0
Operating EBIT/Funds Employed	%	10.0	10.5	9.2	8.9	9.4
Adjusted EBIT/Funds Employed	%	11.7	12.7	11.6	10.5	11.3
TSR	%	11.8	(1.1)	13.9	1.6	10.2
Employee						
Total injury frequency rate		2.8	5.9	6.6	5.0	2.7
Employee engagement score	%	77.0	77.0	70.0	54.0	62.0
General information						
2P reserves	PJ	1,891	1,729	2,070	2,089	1,578
3P reserves	PJ	3,526	3,326	3,812	3,640	3,372
Capital expenditure	$m	708	631	768	523	390
Generation capacity	MW	5,847	5,847	5,456	3,246	3,000
Customer Numbers						
– Electricity	"000	2,316	2,146	2,084	1,925	1,873
– Gas	"000	1,484	1,371	1,390	1,369	1,369
– Total	"000	3,800	3,517	3,474	3,294	3,242
– Dual fuel accounts	"000	1,942	1,676	1,623	1,472	1,362
Electricity sales volumes						
– Consumer	GWh	14,839	15,276	15,410	14,674	15,079
– Business	GWh	12,963	14,714	17,374	18,090	19,283
– Total	GWh	27,802	29,990	32,784	32,764	34,362
Gas sales volumes						
– Consumer	PJ	57.6	60.6	60.1	62.6	58.3
– Business	PJ	80.6	85.5	81.9	89.1	86.7
– Wholesale & Generation	PJ	66.0	55.0	48.8	64.5	65.9
– Total	PJ	204.2	201.1	190.8	216.2	210.9

Chairman and Managing Director's Report

A credible result under difficult industry conditions. The Company is well positioned for industry transformation ahead.

Financial results

The statutory net profit after tax of your company for the year ended 30 June 2014 was $570 million, an increase of 52 percent from last year. The increase in reported profit is slightly misleading as both current and prior year statutory profit included a number of significant items. A more useful measure of AGL's annual performance is underlying profit, which is statutory profit adjusted to exclude significant items and the effect of revaluing certain electricity hedge contracts AGL has entered into to purchase electricity.

AGL's underlying profit for the year was $562 million, which is a decrease of 3.9 percent on the prior year. Although it is disappointing that AGL's earnings haven't increased, this is a respectable result given the difficult trading conditions faced by all participants in the energy industry. In particular, current year earnings were affected by record warm winter weather conditions as well as a further decline in the average energy consumed by residential customers. The retail market for energy continues to be highly competitive which has resulted in customer churn levels and price discounting also remaining high.

We encourage both State and Federal Governments to adopt energy policies that keep pace with the changes to the industry, to allow consumers the best opportunity to cost efficiently manage their energy needs.

Dividend

The Board has declared a fully franked final dividend of 33.0 cents per share. Together with the interim dividend, this will bring the total dividend to 63.0 cents per share fully franked. The dividend per share is the same as in the prior year.

Progress against strategic objectives

For the last several years, AGL has pursued a vertical integration strategy. This has seen the Company make substantial investments in "upstream" energy production assets, such as power stations, to provide a platform for growth in earnings as well as a measure of risk mitigation to protect the value of AGL's "downstream" retail business.

In FY14, AGL made further progress in both the upstream and downstream elements of this strategy.

In the upstream part of the business the key initiative was the acquisition of the Macquarie Generation (MacGen) assets in New South Wales (NSW), completion of which occurred after the end of the financial year. At a cost of $1.5 billion, MacGen surpasses the acquisition of Loy Yang A power station and mine in 2012 as AGL's largest transaction since the demerger from Alinta in 2006. In approving such a large investment of capital, the Board considered there were three important strategic reasons for the acquisition. Firstly, MacGen is the lowest cost baseload electricity generator in NSW, with favourably priced long term coal supply agreements in place. This puts AGL in an excellent position to compete with other major energy retailers in NSW. Secondly, MacGen provides risk mitigation in NSW where AGL has a large electricity customer base but previously had minimal amounts of its own generation of electricity. Finally, the price paid represents good value based on conservative assumptions about future wholesale electricity prices and demand for electricity, with potential for significant earnings growth if the market outlook improves over the next few years. Even on conservative assumptions, the cash from the sale of electricity is expected to recover the capital cost in under nine years.

We are delighted to welcome more than 600 MacGen employees to our business. We will also look to work closely with local communities to maintain an asset that is important to the economic wellbeing of the Hunter region and to the State of NSW.

Increased integration of our gas business remains an important strategic objective. However, our ability to develop some sources of self-supplied gas has been constrained by amendments made earlier this year to the NSW Mining State Environmental Planning Policy. These policy changes in NSW will increase the reliance of AGL – and, indeed, the whole of NSW – on imported gas from producers in Victoria, South Australia and Queensland. This is expected to lead to a material increase in gas supply costs as well as potential gas shortages for large business customers.

We continue to forge ahead with our Gloucester Gas Project. We make significant efforts to engage with and support the communities that host our operational assets. We are pleased to report that substantial progress has been made in improving community engagement during the year.

In the downstream part of the business, we added 354,000 new customers following the acquisition and successful integration of Australian Power and Gas. We also brought to a successful conclusion a three year project to increase by 400,000 our electricity customer base in NSW. The outcome validates the view AGL formed at the inception of the project that an organic growth strategy would represent better value for shareholders than paying the substantial prices that would have been required to acquire one of the electricity retailers the state government was selling in 2011. Our national total of gas and electricity customer accounts now exceeds 3,800,000.

Energy Policy

Regrettably, the energy industry continues to be characterised by policy uncertainty that makes investment in energy assets a challenge.

AGL released modelling during the year highlighting a looming gas shortage in NSW from 2016, along with price rises to the level of international LNG prices, if gas supply in NSW is not increased. As mentioned earlier, the planning policy changes (which came into force in October 2013 and January 2014) restricted the development of a number of gas projects in NSW, including AGL's Camden North and Hunter projects and a part of the Gloucester project. These restrictions are expected to add pressure to gas supply costs as prices rise to the level of 'net-back' export gas prices. NSW businesses are right to be concerned about this situation.

Other areas of policy uncertainty that have continued during the year include the removal of the carbon tax in July 2014, after its introduction just two years earlier. We have informed the market that the removal of the carbon tax is expected to reduce AGL's earnings before interest and tax by approximately $186 million in FY15. This reduction in earnings, along with a reduction due to the closure of our Hydrocarbon Extraction unit at the Kurnell refinery, will be largely offset by improved performance in other parts of the business.

The Renewable Energy Target is also under review and the future of further development of large renewable generation assets is uncertain, as is Australia's long-term climate change policy. However, AGL has commenced construction at the Nyngan and Broken Hill Solar plants, which will be Australia's largest utility-scale solar projects once complete.

On a more positive note, we are pleased that, within 12 months, all east coast electricity retail markets are expected to be deregulated. This will result in vigorous and competitive markets, which will provide consumers with options to manage energy costs. The Power of Choice review released by the Australian Energy Market Commission also contains a suite of welcome reforms including moving network pricing principles to cost-reflective tariffs, rewarding consumers who change their consumption patterns, as well as expanding the opportunity for customers to have metered services.

The rapid take up of rooftop solar PV installations over the last few years has seen a scale shift towards decentralised electricity supply. Technology changes over the next decade are expected to increase the level of decentralisation by giving consumers more cost effective means to store energy using batteries. We encourage both State and Federal Governments to adopt energy policies that keep pace with the changes to the industry, to allow consumers the best opportunity to cost efficiently manage their energy needs while providing energy industry participants with the confidence to make investments in the long term energy infrastructure assets required to maintain security of energy supply.

Conclusion

Undoubtedly the energy industry is undergoing change. Emerging trends include more interested and active retail customers, rapidly advancing disruptive technologies such as solar and battery storage, shifts in policy and regulatory frameworks and declining centralised electricity demand.

Our position as a strong vertically integrated retailer provides the opportunity to manage these pressures to the existing business model as well as pursue new growth opportunities. As more options for energy supply and more sophisticated technologies become available to the Australian public, the challenge for AGL will be to provide a range of services to our customers to help them deal with the increased complexities of home and business energy supply. We are confident in our ability to leverage our strong industry position to adapt to the changes faced by the industry and build a platform for short and long term growth.

The current year's result is credible given the challenges for the industry overall. We would like to thank AGL's executive team and all AGL employees for their commitment and achievements. While we expect market conditions to remain challenging for some time, we are confident that AGL is well placed to meet those challenges and importantly to create new opportunities that are inevitable when an industry undergoes transformation.

Jeremy Maycock
Chairman

Michael Fraser
Managing Director and CEO

Divisional Highlights

Retail Energy

> Acquisition and integration of APG adds 354,000 new customer accounts.

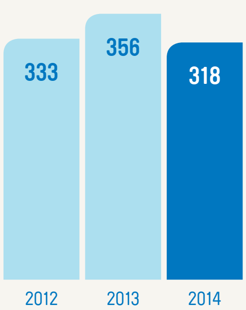
> Lower electricity margins due to record warm winter weather and continued decline in average energy consumption.

> Price discounts remain high due to competitive markets.

Operating EBIT ($ million)

$318M

10.7% DECREASE



Merchant Energy

> Higher generation from wind farms, including full year contribution from Macarthur Wind Farm.

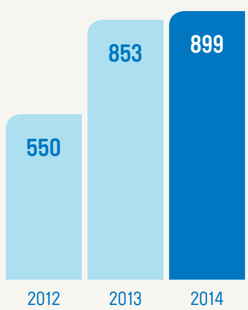
> Higher wholesale gas margins reflecting broader market increases in gas prices.

> Fall in Business Customer margins due to lower sales volumes and a competitive market.

Operating EBIT ($ million)

$899M

5.4% INCREASE



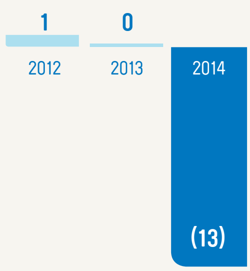
Upstream Gas

> NSW Office of Coal Seam Gas and Environment Protection Authority approvals received for pilot program as part of Gloucester Gas Project.

> Bowen Basin gas interests now held for sale.

Operating EBIT ($ million)

$(13)M



CEO Succession

Jerry Maycock's comments

AGL's Managing Director and Chief Executive Officer, Michael Fraser, informed the Board earlier this year of his intention to retire by 30 June 2015.

Over the term of his stewardship, Michael has made a significant contribution to your Company, taking the helm in 2007 at a time of uncertainty for the Company and later guiding it capably through the global financial crisis. He has overseen substantial growth in AGL's business as well as a marked improvement in the quality of service we provide our customers. He will leave AGL in a strong financial position with the legacy of a highly engaged workforce, ready to meet the current industry challenges as well as take on the future opportunities that will characterise and reshape the industry.

On behalf of the Board, I would like to personally thank Michael for his contribution to the Company over more than 30 years, seven of them as CEO and Managing Director.

The Board has commenced a domestic and international search to find the right person to lead AGL. A focus of the Board has been on CEO succession planning from within the Company's executive ranks, so the Board will also assess internal candidates for the CEO position.

Michael Fraser's comments

This is the seventh and final occasion on which I have been able to report to you as Chief Executive Officer of AGL.

When I joined what was then The Australian Gas Light Company more than 30 years ago, the Company was just a distributor and retailer of gas and only in NSW. The transformation of AGL, and of the Australian energy sector, over that time has been remarkable. The formation of both the National Electricity Market and a much more interconnected gas market along with the privatisation by state governments of their electricity and gas assets has created opportunities for AGL to grow and prosper. Notwithstanding recent concerns about increases in energy costs across Australia, these changes have also benefitted energy consumers. It is clear that the cost of energy would have been considerably higher if these changes had not occurred.

It has been my privilege to lead AGL for the last seven years and I'm proud of the Company's performance and growth over that time. In particular, we have become a much more customer focussed organisation and I think it's fair to say that, on a whole range of measures, we have the best performing retail and generation businesses in the country.

The political and regulatory landscape that we have faced in recent years has disappointingly been, in many ways, more challenging than the competitive markets we operate in.

Despite this, we have built a very strong business footprint across the markets we operate in and I am confident AGL is well placed to deal with the challenges and opportunities that lie ahead.

I would like to take this opportunity to thank the many great people who work at AGL for their support, commitment and enthusiasm for the business during my time as CEO and, in particular, my colleagues on the Executive Team. I would also like to thank the Board for its ongoing support, advice and encouragement.

AGL's Managing Director and CEO will retire by 30 June 2015, after seven years of leading the Company.

Our Business

AGL is one of Australia's leading integrated energy companies and largest ASX listed owner, developer and operator of renewable generation in the country.

Drawing on over 175 years of experience, AGL operates retail and merchant energy businesses, power generation assets and an upstream gas portfolio in a centralised energy production and distribution market.

Strategic outlook

Our vision, 'creating energy solutions for the communities of today and tomorrow,' puts the customer at the heart of everything we do. To continue to transform and meet customer needs, AGL's plans will respond to emerging trends such as more active customers, rapidly advancing disruptive technologies, shifts in policy and regulatory frameworks, and declining centralised electricity demand.

Our Retail Energy business will deliver a step change to our customers in service and experience. Our core focus is to become a trusted supplier, with a customer's experience being seamless and exceeding expectations every time. AGL is leveraging our competencies in energy markets, creating new capabilities and developing targeted strategic partnerships to deliver more in-home energy services, giving us future growth options beyond eastern Australia.

Our Merchant Energy business will drive near-term earnings growth within our existing generation and gas portfolios through continuous improvements in the efficiency of our operations and processes. Our Operational Excellence program aims to make AGL best-in-class in our operations whilst working side-by-side with the communities in which we operate.

Our Upstream Gas business will source long term gas supplies through our various projects, to protect the core downstream business. It will do this by following industry best practice in operations, making safety a priority for people, the environment, farm lands and communities. AGL will continue to engage with all of our stakeholders and will do this via traditional and social media channels.

Our Values

> One Team.
> Authentic.
> Delivery.
> Safe and Sustainable.
> Vitality.

OUR STRATEGIC OBJECTIVES

> Integrate and maximise the value of existing generation and trading portfolio.

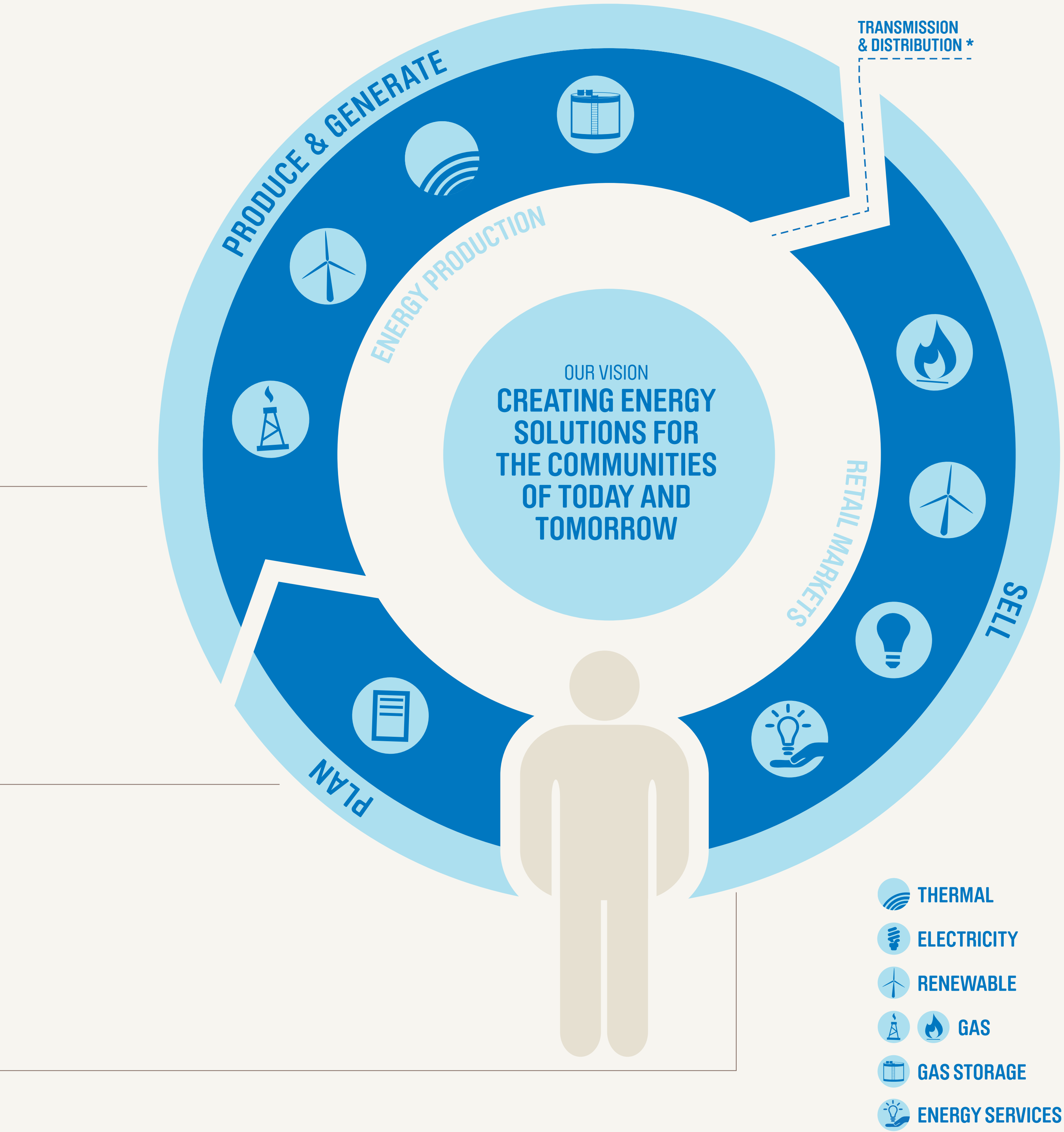
> Source and develop long term gas supplies to strengthen the existing portfolio.

> Continue disciplined investments in additional growth opportunities.

> Develop new business capabilities as an integrated energy solutions provider.

> Grow retail margins and market share of customer value.

Our Integrated Business Model



* AGL does not own gas or electricity transmission or distribution networks, but has some strategic investments in gas transmission infrastructure.

Location of our Significant Assets

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, solar, wind, landfill gas and biomass.

THERMAL POWER STATIONS

Thermal energy is energy derived from heat. At AGL, we use heat to generate electricity primarily from two resources, gas and coal.

TOTAL OUTPUT
16,760
GWh*

WIND FARMS

Wind energy is a form of renewable energy that uses airflow to generate electricity.

TOTAL OUTPUT
2,741
GWh

HYDROELECTRIC POWER STATIONS

Hydroelectricity is electrical energy generated from flowing water. Our hydro stations respond to rapid changes in customer demand to support the electricity system.

TOTAL OUTPUT
1,105
GWh*

SOLAR PROJECTS

Solar panels (also called photovoltaic or PV panels) capture energy from the sun and turn it into power. AGL is delivering two large-scale solar power plants in regional NSW.

TOTAL CAPACITY
155
MW
under construction

UPSTREAM GAS PROJECTS

Natural gas is a safe and reliable energy source. AGL is developing natural gas from coal seams in NSW.

TOTAL 2P RESERVES
1,891
PJ

GAS STORAGE

Our gas storage facilities provide a strategic reserve of natural gas, helping to secure continuity of supply during periods of peak demand or supply disruptions.

TOTAL STORAGE CAPACITY
36.5
PJ

CONTROLS
10,628 MW*
Generation Capacity

PRODUCING
20,730 GWh**

POWERING
3,800,000
Businesses and Homes***

Notes

The assets listed and displayed on the map comprise upstream gas projects with 2P reserves[1] larger than 10 PJ and power generation assets larger than 50 MW as at 30 June 2014. Operated as well as partly owned or non-operated assets are included. Generation capacity includes MacGen assets acquired in September 2014 and Diamantina power station commissioned to date.

* Total output and capacity includes minor assets not itemised on the map.

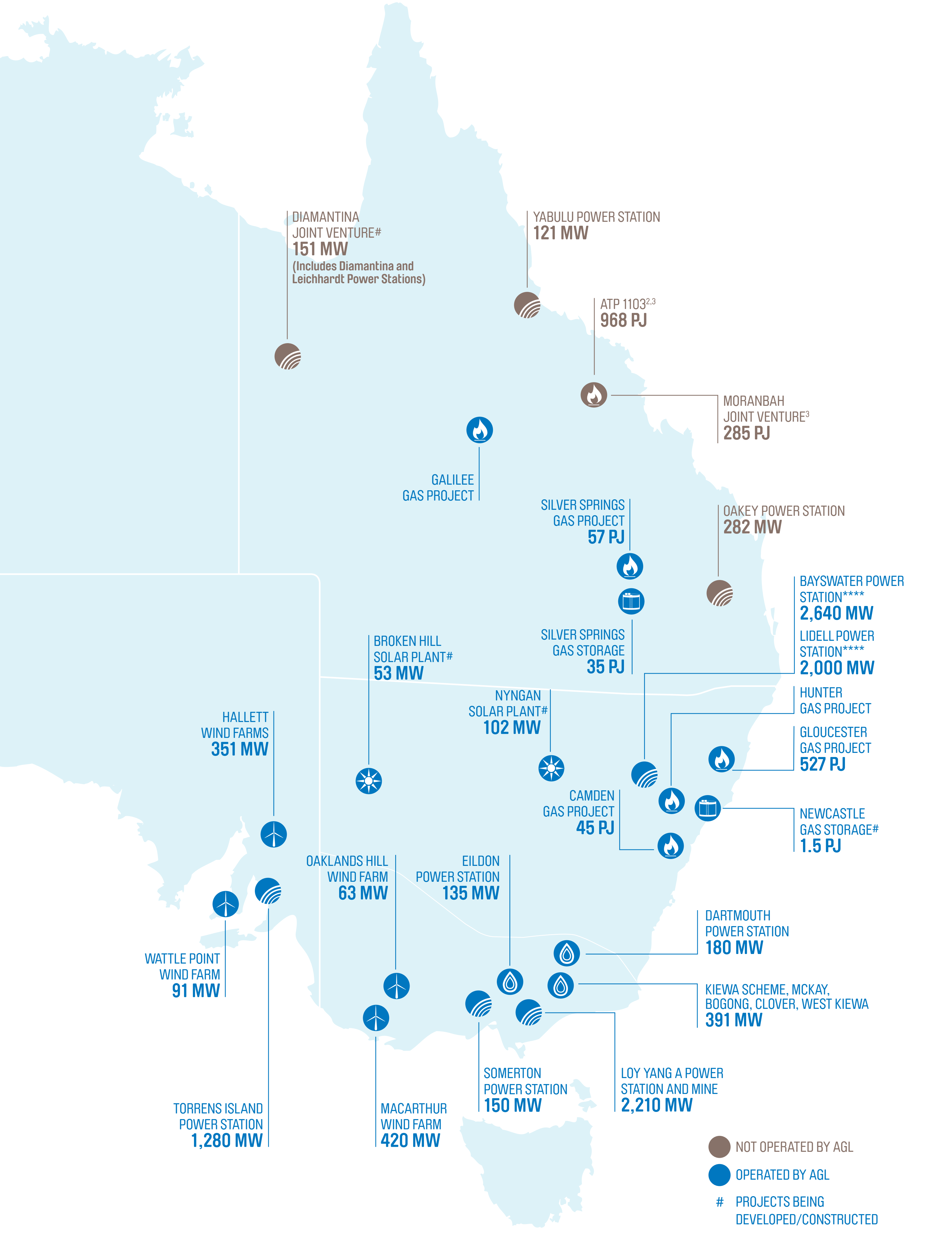
** Includes 123 GWh of 'other renewable' generation from small-scale projects. Excludes output from MacGen in FY2014.

*** Total number of AGL customers.

**** The Bayswater and Lidell power stations are part of AGL's MacGen acquisition which was completed in September 2014.

Notes to the map

1. All gas reserves shown are AGL's net equity interest in 2P reserves. 2P, or proved plus probable, reserves are those quantities of gas that are estimated with equal certainty to be greater than or less than actual commercially recoverable quantities.
2. Under a 50-year project agreement that commenced in 2000, AGL has no effective exploration rights (or ongoing cost obligations) within exploration tenement ATP 1103 as these were assigned to Arrow Energy Limited. However, AGL is entitled to participate up to a 50% interest in any commercial development by contributing its share of past costs.
3. Moranbah Joint Venture asset and ATP 1103 rights are currently held for sale.


DIAMANTINA
JOINT VENTURE#
151 MW
(Includes Diamantina and Leichhardt Power Stations)
YABULU POWER STATION
121 MW
ATP 1103[2,3]
968 PJ
MORANBAH
JOINT VENTURE[3]
285 PJ
GALILEE
GAS PROJECT
SILVER SPRINGS
GAS PROJECT
57 PJ
OAKEY POWER STATION
282 MW
BAYSWATER POWER
STATION****
2,640 MW
LIDELL POWER
STATION****
2,000 MW
SILVER SPRINGS
GAS STORAGE
35 PJ
BROKEN HILL
SOLAR PLANT#
53 MW
NYNGAN
SOLAR PLANT#
102 MW
HUNTER
GAS PROJECT
HALLETT
WIND FARMS
351 MW
GLOUCESTER
GAS PROJECT
527 PJ
CAMDEN
GAS PROJECT
45 PJ
NEWCASTLE
GAS STORAGE#
1.5 PJ
OAKLANDS HILL
WIND FARM
63 MW
EILDON
POWER STATION
135 MW
DARTMOUTH
POWER STATION
180 MW
WATTLE POINT
WIND FARM
91 MW
KIEWA SCHEME, MCKAY,
BOGONG, CLOVER, WEST KIEWA
391 MW
SOMERTON
POWER STATION
150 MW
LOY YANG A POWER
STATION AND MINE
2,210 MW
TORRENS ISLAND
POWER STATION
1,280 MW
MACARTHUR
WIND FARM
420 MW
NOT OPERATED BY AGL
OPERATED BY AGL
PROJECTS BEING
DEVELOPED/CONSTRUCTED

Sustainable Business Strategy

As one of Australia's leading integrated energy companies, we have a unique opportunity to shape a sustainable energy future for the nation.

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

As a retailer of electricity and gas, AGL is the provider of an essential service to nearly four million customers. We provide the energy to fuel Australian businesses, whose performance is core to the strength of our economy. We are the largest private developer of large scale renewable energy in the country. We need to provide efficient, clear and accurate service to our customers. We are developing much needed coal seam gas resources, demonstrating to the community that this can be done sustainably and for the benefit of all Australians. AGL's sustainability framework helps us to manage these complex and often competing priorities.

In addition to our economic performance, our future success and reputational standing is also shaped and measured by the social and environmental consequences of our decisions and actions for all our stakeholders.

Join the conversation about the sustainability of the energy industry at the AGL sustainability blog. Visit **aglblog.com.au**

Material issues

During FY2014, AGL undertook a 'materiality review' to gauge what issues matter most to our stakeholders and the issues that are central to our continuing business success.

The review was facilitated by an independent consultant and considered the views of internal and external stakeholders. Each stakeholder completed a detailed survey ranking 40 sustainability challenges and participated in a one-to-one interview.

External stakeholders were also invited to attend a validation workshop to explore the findings of the review in more detail.

The top 12 material issues identified by internal and external stakeholders were:

- Legislative compliance.
- Ethical conduct.
- Customer satisfaction.
- Employee engagement.
- Corporate governance.
- Energy policy uncertainty.
  (incorporating AGL's response to climate change and renewable energy policy)
- Health and safety.
- Talent attraction and retention.
- Public policy.
- Community.
- Profitability.
- Water management.

Most notable from the results is the apparent absence of climate change within the top 12 material issues. However the risks and opportunities associated with responses to climate change, carbon price and renewable energy policies is encapsulated under the issue of "energy policy uncertainty". Energy policy uncertainty is discussed in detail on page 20.

More information regarding the materiality review will be available in AGL's FY2014 Sustainability Performance Report.

FY2015 sustainability framework[1]

AGL has established targets and commitments to drive performance, behaviours and transparency around each of the top 12 material issues.

Performance Targets: set where organisation-wide performance can be meaningfully and consistently measured and externally benchmarked.

Material Issue	FY2015 Target
Customer satisfaction	Annual mean customer satisfaction score > major competitors.
Employee engagement	Employee engagement score: ≥75%.
Health and safety	Total Injury Frequency Rate: ≤2.8.
Profitability	Annual growth in Total Shareholder Return >4%.

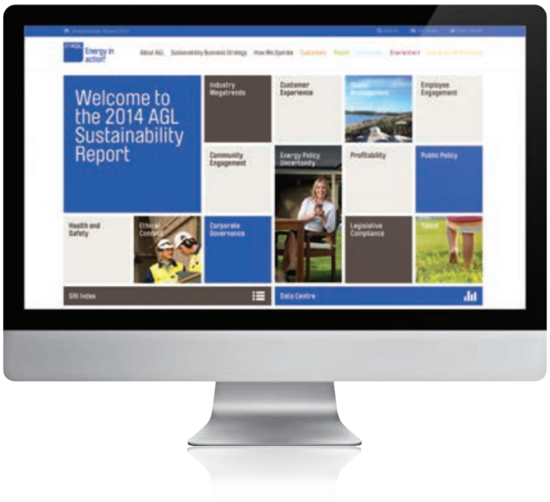
Behavioural Aspirations: set to define operational and behavioural standards in respect to the way in which we do business.

Material Issue	FY2015 Aspiration
Legislative compliance	AGL's aspiration is to comply with legislative requirements across the organisation.
Ethical conduct	AGL's aspiration is to act ethically in its activities, in accordance with the AGL Code of Conduct.
Corporate governance	AGL's aspiration is to adopt best practice corporate governance principles.
Talent attraction and retention	AGL will continue to develop an industry leading Employee Value Proposition.

Transparency Commitments: set to provide agreed levels of continued transparency in relation to areas where our stakeholders want proof of our performance and policies.

Material Issue	FY2015 Commitment
Energy policy uncertainty	AGL will continue to produce the AGL Applied Economic and Policy Research Working Paper Series.
Public policy	AGL will continue to regularly and transparently engage with its key stakeholders on significant issues of public policy.
Community	AGL will continue to measure investment in local businesses, including an analysis of job creation and financial contributions to the local community.
Water management	AGL will continue to make publicly available material data relating to water at AGL sites.

[1] Forward targets for FY2015 do not apply to Macquarie Generation, due to the assets being acquired post 30 June 2014, and integration activities occurring throughout FY2015.



Reporting sustainability performance

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

A summary of AGL's performance against each of the 12 strategic sustainability targets for FY2014 is available on pages 22–23.

This year we have made a significant change to the way in which we report by re-organising and balancing the content to provide more accessible information about our most material issues in an interactive online format.

Comprehensive performance data across a broader range of issues will be available to view and export from a centralised data centre.

The Global Reporting Initiative's (GRI) 'G4' Sustainability Reporting Guidelines, as well as G4 Sector Disclosures for both the 'Electric Utilities' and 'Oil & Gas' sectors have been applied to the Report at a 'Core' level.

AGL's FY2014 Sustainability Performance Report will be available online from late 2014 at **agl.com.au/sustainability**

Energy Policy Uncertainty

AGL's stakeholders are concerned with the current state of energy policy uncertainty. AGL has echoed this sentiment in a broad range of public consultations and submission processes. AGL continues to contribute to the policy reform agenda through the AGL Applied Economic Working Paper Series.

For any area of policy reform to be effective, it must be designed with a sufficiently long term outlook to ensure its continued relevance in the context of changing industry and economic conditions. Policy reform must take place within a framework of regulatory stability. This is particularly relevant to the energy industry, where investments typically result in projects with lengthy lifespans.

Short-sighted policy settings and ongoing policy uncertainty have had profound impacts on the following key aspects of the energy reform agenda.

Climate change policies and electricity market design

A long-term and sustainable climate change policy framework is critical to making long term investments in costly electricity supply infrastructure. The heightened policy uncertainty arising from frequently changing policy settings leads to additional risk premiums being applied to projects, which manifest as higher than efficient electricity prices.

It is disappointing that despite having bipartisan support, the Renewable Energy Target scheme has been, and continues to be, subject to numerous substantive reviews. Over time, these have stifled the very investment that the policy was designed to promote.

A combination of factors has exacerbated the current oversupply in the wholesale electricity market, including:

> the absence of provisions in government policies which incentivised new generation to allow for the efficient and orderly removal of older thermal generation;

> significant take-up of residential solar panels driven by unsustainable explicit and hidden cross subsidies paid by non-solar electricity consumers; and

> an overall decline in electricity demand.

Policy settings aimed at encouraging lower emissions generation must be transformational rather than additional and be accompanied by complementary policies designed to create a more sustainable wholesale market that facilitates new investment in an economically optimal generation mix.

Gas supply security and planning regimes

We are witnessing a significant transformation in the dynamics of Australia's east coast gas market, arising from an increase in demand as a result of LNG export facilities being constructed in Queensland. This may, on the basis of existing production levels and policy settings, exceed the current pace of supply. The necessary policy response must encourage further supply, and remove non-scientific policy barriers to supply development.

This is of particular importance in NSW, given its reliance upon gas imported from other states. Confirming the Australian Energy Market Operator's findings that NSW may experience peak demand gas shortages in 2018, AGL's research has demonstrated that NSW will face supply shortages from 2016 unless new gas supply options are developed.

The fundamental barrier to bringing on new gas reserves is restrictive government policy. If the coal seam gas industry is permitted to safely develop proven gas resources in NSW, then it is likely there will be enough natural gas in NSW to supply current levels of consumption for many decades. It is important that governments take a long-term approach to policy setting and make changes only on the basis of verifiable, scientific or other evidence-based information that justifies the change. It is also vital that governments set a clear and achievable coal seam gas framework which facilitates safe and orderly development to continue in order to satisfy east coast gas demand.

Retail tariff reform to drive economic efficiencies

Current electricity charging structures are not truly cost reflective and lead to some customers paying a greater proportion of network costs than their electricity usage requires, while other customers pay less. This has been exacerbated by the inability of current charging structures to appropriately respond to changes in electricity consumption driven by transformations in technology (such as large residential take-up of solar panels).

It is necessary to revisit the economic and policy settings behind existing tariff structures, to allow tariffs to optimise network utilisation and drive economic efficiencies. Future tariff reform should entail the removal of retail price caps; the implementation of appropriate safeguards to protect customers facing financial hardship; and cost-reflective network tariffs. This should be coupled with a contestable roll out of smart meters and ensuring that a level playing field exists between retail energy service providers.

Energy for Life

AGL's corporate citizenship program, Energy for Life, is just one way we are partnering with the community. Established in 2003, Energy for Life gives our employees the opportunity to get involved in causes they are passionate about, by participating in matched workplace giving and paid volunteering leave programs.

Energy costs can be a cumulative financial stressor to those in financial hardship. AGL has established three strategic partnerships with community organisations focusing on the areas of prevention and education; intervention, resource and capacity building; and crisis support. AGL is investing more than $3 million over the six years from 2012 in the following partnerships:

The Smith Family

Sharing the belief that education has the power to transform lives and break the cycle of disadvantage, AGL is supporting the education of 340 school-aged children from disadvantaged backgrounds through The Smith Family's Learning for Life program.

St Vincent de Paul Society

St Vincent de Paul Society's home visitation program delivers financial and non-financial support to families in need. As well as providing financial support to this program, AGL and St Vincent de Paul have developed 'Energy Advice Packs' containing information and advice for households about available support, retailer hardship programs and simple tips to save energy around the home.

Cancer Council Australia

Responding to unforeseen situations like a cancer diagnosis can affect the financial position of many households. AGL is providing funding for the Cancer Council Australia's Financial Assistance Program, which provides grants to families affected by cancer to help cover necessary living costs.

As part of AGL's commitment to promote safety in the workplace and home, AGL has also established a partnership with the Julian Burton Burns Trust.

Julian Burton Burns Trust

Scalding from hot water is one of the most common causes of burn injury in the home. AGL is partnering with the Julian Burton Burns Trust to support burn prevention and education through South Australia's BurnSafe Schools Program.

For more information about how AGL is supporting the community through the Energy for Life program, visit agl.com.au/energyforlife

2014 Sustainability Blueprint

Through the blueprint, AGL has committed to 12 strategic sustainability targets on an annual basis.

The blueprint has formed the basis of how sustainability performance information has been presented to stakeholders through the annual sustainability performance report for the past five years.

Performance against each of the targets that were set for FY2014 is outlined below. Targets for FY2015 have been established according to our new sustainability framework (as outlined on page 19).

Customers

Customer experience

FY2014 target

To have a higher annual mean customer satisfaction score than our competitors.

FY2014 performance ✓

AGL's customer satisfaction score[1] was **7.01**, which was higher than that of our major competitors.

Customers in hardship

FY2014 target

5% reduction in the ratio of average energy debt of Staying Connected customers to average NEM household electricity bill.

FY2014 performance ✗

The adjusted level of energy debt[2] of Staying Connected customers has reduced by **4.9%** to $1,257 compared with FY2013.

Community

Community engagement

FY2014 target

Measure AGL's investment in local businesses, including an analysis of job creation and financial contributions to the local community.

FY2014 performance ✓

AGL has measured the economic impact of its significant upstream gas projects throughout FY14, including tracking levels of community investment, the total and percentage spend on local suppliers, and the contributions of projects to local employment. Refer to performance data below.[3]

Community contribution

FY2014 target

Measure outputs of Energy for Life strategic partnerships in accordance with SROI framework developed in FY2013.

FY2014 performance ✗

The outputs of strategic partnerships were unable to be fully measured using a SROI framework due to the complexity of datasets and the lack of clear benefit from diverting our charity partners' resources away from service provision to measurement.

People

Employee engagement

FY2014 target

Engagement score: Achieve score above ORC International Best Performing Zone.

FY2014 performance ✓

AGL's engagement score was **77%**, which is within the ORC International Best Performing Zone.[4]

Health and safety

FY2014 target

Total injury frequency rate:[5] **<5.0**

FY2014 performance ✓

Total injury frequency rate: **2.8**

Sustainability performance data outlined above covers the activities and facilities over which AGL had operational control for all, or part of, the financial year ended 30 June 2014, unless otherwise stated.

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

1 AGL's average of four quarterly surveys prepared by an independent third party provider was 7.01. AGL's score at the end of Q4FY2014 was 7.04.

2 The average energy debt of staying connected customers has been adjusted to reflect changes in electricity price inflation (as per electricity sub index of the consumer price index, June 2014).

3 Across AGL's upstream gas projects in the Camden, Gloucester and Hunter regions of New South Wales, during FY2014 AGL has spent over $6,792,850 on local suppliers, (representing 23%, 9% and 31% respectively of the supplier spend for each individual project during FY2014), invested over $107,837 in local community projects, and had local employment rates of 53%, 62% and 47% (respectively) with a combined salary spend on local employees of $3,371,199.

Environment

Environmental risk

FY2014 target

100% of approved risk register actions for the highest residual environmental risks implemented in accordance with targeted milestones.

FY2014 performance ✕

100% of actions (49 of 49) were completed in the year but two were completed later than originally scheduled. **96%** of actions (47 of 49) were implemented in accordance with targeted milestones.

Water management

FY2014 target

Analysis of significant water usage across business units and development of KPIs for water usage and wastewater reduction by end June 2014.

FY2014 performance ✓

AGL has assessed its significant water usage and water-related risks across Merchant Energy and Upstream Gas, and on this basis developed water management KPIs which have been incorporated into business plans.

Sustainable energy

Carbon exposure

FY2014 target

Develop a cost curve of material energy efficiency and greenhouse gas emissions abatement opportunities at AGL's existing operational assets.

FY2014 performance ✓

AGL has documented a cost curve of material energy efficiency and greenhouse gas emissions abatement opportunities at AGL's existing operational assets.

Sustainable generation sources

FY2014 target

Invest in 155 MW of renewable energy projects.

FY2014 performance ✓

During FY2014, AGL achieved financial closure of funding arrangements with the Australian Renewable Energy Agency and the New South Wales Government to develop a 102 MW solar plant at Nyngan and a 53 MW solar plant at Broken Hill.

Economic

Ongoing profitability

FY2014 target

Underlying profit:[6]
$560-610 million

FY2014 performance ✓

Underlying profit:[6]
$562 million

Sustainable growth

FY2014 target

Credit rating:
BBB

FY2014 performance ✓

Credit rating:
BBB

4 The intent of the FY2014 employee engagement target was to achieve an employee engagement score within the best performing zone as defined by ORC international. The current wording states employee engagement is to be above the best performing zone which is technically not possible and should have been expressed as within the best performing zone. AGL is of the view that the target has been met and has removed this ambiguity for the FY2015 target.

5 Total injury frequency rate (TIFR) – for injuries that arise from a single event/shift. TIFR involves the number of lost time and medical treatment injuries classified as TIFR-related in a 12 month period, per million hours worked in that period.

6 Underlying profit reflects the actual performance of AGL's business by adjusting statutory profit (reported in accordance with Australian Accounting Standards) by fair value movements and one-off significant items.

Our Executive Team

AGL has a solid leadership team with extensive experience and a clear focus on delivering value for shareholders.

Michael Fraser
BCom, FCPA, FTIA
Managing Director and Chief Executive Officer

Michael has more than 30 years' energy industry experience, including having established AGL as one of the country's largest energy retailers, and led the rapid expansion of AGL's upstream energy interests in renewables, thermal power generation and upstream gas exploration and development.

Brett Redman
BCom, FCA, GAICD
Chief Financial Officer

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

Paul McWilliams
BA (Accounting), MApFin, GradDipACG, ACA, AGIA
Group Head of Corporate Support Services and Company Secretary

Paul has more than 37 years' experience in a variety of roles in The Australian Taxation Office, chartered accounting firms and listed public companies. He has been with AGL since 2004.

Marc England
M Eng (Hons), MBA
Group Head of Strategy and New Energy

Marc joined AGL in July 2013 and is responsible for AGL's Group Strategy and New Energy group. An engineer by background, he has more than 18 years' experience in strategy, finance and general management in the energy and automotive industries, including time at British Gas and Ford.

Professor Paul Simshauser
BEcon, BCom, MCom, PhD (Econ), PMESA, FCPA, FAICD, AFMA Acc. Dealer
Chief Economist and Group Head of Corporate Affairs

Paul has worked in the energy industry for over 20 years, having held senior positions with Stanwell Corporation, NewGen Power and Babcock and Brown. He is also a Professor of Economics at Griffith University's Business School.

Stephen Mikkelsen
CA, BBS
Group General Manager Retail Energy

Stephen has over 18 years' experience in senior positions in the Australian and New Zealand electricity markets. He was appointed to his current role in January 2013 and has overall responsibility for sales, marketing, and servicing AGL's 3.8 million residential and small business gas and electricity customers. Prior to his current role, Stephen served as AGL's Chief Financial Officer for six years.

Jane Thomas
BBus (Hons), LLB (Hons), Grad. Dip. Leg Prac, Masters Org Coaching, MAICD
Group Head of People and Culture

Jane has more than 20 years' experience in human resources in large organisations, including PepsiCo International, Westpac Banking Corporation and Philips. She is a member of the Chief Executive Women Group.

Owen Coppage
Chief Information Officer

Owen has more than 25 years' management and operations experience in high voltage transmission, distribution and hydro generation. He was appointed to his role in 2007 and has responsibility for the transformation and simplification of the information technology function within AGL.

Anthony Fowler
BSc (Hons), MAppFin, Harvard AMP, FFin
Group General Manager Merchant Energy

Anthony has more than 15 years' experience at energy businesses in Australia and the US. He has been with AGL since 2003. Previous roles at AGL include responsibility for AGL's wholesale electricity, gas and renewable portfolios and risk management.

Michael Moraza
BE (Chem. Eng), MBA
Group General Manager Upstream Gas

Michael has nearly three decades of petroleum industry experience and joined AGL in 1996. He has driven the acquisitions of many of AGL's core assets, helped develop AGL's integrated business strategy and led the Upstream Gas group since its inception.

Directors' Report 2014

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

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

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

Non-executive Directors Jeremy Maycock, Les Hosking, Graeme Hunt, Belinda Hutchinson, Sandra McPhee, Bruce Phillips, John Stanhope.

Executive Director Michael Fraser.

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

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

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

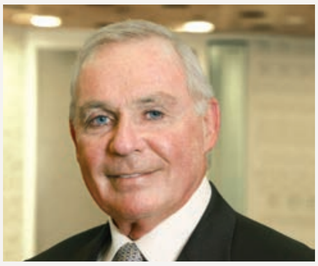
Experience: Jerry's commercial experience spans 41 years, in senior executive and non-executive roles in significant Australian and international companies.

Michael Fraser
BCom, FCPA, FTIA – Managing Director

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

Directorships: Nil.

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



Les Hosking

Non-executive Director since November 2008. Age 69.

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

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

Graeme Hunt
MBA, BMET

Non-executive Director since September 2012. Age 57.

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

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

Composition of Board Committees as at 30 June 2014

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

Belinda Hutchinson
AM, BEc, FCA, FAICD

Non-executive Director since December 2010. Age 61.

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

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

Sandra McPhee
AM, Dip Ed, FAICD

Non-executive Director since October 2006. Age 68.

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

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

Bruce Phillips
BSc (Hons) PESA, ASEG

Non-executive Director since August 2007. Age 59.

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

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

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

Non-executive Director since March 2009. Age 63.

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

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

Composition of Board Committees as at 30 June 2014

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

Directors' Report 2014 continued

Directors' Interests

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

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

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

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

Company Secretaries

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

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

Directors' Meetings

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

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

A – number of meetings attended as a member

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

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

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

Principal Activities

> Buying and selling of gas and electricity;

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

> Development of natural gas storage facilities; and

> Exploration, extraction, production and sale of natural gas.

Review of operations

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

Changes in state of affairs

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

Proceedings on Behalf of the Company

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

Commercial in confidence information

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

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

Non-Audit Services

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

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

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

Indemnification and Insurance of Officers and Auditors

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

> liability to third parties (other than related entities) when acting in good faith; and

> costs and expenses of successfully defending legal proceedings and ancillary matters.

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

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

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

Auditor's Independence Declaration

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

Rounding

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

Remuneration

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

Dividends

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

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

Final dividend of 33.0 cents per share (100% franked) paid on 27 September 2013

$183 million

Interim dividend of 30.0 cents per share (100% franked) paid on 4 April 2014

$168 million

Final dividend of 33.0 cents per share (100% franked) payable on 30 September 2014

$185 million

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Environmental Regulation

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

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

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

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

OPERATING AND FINANCIAL REVIEW

1. AGL's Operations

1.1. About AGL

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

1.2. Operating Segments

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

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

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

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

> **Investments** include equity accounted investments in the ActewAGL Retail Partnership and Diamantina Holding Company Pty Limited. Also included are AGL's long-term investments in strategic growth opportunities.

1.3. Results Overview

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

The following tables reconcile Statutory Profit to Underlying Profit.

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

(1) Section 1.4
(2) Section 4

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

Underlying Profit and Operating EBIT are useful as they:

> remove significant items that are material items of revenue or expense that are unrelated to the underlying performance of the business thereby facilitating a more representative comparison of financial performance between financial periods and;

> remove changes in the fair value of financial instruments recognised in the statement of profit or loss to remove the volatility caused by mismatches in valuing derivatives and the underlying asset differently.

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

Underlying Profit summary

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

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

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

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

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

1.4. Significant Items

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

1.4.1. Merger and acquisition costs

Current Year

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

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

> Acquisition related transaction costs of $15 million before tax including adviser fees, redundancies and other transaction costs.

> Break costs of $2 million before tax associated with terminating APG's funding facilities.

> Incremental contract costs of $21 million before tax associated with existing customer servicing arrangements.

> Termination costs of $11 million before tax associated with other contracts.

ii. Acquisition of Macquarie Generation

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

Prior Year – Loy Yang acquisition – Stamp Duty

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

1.4.2. Prior year impairment of Upstream Gas NSW assets

Current Year

Nil

Prior Year

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

1.4.3. Prior year impairment of other Upstream Gas assets

Current Year

Nil

Prior Year

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

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1.4.4. Prior year impairment of Power Development assets

Current Year

Nil

Prior Year

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

1.4.5. Tax items

Current Year

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

Prior Year

> Tax treatment of unbilled revenue.

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

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

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

1.5. Earnings per Share

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

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

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

1.6. Dividend

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

Before declaring the dividend the Directors satisfied themselves that:

> AGL's assets exceeded its liabilities immediately before declaring the dividend and the excess was sufficient for the payment of the dividend;

> the payment of the dividend was fair and reasonable to AGL's shareholders as a whole; and

> the payment of the dividend would not materially prejudice AGL's ability to pay its creditors.

The final dividend will be fully franked.

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

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

2. Review of Operations

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

The following table reconciles Statutory EBIT to Operating EBIT.

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

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

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

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

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

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

2.1. Retail Energy Operating EBIT:

Decreased 10.7% to $318 million from $356 million

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

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

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

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

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

2.1.1. Analysis of Operating EBIT

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

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

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

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

2.1.1.1. Gross Margin

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

The following table shows gross margin by fuel type:

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

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

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

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

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

2.1.1.2. Depreciation and Amortisation

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

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

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

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

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

	Year ended 30 June 2014 $m	Year ended 30 June 2013 $m	Total Project $m
Direct cash outlay	**25**	44	125
Amortised to the income statement	**(40)**	(37)	(95)
Net capitalised costs	**(15)**	7	30
Number of lead sales	**138,155**	196,893	645,829
Cash cost per lead sale	**$181**	$221	$194
Amortisation for the year ending:	$m		
30 June 2011	2		
30 June 2012	17		
30 June 2013	37		
30 June 2014	40		
30 June 2015	15		
30 June 2016	14		
Total amortisation	**125**		

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

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

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2.1.1.3. Net Operating Costs excluding Depreciation and Amortisation

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

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

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

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

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

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

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

2.1.2. Customer Profitability

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

2.1.2.1. Gross Margin per Customer

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

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

2.1.2.2. Operating EBIT/Sales Analysis

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

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

2.1.3. Operating Efficiency

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

2.1.3.1. Net Operating Costs as a Percentage of Gross Margin

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

Net operating costs increased by 9.8% as detailed in section 2.1.1.2 and 2.1.1.3.

Net operating costs as a percentage of gross margin increased by 5.2 ppts.

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

2.1.3.2. Cost per account analysis

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

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

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

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

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2.1.4. Customer numbers

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

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

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

2.2. Merchant Energy Operating EBIT:

Increased 5.4% to $899 million from $853 million

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

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

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

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

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

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

2.2.1. Energy Portfolio Management Operating EBIT:

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

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

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

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

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

> Reducing hedging costs through optimising load diversity between customer classes and regions;

> Harnessing the implicit optionality of the generation portfolio including arbitraging fuel types;

> Accelerating or decelerating hedging programs based on a view of market price; and

> Utilising a variety of instruments including weather derivatives to optimise risk and return.

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2.2.1.1. Wholesale Electricity Gross Margin:
Increased 6.9% to $1,038 million from $971 million

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

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

i. A $40 million benefit from higher generation volumes with a full year of generation from Macarthur wind farm, higher hydro generation as a result of strong water inflows and a higher contribution from the South Australian wind farms;

ii. $35 million in relation to higher transfer prices from Retail Energy;

iii. Additional gross margin of $24 million from the addition of APG customers;

iv. Partly offset by a $35 million reduction in gross margin due to a decline in consumer electricity volumes as described in the Retail Energy gross margin discussion in section 2.1.1.1.

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

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

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

2.2.1.2. Wholesale Gas Gross Margin:
Increased 32.3% to $164 million from $124 million

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

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

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

2.2.1.3. Eco-Markets Gross Margin:
Decreased 23.9% to $54 million from $71 million

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

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

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

2.2.2. Merchant Operations Operating EBIT:
Decreased 7.2% to ($415 million) from ($387 million)

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

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

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

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

2.2.3. Business Customers Operating EBIT:

Decreased 19.7% to $102 million from $127 million

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

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

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

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

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

2.2.4. Sundry Operating Expenses

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

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

2.3. Upstream Gas Operating EBIT:

Decreased to ($13 million) from $0 million

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

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

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

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

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

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2.3.1. Queensland Operating EBIT:
Decreased to ($2 million) from $6 million

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

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

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

2.3.2. New South Wales Operating EBIT:
Unchanged at $0 million

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

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

2.3.3. Sundry Operating EBIT:
Decreased to ($11 million) from ($6 million)

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

2.3.4. Gas Sales and Reserves Position
The following table summarises the gas sales volume and associated revenue from each operating region during the period:

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

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

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

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

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

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

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

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

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

2.4. Investments Operating EBIT:

Decreased 11.5% to $23 million from $26 million

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

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

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

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2.4.1. ActewAGL (50% AGL Ownership) Operating EBIT:

Decreased 3.8% to $25 million from $26 million

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

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

2.4.2. Diamantina Power Station Joint Venture

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

2.5. Centrally Managed Expenses:

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

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

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

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

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

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

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

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

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

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

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

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

2.6. Net Finance Costs

Increased 8.3% to $223 million from $206 million

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

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

2.7. Income Tax Expense

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

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

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

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3. Operating Cash Flow

3.1. Reconciliation of Operating EBITDA to Statutory Cash Flow:

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

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

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

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

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

3.2. Underlying Operating Cash Flow before Interest and Tax:

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

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

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

3.2.1. Significant Items

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

3.2.2. Carbon Transitional Assistance

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

4. Changes in Fair Value of Derivative Financial Instruments

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

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

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

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

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

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

	Net Assets (Liabilities)		
	30 June 2014 $m	30 June 2013 $m	Change $m
Energy derivative contracts	**18**	113	(95)
Interest rate swap and foreign currency derivative contracts	**(79)**	(56)	(23)
Total net assets (liabilities) for derivative contracts	**(61)**	57	(118)
Change in derivative net asset	**(118)**		
Premiums paid	**(105)**		
Premium roll off	**107**		
Derivatives acquired	**20**		
Total change in fair value	**(96)**		
Recognised in equity hedge reserve	**(141)**		
Recognised in borrowings	**(8)**		
Recognised in profit and loss (fair value – pre-tax)	**40**		
Recognised in profit and loss (interest – pre-tax)	**13**		
Total change in fair value	**96**		

5. Funding and Capital Expenditure

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

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

6. Business Acquisitions and Disposals

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

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

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

Directors' Report 2014 continued

7. Business Strategies and Prospects

7.1. Overview

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

Existing Business Model
Vertically Integrated Energy Supplier

Current Priorities

Future Business Model
Integrated Energy Solutions Provider

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

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

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

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

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

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

In August 2014, AGL received NSW Government approvals to perforate, fracture stimulate and flow test four existing Waukivory Pilot wells. The information from the Waukivory Pilot will enable AGL to comply with its State and Federal Government approvals, and is a critical activity to reduce the uncertainty around production performance of the Gloucester Gas Project Stage 1 area.

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

iii. Grow retail margins and market share of customer value

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

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

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

iv. Develop new business capabilities as integrated energy solutions provider

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

v. Continue disciplined investments in additional growth opportunities

NEM Electricity Generation

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

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

Other Electricity Generation

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

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

Gas Storage

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

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

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

AGL will continue to target new domestic growth opportunities.

7.2. Financial Year 2015 outlook

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

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

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

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

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

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

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

8. Business Risks and Mitigations

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

Directors' Report 2014 continued

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

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

9. Subsequent Events

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

9.1. Macquarie Generation

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

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

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

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

9.2. Carbon Tax Repeal

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

10. Information on Audits

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

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

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

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

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

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

REMUNERATION REPORT
For the year ended 30 June 2014

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

Remuneration Report

Dear Fellow Shareholder,

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

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

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

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

> our fixed remuneration levels are generally competitive when considered against our market comparators. However, the review confirmed our understanding that some Executives were being paid below market while they have developed in their roles and we are moving to address that issue;

> our incentive opportunity levels are significantly lower than our market comparators. The Board considered this together with our desire to extend the practice of deferring a component of short-term incentives (STI) to more Executives. As a result, STI opportunities for some Executives have been increased (not for the CEO) but this has typically been accompanied by the introduction of a deferral of a portion of the total STI opportunity. The deferral is into equity for 12 months during which time it will be subject to malus in the event of a material misstatement of financial results;

> our long-term incentive, which is tested and earned annually but a large portion of which is held subject to restriction (and clawback, if performance is not sustained), aligns our Executives' interests with those of our shareholders over the longer term while ensuring that Executives have direct visibility over the annual performance conditions. As a business with long-term capital investments extending over decades, we believe this works as a stronger motivator than a longer performance period. It is important that this incentive plan is considered in its entirety rather than comparing its component features to more conventional plans.

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

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

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

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

Yours faithfully

Les Hosking
(Chair of People and Performance Committee)

Jeremy Maycock
(Board Chair)

Directors' Report 2014 continued

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

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

We have structured the report into eleven sections:

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

1. Key outcomes for 2014 and changes for 2015

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

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

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

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

Total Remuneration	
2014 Total remuneration for CEO was lower than 2013	The CEO's total remuneration decreased in 2014 primarily reflecting the decrease in the financial performance of AGL for the year. The CEO's total remuneration was down by 8.6%.
Fixed Remuneration (FR)	
CEO 2014 FR	There was no increase in the CEO's FR for FY14.
Short term incentive (STI)	
2014 STI payout for CEO was 45% of maximum	The STI had regard to financial performance with Underlying Profit 3.9% behind last year, and at the bottom of guidance range. In mitigation of this there was good performance in cost management in the business, and cash flow was strong at $1.149 billion. Good progress was made in executing AGL's vertical integration strategy including the successful bid for Macquarie Generation and on a number of development projects. Further all customer metrics tracked well and lagging safety indicators improved significantly with AGL's Total Injury Frequency Rate down 44%.
2015 Incentives for Executives	While AGL's approach has been to focus on the longer term a review was undertaken of Executives' STI percentage opportunities, which showed some Executives' STI percentages to be significantly below market. Where this was found to be the case, in order to assist in ensuring AGL can retain and attract talent, the Board determined to increase STI percentage opportunities for 2015. There was no increase for the CEO. In conjunction with this review to further align the interests of management with shareholders, the Board has decided to extend the practice of deferring a portion of STI for 12 months into equity for a number of KMP and other senior Executives. The deferred component will be subject to malus during the deferral period.

Long term incentive (LTI)

2014	There were mixed LTI outcomes for 2014. AGL's performance against the relevant performance hurdles resulted in the following outcomes for the year: > The EBIT/Funds Employed notional bank account was reduced due to a clawback being applied; > No Share Performance Rights (SPRs) being transferred into the Relative Total Shareholder Return (RTSR) notional bank account due to performance hurdles not being met; > SPRs being transferred into the Total Shareholder Return (TSR) notional bank account with performance hurdles having been met. From 1 July 2013, RTSR replaced EBIT/Funds Employed as a performance hurdle in respect of the LTI. In 2013, the Board reviewed the continued appropriateness of the EBIT/Funds Employed hurdle in light of the disincentive that may have been created for management to pursue value creating opportunities lying between cost of capital and actual average returns. It is also not possible to grow this measure into perpetuity. The Board determined that RTSR should be introduced (in place of EBIT/Funds Employed) to measure AGL's relative performance against other ASX 100 companies. The EBIT/Funds Employed notional bank account has been closed effective 30 June 2013. No further allocations will be made to this bank account, however to ensure that performance against the EBIT/Funds Employed condition is sustained, the balance in that account will remain subject to clawback until September 2015.
2015	The Board has determined to alter the way in which 'good leavers' are treated under the long-term incentive plan in the event of retirement. At present, all 'banked' SPRs (ie those that have met performance hurdles but haven't vested) are converted to shares in AGL on retirement. The Board is cognisant of the alternative approach that long-term incentives should remain within the plan for a period following retirement, so that Executives remain exposed to share price movements in the period immediately following their retirement. The Board has determined that 50% of any positive balances in a 'good leaver's' notional bank account will be released on retirement. This is approximately equivalent to the Executive's tax obligation. The remaining 50% will remain in the account and be paid out 12 months following retirement to ensure that Executives remain aligned with shareholders over this period. This will apply to all Executives appointed or promoted after 1 September 2014.

Non-executive Directors (NEDs)

2014 Total fees paid	Total fees paid to NEDs in the year were $1.85 million, $0.65 million below the approved maximum aggregate NED remuneration.
2014 NED base fees	There was no increase in the NED base fees for calendar year 2014.

Directors' Report 2014 continued

2. Key Management Personnel

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

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

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

3. Overview of Executive remuneration components

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

> fixed remuneration (FR);

> a short-term incentive (STI); and

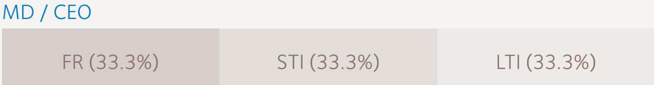
> a long-term incentive (LTI).

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

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

Remuneration Mix

MD / CEO



Group General Managers and CFO

Other Executives

4. Our remuneration policy

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

> align the interests of shareholders, employees, customers and the community with AGL's objectives and values;

> attract and retain key talent;

> keep employees committed and motivated by providing fair remuneration and other benefits to all employees;

> meet long-term people needs through effective talent management and succession planning;

> meet AGL's commitment to a diverse and inclusive workplace;

> promote AGL as an employer of choice; and

> comply with relevant legislation and corporate governance principles.

Remuneration governance

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

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

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

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

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

Minimum shareholding policy for non-executive Directors and Executives

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

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

Hedging policy

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

5. Our remuneration framework

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

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

Directors' Report 2014 continued

Remuneration data for Executive reviews

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

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

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

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

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

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

Operation of STI

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

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

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

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

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

AGL Executives' performance objectives for 2013/2014

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

Common objectives	What	Result
Financial results Shareholder returns are directly impacted by the profit made by AGL.	All Executives had an objective related to AGL's Underlying Profit for 2013/2014 as well as individual business unit operating expenses.	AGL's Underlying Profit was 3.9% behind last year. Outcomes for this objective were below expectations.
Safety performance AGL is committed to providing a safe workplace for all of its employees.	Completing specific plans to continue improving AGL's safety leadership and culture (including targets with respect to injury rates).	Lagging safety indicators improved across AGL. Overall AGL's Lost Time Injury Frequency Rate for 2013/2014 was 44% lower than the previous year at 2.8 and the Occupational Injury Frequency Rate was 42% lower than the previous year at 3.7 and all specific safety action plans for 2013/2014 were completed. Outcomes for this objective were well above expectations.
Customer satisfaction AGL has customer base in excess of 3.8 million, customer satisfaction is considered to be critical to AGL's longer term success and the Board is focused on ensuring our customer centric culture is maintained and further strengthened.	All Executives had an objective to improve AGL's overall customer satisfaction as measured against a range of metrics over the prior year.	Generally customer metrics tracked well against a range of metrics including mean customer satisfaction score and overall customer satisfaction. Outcomes for this objective met expectations.

Common objectives	What	Result
Employee engagement Independent research shows that companies with high employee engagement have higher profitability, customer advocacy and performance output when compared to companies with low employee engagement.	AGL develops specific initiatives each year to build employee engagement and invites all employees to take part in an engagement survey. All Executives had targets with respect to employee engagement.	Numerous initiatives to promote engagement were successfully implemented across the business. The overall employee engagement score for 2014 was 77% which placed AGL in the "High Performing" zone against an international benchmark. Outcomes for this objective were above expectations.

Specific individual objectives for Executives	What	Result
Each Executive also has performance objectives related to their specific area of responsibility for AGL's business.	Individual Executives focused on delivery of their performance objectives including key strategic, growth and market based initiatives such as: > growing AGL's customer base; > developing and integrating new power generation, gas storage and upstream gas assets; > pursuing acquisitions such as Macquarie Generation and APG; > focusing on operational excellence; and > progressing workforce diversity and inclusion especially in the areas of gender and sexual orientation.	Individual Executives generally performed at or above expectations for their specific individual key objectives for 2013/2014.

KMP STI percentage outcomes for 2013/2014

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

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

7. Long-term incentive plan (LTI Plan)

Overview

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

The LTI Plan comprises three main phases:

1. Grant of SPRs	2. Performance Hurdles and Banking	3. Vesting
At the start of the financial year, participants are notionally granted Share Performance Rights (SPRs).	At the end of the financial year: > if applicable **performance hurdles have been met**, SPRs are **deposited** into bank accounts based on the level of performance achieved; or > if **performance hurdles have not been met**, no SPRs are deposited; or > unlike other plans, if performance hurdles have not been met, and **performance is at a level that is considered unacceptable**, previously banked SPRs may be **clawed back** from the participant's relevant bank accounts. > Up to twice the number of SPRs notionally granted may be banked for superior performance. > Similarly, up to twice the number of SPRs notionally granted may be clawed back from participants' bank accounts where performance is considered unacceptable.	After each year's banking, 40% of any positive balance of SPRs in a participant's relevant bank accounts vest and are converted to fully paid AGL shares. After vesting, any remaining balance in the participant's accounts (positive or negative) rolls forward to the following year and is subject to clawback in future years, depending on performance.

Directors' Report 2014 continued

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

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

> the multiplier and clawback mechanism both rewards, and penalises, Executives based on AGL's performance over the long-term (as banked awards are still held at risk);

> as banked SPRs remain subject to clawbacks for underperformance in future years, Executives think like shareholders over the longer term;

> as banked SPRs remain in the participant's relevant bank accounts until vesting, they are subject to share price changes;

> by testing annually, but retaining a large portion of SPRs within bank accounts, Executives have direct visibility over the annual performance conditions, while being encouraged to pursue sustainable growth in shareholder value.

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

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

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

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

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

Key Features of the LTI Plan

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

Grant of SPRs

What is a SPR?	A SPR is an entitlement to one fully-paid ordinary share in AGL. SPRs do not carry dividend or voting rights and are adjusted for the effect of any bonus issues, rights issues, and reconstructions and reorganisations of the capital of AGL.
How is the notional grant of SPRs determined?	The maximum LTI notional allocation of SPRs varies between 40% and 100% of Fixed Remuneration (FR) for Executives including the CEO. SPRs are calculated using a Volume Weighted Average Price (VWAP) of AGL shares 30 days up to and including 30 June 2013. Fractional entitlements are rounded up.
What is the performance period?	Awards are tested annually and SPRs are deposited or clawed back from bank accounts based on performance against the conditions. However, only 40% of SPRs banked in a participant's bank accounts can vest each year. The remaining SPRs banked remain at risk and subject to ongoing testing in future years.

Performance hurdles and banking: TSR and RTSR

What are the current performance hurdles and why have they been chosen?

As noted in section one, from 1 July 2013, Relative TSR (RTSR) has replaced EBIT/Funds Employed as a performance hurdle, which applies in respect of 50% of the notional grant.

The remaining 50% of the notional grant is tested against the TSR performance hurdle.

AGL has chosen these hurdles because it considers TSR to closely align the interests of Executives with those of shareholders. Specifically:

> the TSR measure requires AGL to deliver what the Board considers to be strong returns to shareholders; and

> the RTSR condition requires AGL to outperform the returns delivered by other companies in the ASX100.

This, in conjunction with the clawback mechanism, means that Executive reward is aligned with shareholder interests over both the short and long term.

How is performance under each of the performance hurdles assessed?

TSR is calculated by measuring a combination of change in share price, dividends and capital returns to show the total return to shareholders over the annual performance period.

RTSR is calculated by ranking AGL's TSR on a relative basis against TSR performance of constituent companies in the ASX100 and independently measured by Orient Capital Pty Ltd.

How does the multiplier and clawback work?

The Board has set what it considers to be challenging, albeit achievable performance conditions which would result in 100% of the notional allocation being banked.

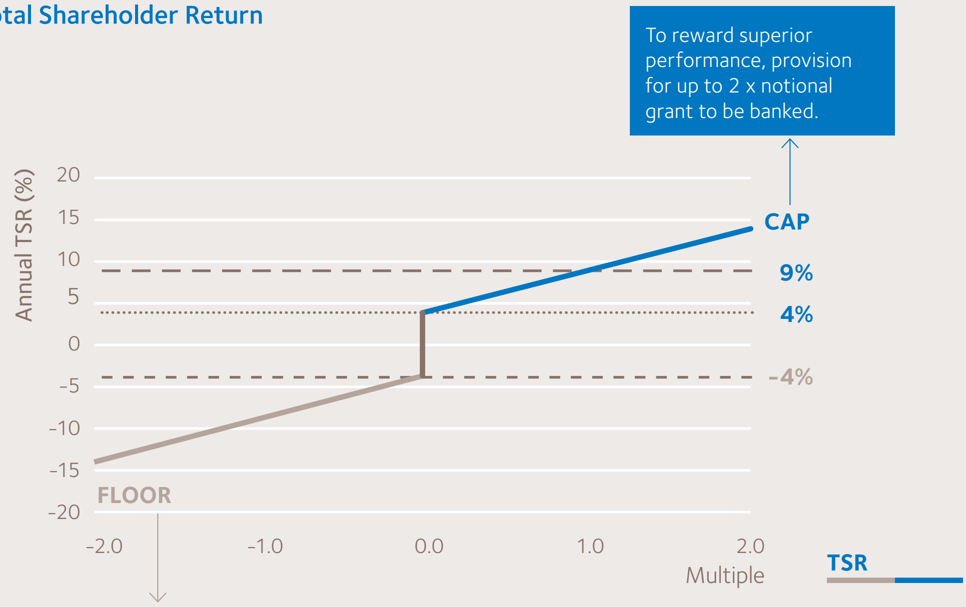
In order to reward management for superior performance, the multiplier provides for up to 2 times the number of SPRs notionally granted to be banked where AGL delivers very strong TSR performance.

Conversely, management is either not rewarded, or is financially penalised by up to 2 times the number of SPRs notionally granted to be **clawed back** from the participant's bank account, when performance against the relevant hurdle is insufficient or negative.

What are the performance hurdles?

HURDLE 1: TSR
At the end of the financial year, the number of SPRs to be deposited or clawed back from a participant's TSR bank account is determined by a multiplier to be applied to the number of SPRs notionally granted according to TSR outcomes detailed in the graph below:

Total Shareholder Return



Where performance is considered to be unacceptable, up to 2 x notional grant may be clawed back from participants' bank accounts

If the **CAP** is triggered, the following year's opening share price is set at a level that would have achieved an Absolute TSR of 14%.

If the **FLOOR** is triggered, the following year's opening share price is set at a level that would have achieved an Absolute TSR of -14%.

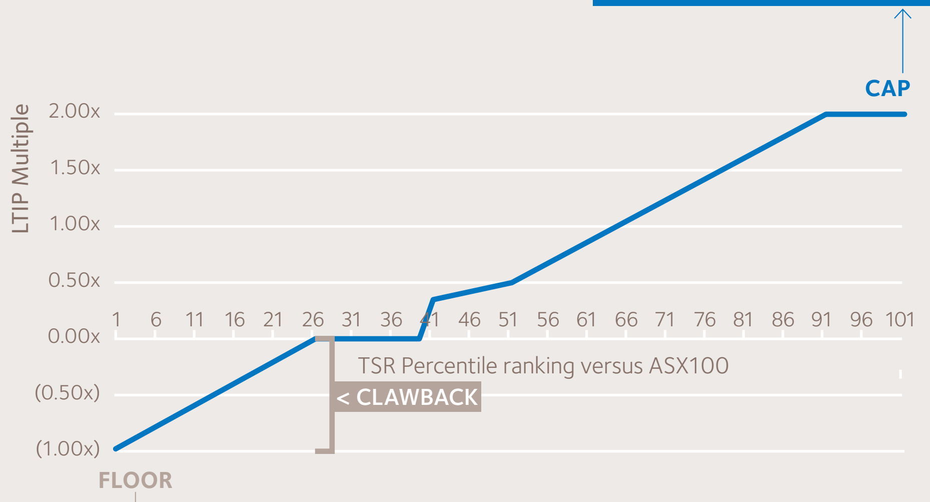
This cap and floor mechanism assists in controlling excessive reward or penalty to management in a year where the significant increase or significant decrease in TSR was only temporary.

Directors' Report 2014 continued

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

Relative TSR Multiplier Scale

To reward superior performance, provision for up to 2 x notional grant to be banked.



Where performance is considered to be unacceptable, up to 1 x notional grant may be clawed back from participants' bank accounts

If the **CAP** is triggered, the following year's opening share price is set at a level that would have achieved an RTSR at the 90th percentile.

If the **FLOOR** is triggered, the following year's opening share price is set at a level that would have achieved an RTSR of zero.

This cap and floor mechanism assists in controlling excessive reward or penalty to management in a year where the significant increase or significant decrease in RTSR was only temporary.

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

Does the board have discretion to waive performance hurdles?	The Board has no discretion to waive performance hurdles for the vesting of SPRs in the LTI plan.

Vesting

When does vesting occur?	At the end of the financial year, 40% of any positive balance in a participant's TSR and RSTR accounts will vest and be converted and distributed to participants as AGL shares.
What happens to the remaining TSR and RTSR bank balances each year after 40% vests?	Any remaining positive balance held in the TSR and RTSR accounts for each participant is carried forward and may vest or be subject to clawback in future years. Any negative balance is also carried forward.

Closed performance hurdle: EBIT/Funds Employed

What will happen to the EBIT/Funds Employed account for each participant?	The EBIT/Funds Employed notional bank account has been closed effective 30 June 2013. No further allocations will be made to this bank account, however to ensure that performance against the EBIT/Funds Employed condition is sustained, the balance in that account will remain subject to clawback until September 2015 and will be treated as follows: **Date** – **Treatment of closing balance** September 2013 – 40% of closing positive notional bank account balance was released. September 2014 – Calculate any negative award (if applicable), clawback, and then vest 50% of remaining balance. September 2015 – Calculate any negative award (if applicable), clawback, and then vest remaining balance. Over 2014 and 2015, clawback may apply as follows: **Annual growth in EBIT/Funds Employed** – **Number of SPRs banked for this hurdle** Greater than minus 4% – No change to notional bank account balance Less than minus 4% and greater than minus 15% – Progressive on a straight-line basis from zero to minus 2 times notional bank account balance Equal to or less than minus 15% – Minus 2 times notional bank account balance Note, if clawback is greater than minus 1 the bank account would reduce to zero and nothing would be paid out.
How is EBIT/Funds Employed calculated?	EBIT/Funds Employed (EBIT divided by Funds Employed) measures the return from funds invested. Refer to the AGL 2013 Remuneration Report on page 68 for a detailed description of how this hurdle is calculated.

Cessation of employment or a change of control

What happens if a participant ceases employment before the SPRs vest?	If a participant ceases employment before the SPRs vest in circumstances other than 'good leaver', any positive balance is forfeited or any negative balance is eliminated.
What happens to 'good leavers'?	In general, all 'banked' share performance rights vest and are converted into shares in AGL on retirement in 'good leaver' circumstances. As noted in section one, during the year, the Board determined that, in the event of retirement, 50% of any positive balances in a good leaver's notional bank account will be released on retirement (to enable the Executive to fund the tax liability that arises on retirement), and the remaining 50% will remain in the account and paid out 12 months following retirement to ensure that Executives remain aligned with shareholders over this period. This will apply to all Executives appointed or promoted after 1 September 2014.
How would a change of control impact LTI entitlements?	As SPRs in each Executive's bank accounts have been earned, the Board considers it appropriate that upon a change of control all positive notional bank account balances are released and any negative balances are extinguished. The LTI Plan rules provide for this.

Example of LTI calculation

Calculation of 2014 LTI award to CEO Michael Fraser

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

Existing Account Balance	FY14 Grant	Multiplier	Amount Banked/or Clawed Back	Account Total Before Vesting	Amount Vested	Closing Balance
(Balance brought forward from 2013)	(Total number of SPRs notionally granted 151,790)	(Based on 2014 performance outcomes)	(FY14 SPRs notionally granted x multiplier)	(Existing balance + amount banked or clawed back)	(40% of TSR or 50% of EBIT/Funds Employed account totals)	(Balance after vesting carried forward to 2015)
EBIT/Funds Employed Account (closed but subject to clawback)						
110,251	0	Minus 0.78	Minus 85,996	24,255	12,128	12,127
RTSR Account						
0	75,895	0.0	0	0	0	0
TSR Account						
65,212	75,895	1.56	118,396	183,608	73,443	110,165

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CEO LTI allocation: 2012 – 2014

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

8. Remuneration disclosures: KMP

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Directors' Report 2014 continued

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

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

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

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

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

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

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

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

(a) After testing the SPRs notionally granted on 27 August 2012 against the relevant performance hurdle, the SPRs are deposited into (or deducted from) the relevant share bank account for each participant.

(b) Fair value of SPRs granted is determined using Monte Carlo Simulation.

(c) SPRs vest at no cost to the recipient providing the relevant performance hurdles are satisfied.

Directors' Report 2014 continued

9. Executive Service Agreements

Service Agreements

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

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

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

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

(2) Mr Fraser may also terminate his agreement with 3 months' notice in the event of a 'Fundamental Change', which includes circumstances where he ceases to hold the most senior management role within AGL or ceases to report directly to the Board, or if the scope of his responsibilities is materially diminished.

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

Retirement of the CEO

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

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

> Mr Fraser will be eligible to receive a pro rata payment of his STI for 2015 based upon 100% of his STI opportunity as well as the deferred component of his 2014 STI; and

> in accordance with approval previously received from shareholders and the terms of the LTI after clawback, vesting and banking for 2014 has occurred, any remaining positive SPR balances will vest on retirement.

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

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

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

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

10. Non-executive Directors

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

11. Five year financial performance

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

Year ended 30 June	2010	2011	2012	2013	2014
Statutory Profit[1] ($m)	356	559	115	375	570
Statutory EPS[1] (cents)	76.8	118.5	23.8	68.2	102.2
Underlying Profit[1] ($m)	429	431	482	585	562
Underlying EPS[1] (cents)	92.5	91.4	100.0	106.3	100.8
Dividends (cents)	59.0	60.0	61.0	63.0	63.0
Increase/(decrease) in share price(%)	9.3	(0.3)	4.2	(2.0)	6.9
EBIT/Funds Employed[1] (%)	9.4	8.9	9.2	10.5	10.0
Adjusted EBIT/Funds Employed[1 & 2](%)	11.3	10.5	11.6	12.7	11.7
TSR[2 & 3](%)	10.2	1.6	13.9	(1.1)	11.8
Relative TSR[2 & 4](%)	–	–	–	–	34.7

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

Directors' Report 2014 continued

Abbreviations used in this report

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

Approval of Directors' Report

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

Jeremy Maycock
Chairman

Concise Financial Report For the year ended 30 June 2014

CONTENTS

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

Further financial information can be obtained from AGL Energy Limited's full financial statements, AGL Financial Report 2014, 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 2014 via the internet by visiting www.agl.com.au and selecting 'Investor Centre' from the 'About AGL' menu.

Consolidated Statement of Profit or Loss

For the year ended 30 June 2014	Notes	2014 $m	2013 $m (Restated)
Continuing operations			
Revenue	4	**9,543**	9,716
Expenses		**(8,263)**	(8,806)
Share of profits of associates and joint ventures		**25**	26
Profit before net financing costs, depreciation and amortisation		**1,305**	936
Depreciation and amortisation		**(326)**	(287)
Profit before net financing costs		**979**	649
Finance income		**24**	41
Finance costs		**(243)**	(245)
Net financing costs		**(219)**	(204)
Profit before tax		**760**	445
Income tax expense		**(190)**	(70)
Profit for the year		**570**	375
Profit attributable to:			
Owners of AGL Energy Limited		**570**	375
Non-controlling interests		**–**	–
		570	375
Earnings per share			
Basic earnings per share		**102.2 cents**	68.2 cents
Diluted earnings per share		**102.1 cents**	68.1 cents

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2014	2014 $m	2013 $m (Restated)
Profit for the year	**570**	375
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Remeasurement gain on defined benefit plans	**60**	97
Income tax relating to items that will not be reclassified subsequently	**(18)**	(29)
	42	68
Items that may be reclassified subsequently to profit or loss		
Cash flow hedges		
(Loss)/gain in fair value of cash flow hedges	**(135)**	40
Reclassification adjustments transferred to profit or loss	**(6)**	(83)
Reclassification adjustments transferred to the initial carrying amounts of hedged items	**–**	7
Income tax relating to items that may be reclassified subsequently	**42**	11
	(99)	(25)
Other comprehensive income for the year, net of income tax	**(57)**	43
Total comprehensive income for the year	**513**	418
Total comprehensive income attributable to:		
Owners of AGL Energy Limited	**513**	418
Non-controlling interests	**–**	–
	513	418

Consolidated Statement of Financial Position

As at 30 June 2014	2014 $m	2013 $m (Restated)
Current assets		
Cash and cash equivalents	456	281
Trade and other receivables	1,743	1,844
Inventories	191	133
Other financial assets	114	187
Other assets	318	391
	2,822	2,836
Assets classified as held for sale	430	–
Total current assets	3,252	2,836
Non-current assets		
Trade and other receivables	46	47
Inventories	28	29
Other financial assets	484	338
Investments in associates and joint ventures	32	33
Exploration and evaluation assets	372	349
Oil and gas assets	170	495
Property, plant and equipment	5,694	5,332
Intangible assets	3,248	3,150
Deferred tax assets	631	729
Other assets	18	28
Total non-current assets	10,723	10,530
Total assets	13,975	13,366
Current liabilities		
Trade and other payables	1,258	1,445
Borrowings	45	45
Provisions	101	115
Current tax liabilities	49	155
Other financial liabilities	477	432
	1,930	2,192
Liabilities directly associated with assets classified as held for sale	77	–
Total current liabilities	2,007	2,192
Non-current liabilities		
Borrowings	3,669	3,064
Provisions	106	250
Deferred tax liabilities	50	100
Other financial liabilities	280	264
Other liabilities	275	156
Total non-current liabilities	4,380	3,834
Total liabilities	6,387	6,026
Net assets	7,588	7,340
Equity		
Issued capital	5,437	5,354
Reserves	(99)	(2)
Retained earnings	2,249	1,988
Total equity attributable to owners of AGL Energy Limited	7,587	7,340
Non-controlling interests	1	–
Total equity	7,588	7,340

Consolidated Statement of Changes in Equity

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

Consolidated Statement of Cash Flows

For the year ended 30 June 2014	2014 $m	2013 $m
Cash flows from operating activities		
Receipts from customers	11,791	11,297
Payments to suppliers and employees	(10,733)	(10,434)
Dividends received	26	24
Finance income received	23	43
Finance costs paid	(217)	(257)
Income taxes paid	(191)	(71)
Net cash provided by operating activities	699	602
Cash flows from investing activities		
Payments for property, plant and equipment	(624)	(480)
Payments for exploration and evaluation assets	(28)	(41)
Payments for oil and gas assets	(46)	(49)
Payments for intangible assets	(25)	(44)
Payments for businesses and subsidiaries, net of cash acquired		
acquisitions in current period	(79)	–
acquisitions in prior periods	(33)	(33)
Government grants received	190	–
Proceeds from sale of property, plant and equipment	2	1
Proceeds from sale of exploration and evaluation assets	–	3
Loans advanced to related parties	(126)	(72)
Proceeds from repayment of related party loans	–	165
Net cash used in investing activities	(769)	(550)
Cash flows from financing activities		
Proceeds from issue of shares, net of transaction costs	1	–
Proceeds from issue of shares to non-controlling interest	1	–
Purchase of shares on-market for equity based remuneration	(6)	(6)
Proceeds from borrowings	2,075	285
Repayment of borrowings	(1,547)	(1,544)
Payments for settlement of derivative financial instruments	–	(105)
Dividends paid	(269)	(214)
Net cash provided by/(used in) financing activities	255	(1,584)
Net increase/(decrease) in cash and cash equivalents	185	(1,532)
Cash and cash equivalents at the beginning of the financial year	281	1,813
Cash and cash equivalents at the end of the financial year	466	281

Notes to the Concise Financial Statements

Note 1 – Basis of preparation

The concise financial statements have been prepared in accordance with the Corporations Act 2001 and Accounting Standard AASB 1039 *Concise Financial Reports*. The concise financial statements are an extract from the full financial statements. The concise financial statements and specific disclosures included in the concise financial statements have been derived from AGL Energy Limited's full financial statements, AGL Financial Report 2014. All amounts are presented in Australian dollars.

Note 2 – Adoption of new and revised accounting standards

The consolidated entity (AGL) has adopted the following new and revised Standards and Interpretations that are relevant to its operations and effective for the current reporting period.

Impact of the application of AASB 10 Consolidated Financial Statements

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

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

Impact of the application of AASB 11 Joint Arrangements

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

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

Impact of the application of AASB 12 Disclosure of Interests in Other Entities

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

Impact of the application of AASB 13 Fair Value Measurement

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

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

Impact of the other applied Standards and Interpretations

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

> AASB Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine*

> AASB 2011–4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements*

> AASB 2012–2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities*

> AASB 2012–5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle*

> AASB 2012–9 *Amendment to AASB 1048 arising from the Withdrawal of Australian Interpretation 1039*

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

Notes to the Concise Financial Statements continued

Note 2 – Adoption of new and revised accounting standards (continued)

Impact of the application of AASB 119 Employee Benefits (2011)

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

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

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

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

The following tables summarise the impact of AASB 119 on individual line items in AGL's financial statements:

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

Note 3 – Segment information

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

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

Notes to the Concise Financial Statements continued

Note 3 – Segment information (continued)

	2014 $m	2013 $m (Restated)
Segment revenue reconciliation to the statement of profit or loss		
Reconciliation of segment revenue to total revenue is as follows:		
Total segment revenue for reportable segments	11,762	11,925
Elimination of inter-segment revenue	(2,219)	(2,209)
Total revenue for reportable segments	9,543	9,716
Other	–	–
Total revenue	9,543	9,716
Revenue from major products and services		
The following is an analysis of AGL's revenue from its major products and services:		
Electricity	5,681	5,790
Gas	2,351	2,199
Generation sales to pool	1,178	1,303
Other revenue	333	424
Total revenue	9,543	9,716
Segment Operating EBIT reconciliation to the statement of profit or loss		
Reconciliation of segment Operating EBIT to profit before tax is as follows:		
Operating EBIT for reportable segments	1,227	1,235
Other	(223)	(204)
	1,004	1,031
Amounts excluded from underlying results:		
– gain in fair value of financial instruments	40	114
– significant expense items	(61)	(494)
Finance income included in Operating EBIT	(4)	(2)
Finance income	24	41
Finance costs	(243)	(245)
Profit before tax	760	445
Segment assets reconciliation to the statement of financial position		
Reconciliation of segment assets to total assets is as follows:		
Segment assets for reportable segments	12,293	11,725
Other	131	124
	12,424	11,849
Cash and cash equivalents	456	281
Cash and cash equivalents included in disposal groups held for sale	10	–
Deferred tax assets	631	729
Derivative financial instruments	454	507
Total assets	13,975	13,366
Segment liabilities reconciliation to the statement of financial position		
Reconciliation of segment liabilities to total liabilities is as follows:		
Segment liabilities for reportable segments	1,716	1,859
Other	101	107
	1,817	1,966
Borrowings	3,714	3,109
Current tax liabilities	49	155
Deferred tax liabilities	50	100
Derivative financial instruments	515	450
Deferred and contingent consideration liabilities	242	246
Total liabilities	6,387	6,026

Geographical information

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

Information about major customers

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

	2014 $m	2013 $m
Note 4 – Revenue		
Revenue from sale of goods	**9,406**	9,563
Revenue from rendering of services	**136**	152
Other	**1**	1
	9,543	9,716

Note 5 – Dividends

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

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

Dividend reinvestment plan

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

Dividend franking account

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

Note 6 – 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:

Potential acquisition of Macquarie Generation

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

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

On 25 June 2014, ACT granted conditional authorisation for AGL's proposed acquisition, the ACCC had 28 days to apply for a review of the decision. On 24 July 2014, the ACCC announced that it would not apply for a judicial review of the ACT's decision to grant AGL conditional approval for its proposed acquisition of Macquarie Generation assets.

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

Notes to the Concise Financial Statements continued

Note 6 – Subsequent events (continued)

Carbon tax repeal

On 17 July 2014, the Federal Government passed legislation to repeal the Carbon Tax. The expected impact on AGL's earnings for the year ending 30 June 2015 is outlined in section 7.2 of the AGL Operating and Financial Review attached to and forming part of the Directors' Report.

Final dividend

On 20 August 2014, the Directors of AGL resolved to pay a fully franked final dividend of 33.0 cents per share, amounting to $185 million. The record date for the final dividend is 4 September 2014 with payment to be made on 30 September 2014. Shares will commence trading ex-dividend on 2 September 2014.

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

Directors' Declaration

For the year ended 30 June 2014

The Directors of AGL Energy Limited declare that:

(a) in their opinion, 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, 20 August 2014

Auditor's Independence Declaration

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

20 August 2014

Dear Board Members

AGL Energy Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of AGL Energy Limited.

As lead audit partner for the audit of the financial statements of AGL Energy Limited for the financial year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

DELOITTE TOUCHE TOHMATSU

G Couttas
Partner
Chartered Accountants

Independent Auditor's Report

To the Members of AGL Energy Limited

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

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Deloitte.

Report on the Concise Financial Report

We have audited the accompanying concise financial report of AGL Energy Limited which comprises the Consolidated Statement of Financial Position as at 30 June 2014, the Consolidated Statement of Profit or Loss, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows for the year then ended, and related notes, derived from the audited financial report of AGL Energy Limited for the year ended 30 June 2014 as set out on pages 72 to 82. The concise financial report does not contain all the disclosures required by the Australian Accounting Standards and accordingly, reading the concise financial report is not a substitute for reading the audited financial report.

Directors' Responsibility for the Concise Financial Report

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

Auditor's Responsibility

Our responsibility is to express an opinion on the concise financial report based on our procedures which were conducted in accordance with Auditing Standard ASA 810 *Engagements to Report on Summary Financial Statements*. We have conducted an independent audit, in accordance with Australian Auditing Standards, of the financial report of AGL Energy Limited for the year ended 30 June 2014. We expressed an unmodified audit opinion on that financial report in our report dated 20 August 2014. The Australian Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report for the year is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the concise financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the concise financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the concise financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

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

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

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

Deloitte.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of AGL Energy Limited would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion, the concise financial report of AGL Energy Limited for the year ended 30 June 2014 complies with Accounting Standard AASB 1039 *Concise Financial Reports*.

Report on the Remuneration Report

The following paragraph is copied from our Report on the Remuneration Report for the year ended 30 June 2014.

We have audited the Remuneration Report included in pages 53 to 70 of the Directors' Report for the year ended 30 June 2014. The Directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of AGL Energy Limited for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

G. Couttas

Partner
Chartered Accountants
Sydney, 20 August 2014

Shareholding Information

The following information is provided regarding the Issued Capital of AGL as at 13 August 2014:

1. The Issued Capital consisted of 559,719,746 fully-paid ordinary shares.
2. There were 124,033 holders of these ordinary shares.
3. There were 2,579 holders of less than a marketable parcel of 35 shares.
4. The distribution of holders was:

	No. of holders	%
1 – 1,000	62,761	50.60
1,001 – 5,000	51,286	41.35
5,001 – 10,000	6,667	5.38
10,001 – 100,000	3,227	2.60
100,001 and over	92	0.07
	124,033	**100**

5. The location of holders was:

Location	No. of holders	%	No. of shares	%
Australia	120,612	97.24	550,309,376	98.32
Hong Kong	44	0.04	144,206	0.03
New Zealand	2,429	1.96	8,144,188	1.45
United Kingdom	311	0.25	382,262	0.07
USA and Canada	461	0.37	396,805	0.07
Others	176	0.14	342,909	0.06
	124,033	**100**	**559,719,746**	**100**

6. The class of holders was:

Class of holder	No. of holders	%	No. of shares	%
Individuals	84,584	68.20	153,821,935	27.48
Companies and other	39,449	31.80	405,897,811	72.52
	124,033	**100**	**559,719,746**	**100**

7. The twenty largest holders held 51.25% of the Issued Capital:

Twenty largest holders as at 13 August 2014	Fully-paid ordinary shares	% of total issued shares
J P Morgan Nominees Australia Limited	82,969,330	14.82
HSBC Custody Nominees (Australia) Limited	81,026,288	14.48
National Nominees Limited	52,274,535	9.34
Citicorp Nominees Pty Limited	21,612,341	3.86
BNP Paribus Nominees Pty Limited	9,708,485	1.73
Australian Foundation Investment Company Limited	5,083,157	0.91
Citicorp Nominees Pty Limited	4,858,465	0.87
RBC Investor Services Australia Nominees Pty Limited	4,028,019	0.72
AMP Life Limited	3,423,179	0.61
UBS Wealth Management Australia Nominees Pty Ltd	3,343,145	0.60
Argo Investments Limited	3,159,316	0.56
Custodial Services Limited	2,736,159	0.49
Milton Corporation Limited	2,390,954	0.43
Questor Financial Services Limited	2,079,373	0.37
Navigator Australia Limited	1,772,771	0.32
HSBC Custody Nominees (Australia) Limited	1,699,084	0.30
Gwynvill Investments Pty Limited	1,263,150	0.23
BKI Investment Company Limited	1,247,207	0.22
Carlton Hotel Limited	1,129,463	0.20
RBC Investor Services Australia Nominees Pty Limited	1,079,510	0.19
	286,883,931	**51.25**

Subordinated Note Holding Information

The following information is provided regarding the Subordinated Notes of AGL as at 13 August 2014:

1. There were 6,500,000 Subordinated Notes.
2. There were 9,740 holders of these Subordinated Notes.
3. There were no holders of less than a marketable parcel of 5 Subordinated Notes.
4. The distribution of holders was:

	No. of holders	%
1 – 1,000	9,181	94.26
1,001 – 5,000	499	5.12
5,001 – 10,000	29	0.30
10,001 – 100,000	22	0.23
100,001 and over	9	0.09
	9,740	**100**

5. The location of holders was:

Location	No. of holders	%	No. of notes	%
Australia	9,672	99.30	6,331,342	97.41
Hong Kong	8	0.08	30,246	0.46
New Zealand	23	0.24	14,845	0.23
Taiwan	1	0.01	90,000	1.38
United Kingdom	7	0.07	9,594	0.15
Others	29	0.30	23,973	0.37
	9,740	**100**	**6,500,000**	**100**

6. The class of holders was:

Class of holder	No. of holders	%	No. of notes	%
Individuals	3,561	36.56	1,366,712	21.03
Companies and other	6,179	63.44	5,133,288	78.97
	9,740	**100**	**6,500,000**	**100**

7. The twenty largest holders held 49.49% of the Subordinated Notes:

Twenty largest holders as at 13 August 2014	Subordinated notes	% of total notes
J P Morgan Nominees Australia Limited	659,589	10.15
National Nominees Limited	548,866	8.44
Bond Street Custodians Limited	350,365	5.39
Citicorp Nominees Pty Limited	302,655	4.66
BT Portfolio Services Ltd	218,758	3.37
HSBC Custody Nominees (Australia) Limited	186,224	2.86
Questor Financial Services Limited	123,958	1.91
Cogent Nominees Pty Limited	106,081	1.63
UBS Wealth Management Australia Nominees Pty Ltd	102,402	1.58
Navigator Australia Limited	96,696	1.49
Mr Ting-Tzu Kuo	90,000	1.38
Nulis Nominees (Australia) Limited	80,061	1.23
Share Direct Nominees Pty Limited	74,604	1.15
Avanteos Investments Limited	58,396	0.90
RBC Dexia Investor Services Australia Nominees Pty Limited	55,378	0.85
Bainpro Nominees Pty Ltd	54,040	0.83
UBS Nominees Pty Ltd	38,311	0.59
Australian Executor Trustees Limited	25,735	0.40
Asgard Capital Management Ltd	24,293	0.37
Sandhurst Trustees Ltd	20,406	0.31
	3,216,818	**49.49**

Investor Information

Website access

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

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

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

> Checking your holding balance;

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

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

> Electing to receive communications electronically; and

> Downloading a variety of forms.

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

Share Registry

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

AGL Share Registry
Link Market Services Limited
1A Homebush Drive
Rhodes NSW 2138
(Postal Address: Locked Bag A14, Sydney South NSW 1235)

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

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

Final Share Dividend

The final dividend of 33 cents per share 100% franked, will be paid on 30 September 2014. As the final dividend will only be paid via direct credit, Australian and New Zealand Shareholders need to nominate a bank, building society or credit union account within these jurisdictions. Payments are electronically credited on the dividend payment date and confirmed by a mailed or electronic payment advice. Payment instructions can either be lodged online or an appropriate form can be downloaded from the Share Registry's website.

Dividend Reinvestment Plan

AGL offers Shareholders the opportunity to participate in the Dividend Reinvestment Plan. Shares are allotted under the Plan at a discount of up to 5% of a weighted average market price, free of transaction costs. The actual rate of discount, if any, will be determined by the Directors at the time each dividend is declared. A nil discount was applied to the 2014 interim dividend and the 2014 final dividend.

Subordinated Note Interest Payments

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

Reporting to Shareholders

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

Change of name, address or banking details

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

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

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

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

Consolidation of shareholdings

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

Registered Office

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

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

Company Secretary

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

Directory

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