AGL Energy Limited
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ASX & Media Release

AGL FY17 Financial Reports

10 August 2017

Attached are the following documents relating to AGL Energy Limited's results for the year ended 30 June 2017:

- Appendix 4E
- Directors' Report
- Financial Report

John Fitzgerald
Company Secretary

About AGL

AGL is committed to helping shape a sustainable energy future for Australia. We operate the country's largest electricity generation portfolio, we're its largest ASX-listed investor in renewable energy, and we have more than 3.6 million customer accounts. Proudly Australian, with more than 180 years of experience, we have a responsibility to provide sustainable, secure and affordable energy for our customers. Our aim is to prosper in a carbon-constrained world and build customer advocacy as our industry transforms. That's why we have committed to exiting our coal-fired generation by 2050 and why we will continue to develop innovative solutions for our customers.

Appendix 4E

AGL Energy Limited

ABN 74 115 061 375

Preliminary Final Report

Results for announcement to the market
for the year ended 30 June 2017

				2017 $A million	2016 $A million
Revenue	**Up**	**12.9%**	to	**12,584**	11,150
Statutory Profit/(Loss) after tax attributable to shareholders	**Up**	**232.1%**	to	**539**	(408)
Underlying Profit after tax attributable to shareholders	**Up**	**14.4%**	to	**802**	701
				cents	cents
Statutory Earnings per share	**Up**	**233.1%**	to	**80.5**	(60.5)
Underlying Earnings per share	**Up**	**15.3%**	to	**119.8**	103.9
				$	$
Net tangible asset backing per share	**Down**	**6.0%**	to	**6.54**	6.96

Dividends	Amount cents	Franked amount cents
Final dividend per ordinary share	50.0	40.0
Interim dividend per ordinary share	41.0	32.8

Record date for determining entitlements to the final dividend:
24 August 2017 and payable 22 September 2017

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

Statutory Profit after tax of $539 million included a loss of $263 million after tax from the changes in the fair value of financial instruments. Excluding these items, the Underlying Profit after tax was $802 million, 14.4% up on the prior corresponding period.

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

This report should be read in conjunction with the AGL Directors' Report, incorporating the Operating & Financial Review and AGL Financial Report for the year ended 30 June 2017 released to the market on 10 August 2017.

AGL Energy Limited and controlled entities

Directors’ Report

For the year ended 30 June 2017
(Including the Operating & Financial Review)

Directors' Report

The Directors present their Report, set out on pages 1 to 49, including the Operating & Financial Review (pages 5 to 26), the Remuneration Report (pages 27 to 46) and Other Required Disclosures (pages 47 to 49); 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 2017 and the Independent Auditor's Report thereon.

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

The names of the persons who have been Directors, or appointed as Directors, during the period since 1 July 2016 and up to the date of this Report are Andy Vesey (Managing Director & CEO), Jerry Maycock (Chairman), Les Hosking, Graeme Hunt, Belinda Hutchinson, Jacqueline Hey, Bruce Phillips (retired 28 September 2016), John Stanhope, Peter Botten (from 21 October 2016) and Diane Smith-Gander (from 28 September 2016).

Details of the skills, qualifications, experience and responsibilities of AGL's Directors as at the date of this Report are set out below.

Jerry Maycock

BEng (Mech) (Hons), FAICD, FIPENZ

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

Age 65.

Current Directorships: Chairman of Port of Brisbane Pty Ltd, Director of The Smith Family and BRW Building Services Pty Limited.

Former Directorships of listed companies over the past 3 years: Jerry was a Director of Arrium Limited from 19 August 2014 until 21 October 2016, and held the position of Chairman from 17 November 2014. Jerry was also a Director of Nuplex Industries Limited from 1 September 2011 until 1 November 2014.

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

Andy Vesey

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

Managing Director and Chief Executive Officer since February 2015.

Age 62.

Current Directorships: Nil

Former Directorships of listed companies over the past 3 years: Nil

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

Jacqueline Hey

BCom, Grad Cert (Mgmt), GAICD

Non-executive Director since March 2016.

Age 51.

Current Directorships: Director of Qantas Airways Limited (commenced 29 August 2013), Bendigo and Adelaide Bank Limited (commenced 5 July 2011), Australian Foundation Investment Company Ltd (commenced 31 July 2013), Cricket Australia and Melbourne Business School and Member of Brighton Grammar School Council.

Former Directorships of listed companies over the past 3 years: Nil

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

Les Hosking

Non-executive Director since November 2008.

Age 72.

Current Directorships: Chairman of Adelaide Brighton Limited (commenced as a Non Executive Director on 10 June 2003) and an Adjunct Professor of the University of Sydney John Grill Centre for Project Leadership.

Former Directorships of listed companies over the past 3 years: Nil

Experience: Les has over 30 years of experience in trading, broking and

Graeme Hunt

MBA, BMET

Non-executive Director since September 2012.

Age 60.

Current Directorships: Chairman of the National Resources Science Precinct and the Western Australian Energy Research Alliance.

Former Directorships of listed companies over the past 3 years: Graeme was a Director of Broadspectrum Limited (formerly known as Transfield Services Limited) from 7 May 2012 until 31 December 2016, and held the position of Managing Director and Chief Executive

Belinda Hutchinson

AM, BEc, FCA, FAICD

Non-executive Director since December 2010.

Age 64.

Current Directorships: Chancellor of the University of Sydney, Chairman of Thales Australia Limited (commenced 27 August 2015) and Future Generation Global Investment Company (commenced 28 May 2015), a Director of Australian Philanthropic Services and a Member of St Vincent's Health Australia NSW Advisory Council.

Former Directorships of listed companies over the past 3 years: Nil management in metals, soft commodities, energy and financial instrument derivatives in the global futures industry. He was previously a Director of The Carbon Market Institute Limited, Innovation Australia Pty Limited, Australian Energy Market Operator Limited (AEMO), and Managing Director and Chief Executive Officer of NEMMCo.

Peter Botten

CBE, BSc, ARSM

Non-executive Director since 21 October 2016.

Age 62.

Current Directorships: Council Member of the Australia PNG Business Council, Chairman of the Oil Search Foundation, Business for Development Australia, Hela Provincial Health Authority, the National Football Stadium Trust in Papua New Guinea and Managing Director of Oil Search Limited (appointed on 28 October 1994).

Former Directorships of listed companies over the past 3 years: Nil

Experience: Peter has been Managing Director of Oil Search Limited since 1994, overseeing its development into a major Australian Securities Exchange-listed company. Peter has extensive worldwide experience in the oil and gas industry, holding various senior technical, managerial and board positions in a number of listed and government-owned bodies.

Officer from 1 November 2012 until 31 December 2016.

Experience: Graeme has extensive experience in establishing and operating large capital projects. He was previously Managing Director of Broadspectrum Limited and Managing Director of Lihir Gold Limited. He has also held a number of senior executive positions in a 30 year career with the BHP Group.

Diane Smith-Gander

BEc, MBA, FAICD, FGIA, Hon. DEc, FAIM, GAICD

Non-executive Director since 28 September 2016.

Age 59.

Current Directorships: Chair of Safe Work Australia and the Asbestos Safety and Eradication Council, a Director of Wesfarmers Limited (commenced 27 August 2009), Keystart Loans Limited, Henry Davis York, Councillor of Methodist Ladies College and Member of the UWA Business School Advisory Board.

Former Directorships of listed companies over the past 3 years: Diane was a Director of Broadspectrum Limited (formerly known as Transfield Services Limited) from 22 October 2010 until 16 September 2016, and held the position of Chair from 25 October 2013 until 16 September 2016.

Experience: Diane has extensive Australian and international experience in banking and finance, technology, and strategic and management consulting. This includes a former Partner at McKinsey in Washington DC and New Jersey in the US, and Group Executive IT and Operations, Westpac Banking Corporation.

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

John Stanhope AM

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

Non-executive Director since March 2009.

Age 66.

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

Former Directorships of listed companies over the past 3 years: Nil

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

Composition of Board Committees as at 30 June 2017

Director	Status	Audit and Risk Management Committee	People and Performance Committee	Safety, Sustainability and Corporate Responsibility Committee	Nominations Committee
Jerry Maycock	Independent				Chair
Andy Vesey	Managing Director and Chief Executive Officer				
Jacqueline Hey	Independent	•		•	•
Les Hosking	Independent	•	Chair		•
Graeme Hunt	Independent		•	Chair	•
Belinda Hutchinson	Independent	•	•		•
Peter Botten	Independent			•	•
John Stanhope	Independent	Chair	•		•
Diane Smith-Gander	Independent		•	•	•

Directors' Interests

The relevant interest of each Director in the share capital of AGL or any of its related bodies corporate, 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	
Jerry Maycock	79,831
Andy Vesey	267,617
Les Hosking	5,001
Graeme Hunt	4,000
Belinda Hutchinson	9,156
John Stanhope	7,717
Jacqueline Hey	3,519
Peter Botten	2,390
Diane Smith-Gander	5,670

Jerry 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

John Fitzgerald was appointed Company Secretary on 1 October 2015. In December 2007, John was appointed General Counsel and continues to hold that position in addition to his role as Company Secretary. John's qualifications are a Bachelor of Arts and a Bachelor of Laws from the University of New South Wales and a Masters in Arts from the National University of Ireland (University College Dublin). John is admitted as a Solicitor of the Supreme Court of New South Wales and has been practising in projects, mining and energy law for over 20 years.

Melinda Hunter was appointed as an additional Company Secretary on 23 May 2017. Melinda's qualifications are a Bachelor of Commerce and a Bachelor of Laws from Macquarie University. Melinda is admitted as a Solicitor of the Supreme Court of New South Wales and has been practising corporate law for over 15 years.

Dividends

The annual dividend for the year ended 30 June 2017 was 91.0 cents per share (80% franked) compared with 68.0 cents per share (100% franked) for the prior year. The FY17 dividend includes an interim dividend of 41.0 cents per share paid on 27 March 2017 and a final dividend of 50.0 cents per share payable on 22 September 2017.

For more information on dividends, refer to the Other Required Disclosures on page 48.

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 ended 30 June 2017 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
Jerry Maycock	11	11	6	6							5	5
Andy Vesey	11	11	6	6								
Jacqueline Hey	11	11	6	6	5	5			4	4	5	5
Les Hosking	11	11	6	6	5	5	6	6			5	5
Graeme Hunt	10	11	5	6			6	6	4	4	5	5
Belinda Hutchinson	11	11	5	6	5	5	6	6			5	5
Peter Botten	8	8	4	4					2	3	3	4
Diane Smith-Gander	8	8	4	4			5	5	4	4	4	4
John Stanhope	11	11	5	6	5	5	6	6			5	5
Bruce Phillips	3	3	1	2	1	1						

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 23 occasions when 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 settle 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.

AGL Energy Limited

Operating & Financial Review

For the year ended 30 June 2017

Contents

1. About AGL

AGL is a leading integrated energy company that has been operating for more than 180 years and is committed to helping shape a sustainable energy future for Australia. AGL operates the country's largest private electricity generation portfolio, its total capacity of 10,246 MW accounted for 25% of total generation within the National Electricity Market in the financial year ended 30 June 2017. AGL is also the largest ASX-listed investor in renewable energy, an active participant in gas and electricity wholesale markets and has more than 3.6 million gas and electricity customer accounts.

1.1 Operating Segments

AGL manages its business in three key operating segments: Energy Markets, Group Operations and Investments.

- Energy Markets sells electricity, gas and energy-related products and services to consumer, business and wholesale customers and is responsible for managing the wholesale risks associated with servicing those customers.
- Group Operations comprises AGL's power generation portfolio and other key sites and operating facilities including the Newcastle Gas Storage Facility.
- Investments includes AGL's interests in the ActewAGL Retail Partnership, Powering Australian Renewables Fund, Energy Impact Partners' Fund and Sunverge Energy.

In accordance with Australian Accounting Standard AASB 8 *Operating Segments*, AGL reports segment information on the same basis as its internal management structure. As such, the Energy Markets operating segment reports the majority of the revenue and margin from AGL's activities, while the Group Operations operating segment reports the majority of the expenses.

AGL manages and reports a number of expense items including information technology under Centrally Managed Expenses to maximise efficiency and optimise service levels. These costs are not formally reallocated to the other operating segments because their management is the responsibility of various corporate functions.

1.1.1 Energy Markets

Energy Markets comprises three Business Units: Wholesale Markets; Customer (formerly Consumer Market and Business Customers); and New Energy Services.

- Wholesale Markets comprises Wholesale Electricity, Wholesale Gas and Eco Markets and is responsible for managing the price risk associated with procuring electricity and gas for AGL's customers and for managing AGL's obligations in relation to renewable energy schemes. Wholesale Markets also controls the dispatch of AGL's owned and contracted generation assets and an associated portfolio of energy hedging products.
  - Wholesale Electricity is responsible for managing the procurement of key fuel inputs and hedging of AGL's wholesale electricity requirements, for commercial management of the generation portfolio and for wholesale pricing to support AGL's consumer and business customer bases.
  - Wholesale Gas is responsible for sourcing and managing AGL's gas supply and transportation portfolio to maximise wholesale price effectiveness for the Customer business unit. Wholesale Gas supplies other retailers, internal and third-party gas-fired generators, and other gas customers. Wholesale Gas is also responsible for the management of the price exposures related to AGL's oil-linked wholesale gas contracts.
  - Eco Markets is responsible for managing AGL's liabilities relating to both voluntary and mandatory renewable energy schemes, the largest being the Small Scale Renewable Energy Scheme (SRES) and the Large Scale Renewable Energy Target (LRET).
- The Customer business unit services consumers and business customers. It sources its energy from Wholesale Markets at a transfer price calculated based on methodologies that reflect the prevailing wholesale market conditions and other energy costs in each state.
- New Energy Services comprises AGL's residential and commercial solar and business energy efficiency solutions businesses.

In December 2016, AGL announced that its New Energy operations would no longer comprise a separate operating segment following the decision to refocus New Energy as an innovation accelerator. Consequently, the New Energy Services and Distributed Energy Services businesses were transferred to the Energy Markets and Group Operations operating segments, respectively.

In May 2017, AGL announced it would change its operating segment structure to reflect management reporting changes aligned with the splitting of the Energy Markets operating segment into two new segments, one comprising the Wholesale Markets business unit and one comprising the Customer and New Energy Services business units titled Customer Markets. These changes were effective 1 July 2017 and do not impact FY17 reporting.

1.1.2 Group Operations

Group Operations comprises four business units: Thermal; Renewables; Natural Gas; and Other Operations.

- Thermal primarily comprises: AGL Macquarie (4,640 MW), comprising the Bayswater and Liddell black coal power plants in New South Wales; AGL Loy Yang (2,210 MW), a brown coal mine and power plant in Victoria; and AGL Torrens (1,280 MW), a gas power plant in South Australia.
- Renewables primarily comprises 924 MW of wind power generation in South Australia and Victoria; 788 MW of hydro-electric power stations in Victoria and New South Wales; and 155 MW of solar power in New South Wales.
- Natural Gas comprises the Newcastle Gas Storage Facility in New South Wales and the Silver Springs underground gas storage facility in Queensland. It also includes the natural gas production assets at Camden in New South Wales and Moranbah in Queensland. Consistent with its February 2016 announcement that it would be exiting gas exploration and production as a core activity, AGL is seeking to divest the Moranbah assets.
- Other Operations primarily comprises the Distributed Energy Services business (including the Active

Stream digital metering business, other businesses collectively known as the National Assets; and the solar and storage installation businesses).

1.2 Significant Changes to Assets

In February 2016, AGL created the Powering Australian Renewables Fund (PARF), of which AGL would own 20% of the equity, to develop and own approximately 1,000 MW of large-scale renewable energy generation assets. During FY17 AGL divested its solar plants at Nyngan and Broken Hill and its wind farm project in Silverton (all in New South Wales) into PARF for $293 million. At 30 June 2017, AGL had invested $14 million of equity in PARF.

In November 2016, AGL announced it would make a US$50 million commitment, over five years, in US-based Energy Impact Partners' Fund investing in high growth companies optimising energy consumption, improving sustainable energy generation and empowering consumers. Target segments include energy efficiency, sustainable generation, storage, connected devices, big data and software solutions, and energy management. At 30 June 2017, AGL had invested US$12 million (AU$16 million) of this commitment.

2. Review of Financial Position

AGL's financial position is consistent with the strong profitability of AGL's operations, the strong conversion of income to cash flow and the relatively essential nature of the services AGL provides to its customers.

AGL maintained its credit rating of Baa2 as provided by Moody's Investor Services throughout the year. Key metrics consistent with this credit rating at 30 June 2017 and calculated with a similar methodology were as follows:

- Interest cover: 7.5x
- Funds from operation to net debt: 35%

AGL's gearing (measured as the ratio of net debt to net debt plus equity) at 30 June 2017 was 29.6% compared with 25.7% 30 June 2016.

In September 2016, the Board introduced a change to dividend policy to target a payout ratio of 75% of Underlying Profit after tax and a minimum franking level of 80%, to enable growth in returns to shareholders. The payout ratio had been between 60% and 65% over the prior five financial years and franking had been maintained at 100%. The new policy applied from the interim dividend paid to shareholders in March 2017. Total dividends declared for FY17 of $602 million were 31% higher than FY16.

AGL continued to operate its Dividend Reinvestment Plan (DRP) during the period, at nil discount. During the year, AGL acquired shares for allotment to DRP participants on market, thereby preventing any dilutive effect from the DRP.

In October 2016, AGL began a program to acquire up to 5% of its issued share capital (33.7 million shares, or $596 million at the time of announcement) via an on-market share buyback. At 30 June 2017, AGL had acquired 18.9 million shares under the buyback for a total consideration of $473 million.

At 30 June 2017, AGL's total assets were $14,458 million, down slightly from $14,604 million at 30 June 2016. There was no significant change to the composition of AGL's assets during the year.

Total equity at 30 June 2017 was $7,574 million. Return on equity (calculated as Underlying Profit after tax divided by average monthly equity for the year) for the period was 10.2%, an improvement from 8.3% from FY16. This reflected an increase in Underlying Profit (see section 4.2) as well as reduction in average monthly equity from $8,466 million to $7,899 million, mainly as a result of the on-market share buyback.

Total liabilities at 30 June 2017 were $6,884 million, up from $6,678 million at 30 June 2016. The primary change to borrowings during FY17 was the issuance in December 2016 of US$395 million of US Private Placement notes in 12, 13 and 15-year tranches, and AU$50 million of notes in a 10-year tranche.

Reflecting the above changes, net debt at 30 June 2017 was $3,178 million, up from $2,746 million at 30 June 2016.

The average tenor of AGL's borrowings at 30 June 2017 was 5.9 years, up from 4.3 years as at 30 June 2016, reflecting the impact of the notes issuance and the net reduction in bank debt.

2.1 Hedging Position

AGL's primary hedging activities relate to its wholesale markets risk management. Details of the group's hedging position at any particular time are not disclosed for reasons of commercial confidence.

AGL has in place a governance framework that establishes the policy guidelines under which energy hedging activities are conducted. Key components of that policy include segregation of duties, independent risk oversight, earnings-at-risk limits, and regular reporting to the Board. The risk policy mandates that the principal purpose of energy trading is to hedge AGL's market price exposure resulting from operating an integrated energy business.

The policy allows for commercial optimisation of the portfolio provided that overall earnings-at-risk limits are adhered to and AGL's risk appetite objectives are not endangered.

3. Business Strategies and Future Prospects

AGL believes it has two strategic imperatives: to prosper in a carbon-constrained future as energy markets respond to community expectations in relation to climate change; and to build customer advocacy as changes in distributed energy and mobile technology alter customer expectations.

Consistent with these imperatives, AGL is currently pursuing four key objectives that drive its strategy and decision making:

- To move from being a mass-market retailer to offering customers a more personalised experience. AGL's flagship initiative in this space is the $300 million Customer Experience Transformation program;
- To move from being an owner and operator of large assets to being an orchestrator of both large and small assets. AGL's flagship initiative in this space is the $20 million Virtual Power Plant project in South Australia;
- To move from reliance on high emissions technology to much lower emissions alternatives. AGL's flagship initiative in this space is the Powering Australian Renewables Fund (described in section 1.2 above); and

- To move from leveraging business platforms in existing markets to leveraging those platforms in new geographies as well. AGL's expansion into the Western Australian gas retail market is consistent with this objective. In addition AGL is exploring opportunities to operate in competitive retail energy markets in certain select markets overseas.

The definition of AGL's imperatives and objectives is the result of detailed scenario planning and uncertainty analysis undertaken by AGL on an ongoing basis and reviewed periodically by the Board. To support delivery and the creation of value for shareholders, AGL organises its activities using a strategic framework organised in three key streams: embracing transformation, driving productivity and unlocking growth. A diagram detailing AGL's strategic objectives is set out on page 31.

3.1 Greenhouse Gas Policy and Generation Investment Review

AGL has committed under its Greenhouse Gas Policy to exit its coal-fired generation assets by 2050 (by closing Liddell, Bayswater and Loy Yang plants in 2022, 2035 and 2048 respectively as they reach end of life) and remains an innovator in renewables investment (for example through the Powering Australian Renewables Fund).

AGL is undertaking a detailed state-by-state assessment of Australia's potential energy generation supply and capacity requirements until 2025. This project will inform the nature and scale of AGL's future investment in new low-emissions generation and storage technologies as aging coal-fired generation is withdrawn from the National Electricity Market.

The project will also offer insight into how AGL should make those investments to ensure shareholders' capital is deployed responsibly in the context of significant uncertainties in relation to regulation and technology.

As a result of the commitment to exit its coal-fired generation assets, AGL has undertaken a detailed review of the expected rehabilitation costs and impact on current provision balances. Further details of this review are contained in the Rehabilitation Report released on 10 August 2017.

3.2 Material Business Risks and Mitigations

AGL's enterprise wide risk program is aligned with the principles and requirements of ISO 31000, the international standard for risk management. This program is supported by AGL's Risk Management Policy and Risk Management Standard. Consistent with this, AGL's risk management process identifies factors critical to the successful delivery of its business strategies and future prospects. As at the date of this Report, there were 10 factors identified, as follows:

- Anticipatory culture and human capital;
- Strong and appropriate governance;
- Resilience capability;
- Asset safety and reliability;
- Optimisation of wholesale energy markets;
- Stakeholder advocacy;
- Financial management and value proposition;
- Transition to low emissions technology;
- Data and IT security management; and
- Becoming a customer-led, digital-first retailer

At the June 2017 Audit and Risk Management Committee review, it was determined that the highest levels of residual risk (post mitigation) related to the following four critical success factors: asset safety and reliability; optimisation of wholesale energy markets; stakeholder advocacy; and data and IT security management. A description of these factors and current mitigating actions is set out in the following table.

Description of critical success factor	**Priority focus areas**
Asset safety and reliability: management of operational assets throughout their life-cycle whilst enabling optimisation of wholesale market positions	Continued focus on long-term planning process to optimise availability and asset efficiency Implementation of expanded health, safety and environment monitoring of contractor activities Development and approval of rehabilitation programs for all assets including community engagement and financial modelling
Optimisation of wholesale energy markets: to deliver a reliable and competitive energy solution to the customer	Assessment of alternative gas supply opportunities including a potential LNG import facility Proactive management of response to government and regulatory reviews Continued focus on gas contracting, haulage and transportation strategy
Stakeholder advocacy: identification and engagement of stakeholders in an appropriate, targeted and consistent manner to achieve operational and growth objectives, anticipate political and regulatory outcomes and manage reputational risk	Government engagement in relation to key review processes, including ACCC reviews of electricity and gas markets Public policy leadership in relation to energy market reform Continued focus on social and economic inclusion strategies
Data and IT security management: effective, efficient and appropriate creation, collection, management, storage, retrieval, disposal and protection of data integrity	Delivery of cyber security program of work including review of third-party risk Revision of privacy compliance plan and incident management procedures Implementation of Data & Information Governance Policy

A full description of AGL's risk management framework is provided in the annual Corporate Governance Statement.

4. Group Results

4.1 Reconciliation of Statutory Profit/(Loss) to Underlying Profit

4.1.1 Profit/(Loss) after Tax

	Year ended 30 June 2017 $m	Year ended 30 June 2016 $m
Statutory Profit/(Loss) after tax	**539**	(408)
Adjust for:		
Significant items after tax		
Impairment charges	**–**	640
Restructuring costs	**–**	60
Asset disposals	**–**	(8)
Changes in fair value of financial instruments after tax	**263**	417
Underlying Profit after tax	**802**	701

Statutory Profit/(Loss) after tax attributable to shareholders was $539 million, compared with ($408 million) in the prior year, reflecting the non-recurrence of $692 million of significant items from impairments, restructuring costs and asset disposals, a decrease in the change in fair value of financial instruments to $263 million from $417 million and higher underlying earnings.

Underlying Profit after tax was $802 million, up 14.4% from $701 million in the prior year. A description of the factors driving Underlying Profit is included in Section 4.2.

	Year ended 30 June 2017	Year ended 30 June 2016
Earnings per share on Statutory Profit/(Loss)[1]	**80.5 cents**	(60.5) cents
Earnings per share on Underlying Profit[1]	**119.8 cents**	103.9 cents

1. EPS calculations have been based upon a weighted average number of ordinary shares of 669,299,682 (30 June 2016: 674,712,378)

4.1.2 Earnings before Interest and Tax (EBIT)

	Year ended 30 June 2017 $m	Year ended 30 June 2016 $m
Statutory EBIT	**988**	(256)
Significant items	**–**	868
Change in fair value of financial instruments	**376**	595
Finance income included in Underlying EBIT	**4**	4
Underlying EBIT	**1,368**	1,211

4.2 Underlying Profit Summary

	Year ended 30 June 2017 $m		Year ended 30 June 2016 $m	
Revenue	**12,584**		11,150	
Underlying EBITDA	**1,852**		1,689	
Depreciation and amortisation	**(484)**		(478)	
Underlying EBIT	**1,368**		1,211	
Energy Markets		**2,413**		2,274
Group Operations		**(825)**		(842)
Investments		**17**		25
Centrally Managed Expenses		**(237)**		(246)
Net finance costs	**(228)**		(222)	
Underlying Profit before tax and non-controlling interest	**1,140**		989	
Income tax expense	**(338)**		(287)	
Non-controlling interests	**–**		(1)	
Underlying Profit after tax	**802**		701	

Underlying Profit after tax for the year ended 30 June 2017 was $802 million, up 14.4% compared with $701 million in the prior year. The principal drivers of the increase were: higher wholesale electricity prices, disciplined customer price management and cost reduction initiatives. Offsetting this were higher commodity costs, a decline in consumer electricity volumes and lower gas margin.

A detailed overview of results is provided in Section 5.

4.3 Net Finance Costs

	Year ended 30 June 2017 $m	Year ended 30 June 2016 $m
Finance costs	**(237)**	(236)
Finance income	**13**	18
Less: finance income included in EBIT	**(4)**	(4)
Net finance costs	**(228)**	(222)

Finance costs were $237 million, up 0.4% from $236 million in the prior year. The increase was mainly due to higher rehabilitation interest costs arising from the December 2015 review of natural gas assets. This more than offset a reduction in average net debt to $3,024 million, compared with $3,240 million in the prior year. Finance income reduced by $5 million as a prior year loan to the Diamantina Power Station joint venture ceased during FY16. Capitalised interest for the year ended 30 June 2017 was $5 million.

4.4 Income Tax (Expense)/Benefit

	Year ended 30 June 2017 $m	Year ended 30 June 2016 $m
Statutory income tax (expense)/benefit	**(225)**	67
Income tax effect from significant items	**–**	(176)
Income tax effect from changes in fair value of financial instruments	**(113)**	(178)
Underlying tax expense	**(338)**	(287)

Underlying tax expense was $338 million, an increase of 17.8% from $287 million expense in the prior year. The underlying effective tax rate was 29.6% compared with 29.0% for the prior year. The increase in the effective tax rate was mainly due to the divestment of the solar plant assets to PARF.

4.5 Significant Items

4.5.1 Impairment Charges

Current Year

Nil.

Prior Year

In February 2016, AGL announced that following a review of its natural gas assets, exploration and production of natural gas assets will no longer be a core business for AGL due to the volatility of commodity prices and long development lead times. As a result, AGL recognised an impairment charge of $640 million after tax in relation to those natural gas assets.

4.5.2 Restructuring Costs

Current Year

Nil.

Prior Year

Restructuring costs of $60 million after tax were recognised mainly in relation to labour costs associated with organisational reviews conducted during the year and strategic exiting and downsizing of non-core businesses to focus on growth areas that deliver greater value.

4.5.3 Asset Disposals

Current Year

Nil.

Prior Year

AGL sold its 50% interests in the Macarthur Wind Farm joint venture and Diamantina Power Station and recognised a gain on sale of $8 million after tax.

4.6 Powering Australian Renewables Fund (PARF)

AGL established PARF in February 2016 and holds a 20% equity interest in the fund. During FY17 AGL divested into PARF the 102 MW Nyngan and 53 MW Broken Hill solar plant assets (14 November 2016) and the 200 MW Silverton wind farm development site (19 January 2017). The financial impact of these divestments is shown in the table below. Refer to section 1.2 for additional information in relation to PARF.

	Year ended 30 June 2017 $m
Sale proceeds	**293**
Government grant revenue	**223**
Carrying value of assets	**(475)**
Transaction costs	**(19)**
Gain on divestment (included in Group Operations)	**22**
Other financing costs	**(4)**
Underlying profit before tax impact	**18**
Income tax expense	**(18)**
Underlying Profit after tax impact	**–**

4.7 Changes in Fair Value of Financial Instruments

AGL, in large part, uses financial instruments to manage energy and oil price risks ("derivatives"), but also to manage its exposure to interest rates and foreign exchange rates arising in the normal course of business. AGL considers this activity to be hedging in nature.

Australian Accounting Standard AASB 139 *Financial Instruments: Recognition and Measurement* requires derivatives and certain assets and liabilities, to be reported at their 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. 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.

Changes in the fair value of derivatives between reporting periods for "ineffective hedges" and other assets and liabilities carried at fair value, are recognised in the statement of profit or loss.

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. However, it does not 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 financial instruments reported in profit and loss for the year ended 30 June 2017 was a loss of $263 million after tax. For the year ended 30 June 2016, the change in fair value of financial instruments was a loss of $417 million after tax.

A reconciliation of the statement of financial position movement in financial instruments carried at fair value, which balances to the amount included in the statement of profit or loss for the year ended 30 June 2017 is presented in the following table:

Net Assets/(Liabilities)	30 June 2017 $m	30 June 2016 $m	Change $m
Energy derivative contracts	**(486)**	(115)	(371)
Cross currency and interest rate swap derivative contracts	**(38)**	19	(57)
Total net liabilities for financial instruments	**(524)**	(96)	(428)
Change in net liability	**(428)**		
Premiums paid	**(122)**		
Premium roll off	**134**		
Total change in fair value	**(416)**		
Recognised in equity hedge reserve	**57**		
Recognised in borrowings	**(97)**		
Recognised in profit and loss – pre tax	**(376)**		
Total change in fair value	**(416)**		

5. **Review of Operations**

Summary of Underlying EBIT and EBITDA:

	Year ended 30 June 2017 $m	Year ended 30 June 2016 $m
Underlying EBITDA	**1,852**	1,689
Less: depreciation and amortisation (D&A)	**(484)**	(478)
Underlying EBIT	**1,368**	1,211

The following table provides a breakdown of underlying EBIT by operating segment:		
Energy Markets	**2,413**	2,274
Group Operations	**(825)**	(842)
Investments	**17**	25
Centrally Managed Expenses	**(237)**	(246)
Underlying EBIT	**1,368**	1,211

5.1 Energy Markets Underlying EBIT

Increased 6.1% to $2,413 million from $2,274 million

The following table provides a breakdown of Gross Margin by business unit:	Year ended 30 June 2017 $m	Year ended 30 June 2016 $m
Wholesale Markets	**1,996**	1,859
Customer	**892**	893
New Energy Services	**11**	12
Gross margin	**2,899**	2,764
Less: net operating costs excluding D&A	**(391)**	(390)
Underlying EBITDA	**2,508**	2,374
Less: depreciation and amortisation	**(95)**	(100)
Underlying EBIT	**2,413**	2,274

The following table provides a breakdown of underlying EBIT and EBITDA by business unit:		
Wholesale Markets	**1,975**	1,837
Customer	**534**	548
New Energy Services	**(1)**	(11)
Underlying EBITDA	**2,508**	2,374
Wholesale Markets	**1,967**	1,828
Customer	**449**	458
New Energy Services	**(3)**	(12)
Underlying EBIT	**2,413**	2,274

Energy Markets Underlying EBIT of $2,413 million was $139 million or 6.1% higher than the prior year due to higher Wholesale Markets gross margin and ongoing discipline in the management of customer pricing and net operating costs.

Gross margin performance was driven by growth in Wholesale Electricity. AGL effectively operated its generation assets to be available to benefit from prevailing market conditions including higher wholesale prices. This significantly outweighed higher coal and gas commodity market prices. Eco Markets margin growth was mainly due to higher market prices for Large-scale Generation Certificates (LGC) and AGL's ability to meet a significant part of its compliance obligations through renewable generation and utilisation of existing certificates. This was partly offset by a decrease in Wholesale Gas due to additional gas supply purchases that were made at prevailing spot prices as a result of supply curtailment and the impact of the roll-off of higher margin Wholesale customer contracts. Refer to AGL's ASX announcement on 7 July 2016.

Within Customer, Consumer Electricity margin grew reflecting disciplined and effective price management despite lower customer sales volumes and increased discounting. As expected, Consumer Gas margin was lower as a result of higher commodity costs, lower customer accounts and increased discounting within a highly competitive market. Business customer margins were broadly flat year on year.

Net Operating Costs were flat year on year largely due to ongoing cost savings within labour and contractor services, strategic decisions to exit several small and non-core businesses within New Energy Services, synergies from the integration of the Consumer and Business Customers business units to form Customer, and the benefits from activities to drive higher customer digital billing. These initiatives, combined with activities in other Business Units, contributed to AGL more than achieving the $170 million cost reduction target as announced by AGL to ASX on 26 May 2015. These favourable movements were partly offset by higher costs for AGL rebrand activities and investment associated with entering the Western Australian retail gas market.

5.1.1 Wholesale Markets Underlying EBIT

Increased 7.6% to $1,967 million from $1,828 million

	Year ended 30 June 2017 $m	Year ended 30 June 2016 $m
Wholesale Electricity	**1,549**	1,383
Wholesale Gas	**302**	403
Eco Markets	**145**	73
Gross margin	**1,996**	1,859
Less: net operating costs excluding D&A	**(21)**	(22)
Underlying EBITDA	**1,975**	1,837
Less: depreciation and amortisation	**(8)**	(9)
Underlying EBIT	**1,967**	1,828

Wholesale Markets Underlying EBIT of $1,967 million was $139 million or 7.6% higher as stronger Wholesale Electricity and Eco Markets gross margin more than offset lower Wholesale Gas gross margin.

Wholesale Electricity gross margin was $1,549 million, up $166 million or 12.0%. The increase was driven by AGL effectively operating its generation assets to be available to benefit from prevailing market conditions including higher wholesale prices. This was partly offset by lower generation volumes at Hydro and AGL Macquarie, and higher coal and gas costs for generation.

Wholesale Gas gross margin was $302 million, down $101 million or 25.1%. The decrease was driven by higher supply costs including acquiring gas from the spot market and other short-term sources during the 2016 winter due to curtailment of gas supply and increased demand at AGL Torrens. Gross margin was also impacted by the roll-off of some higher margin wholesale contracts. The cost escalation of gas supply and haulage contracts has been partly offset through higher customer prices. The key margin drivers are consistent with previous guidance.

Eco Markets gross margin was $145 million, up $72 million or 98.6% as sales revenue increased due to higher market prices for Large-scale Generation Certificates (LGC), with compliance costs increasing at a lower rate due to AGL's ability to meet a significant part of its compliance obligations through its renewable generation as well as utilising inventory on hand.

5.1.2 Customer Underlying EBIT

Decreased 2.0% to $449 million from $458 million

	Year ended 30 June 2017 $m	Year ended 30 June 2016 $m
Consumer Electricity gross margin	**485**	463
Consumer Gas gross margin	**307**	334
Business Electricity gross margin	**40**	35
Business Gas gross margin	**60**	61
Gross margin	**892**	893
Less: net operating costs excluding D&A	**(358)**	(345)
Underlying EBITDA	**534**	548
Less: depreciation and amortisation	**(85)**	(90)
Underlying EBIT	**449**	458

Consumer Electricity gross margin of $485 million increased by $22 million or 4.8%. Higher wholesale market prices were reflected in disciplined and effective consumer price management. This was partially offset by higher discounting, higher transfer prices and a 5.1% decrease in customer sales volumes driven predominantly by customer mix and lower average customer numbers in a highly competitive market.

Total consumer average consumption per customer decreased by 4.6% mainly due to customer mix. Average residential consumption per customer declined 2.8%. Approximately 1.0% of the decline was due to lower underlying consumption from changes in customer behaviour. The balance of approximately 1.8% was attributed to higher assumed loss factors, revisions and changes to customer portfolio mix. Small business consumption per customer declined 6.8% driven by strategic portfolio changes in a highly competitive market and tightly priced small business and multisite market.

Consumer Gas gross margin of $307 million decreased by $27 million, or 8.1%, as a result of increased gas commodity costs and increased discounting within a highly competitive market. Gas volumes declined 1.5% largely due to a decline in customer accounts, predominantly in New South Wales. Average consumption per customer increased by 0.3% overall, with a 1.5% increase in average residential consumption per customer partially offset by a 2.4% decline in average small business consumption per customer.

Business Electricity gross margin of $40 million increased by $5 million, or 14.3%, as a result of favourable customer mix due to strategic customer acquisition and retention activities within a price sensitive market. This was partly offset by an 8.7% decrease in customer sales volumes.

Business Gas gross margin of $60 million decreased $1 million, or 1.6%, primarily due a 16.4% decline in volumes as a result of the loss of two large low margin customers, partly offset by higher margin rates in a supply constrained market.

5.1.3 Energy Markets Net Operating Costs

Decreased 0.8% to $486 million from $490 million

	Year ended 30 June 2017 $m	Year ended 30 June 2016 $m
Labour and contractor services	**(159)**	(176)
Bad and doubtful debts	**(77)**	(73)
Campaigns and advertising	**(97)**	(93)
Other expenditure	**(82)**	(92)
Fees, charges and other margin	**24**	44
Net operating costs excluding D&A	**(391)**	(390)
Less: depreciation and amortisation	**(95)**	(100)
Net operating costs	**(486)**	(490)

Labour and contractor services costs decreased by $17 million, or 9.7%, due to targeted operating cost saving initiatives and restructuring to leverage synergies across the Energy Markets business, which have more than offset inflationary increases.

Bad and doubtful debts increased $4 million as Consumer bad debt expense was $7 million higher due to the impact of customer price changes, which resulted in an increase in overall outstanding debt and higher provisioning. Partly offsetting this was a favourable Business Customers bad debt expense movement of $3 million driven by improved customer risk profile and debt ageing, resulting in lower provisioning.

Campaigns and advertising costs increased by $4 million, or 4.3% due to the AGL rebrand and costs associated with entering the Western Australian gas market from 1 July 2017.

Other expenditure decreased $10 million, or 10.9%, due to the introduction of a customer paper bill and over the counter payment cost recovery, continued growth in the number of digital billing customers and other targeted operating cost saving initiatives.

Fees, charges, and other margin decreased $20 million, or 45.5%, mainly as a result of the cessation of non-core businesses, the transition of retail services previously provided to ActewAGL and lower ConnectNow commission revenue with a higher proportion of ConnectNow customers choosing AGL as their energy provider.

5.1.4 Consumer Customer Profitability and Operating Efficiency

AGL uses EBIT per customer as its primary measure of customer profitability, with gross margin per customer used as a secondary measure. Consumer net operating costs as a percentage of gross margin and net operating costs per customer are the primary measures of operating efficiency, whilst cost to serve and cost to grow are also analysed as secondary measures.

	Year ended 30 June 2017	Year ended 30 June 2016	Movement %
Consumer gross margin	**$792m**	$797m	(0.6)
Consumer net operating costs	**($413m)**	($398m)	3.8
Consumer EBIT	**$379m**	$399m	(5.0)
Average customer accounts	**3,655,367**	3,692,402	(1.0)
Consumer gross margin per customer account	**$217**	$216	0.5
Consumer net operating costs per customer account	**$113**	$108	4.6
Consumer EBIT per customer account	**$104**	$108	(3.7)
Consumer net operating costs as percentage of gross margin	**52.1%**	49.9%	2.2 ppts
Cost to Serve	**($257m)**	($253m)	1.6
Cost to Grow	**($156m)**	($145m)	7.6
Cost to Serve per customer account	**($70)**	($69)	1.4
Cost to Grow per customer account	**($87)**	($89)	(2.2)

Consumer gross margin per customer account increased $1 or 0.5% to $217 reflecting disciplined and effective price and discount management within a highly competitive market, a continued focus on high value customers through strategic marketing and the ongoing disconnection of vacant premises and unidentified customers to reduce cost leakage that cannot be billed to an unknown customer.

Consumer net operating costs as a percentage of gross margin increased 2.2 ppts to 52.1% and Consumer net operating costs per customer account increased $5 per account or 4.6%. This was mainly due to an increase in Consumer bad debts expense driven by increased customer pricing (driven by higher wholesale market prices), higher advertising spend as a result of our rebranding activities and entry into the Western Australian gas retail market. This was partly offset by the introduction of customer paper bill and over the counter payment cost recoveries which resulted in greater cost recovery during the year, continued growth in the number of digital billing customers and targeted operating cost saving initiatives. These factors resulted in lower Consumer EBIT per customer account, down $4 or 3.7% to $104.

Average customer accounts decreased by 37,035 or 1.0% largely due to the ongoing disconnections of vacant premises and unidentified customers and the increasingly competitive market environment.

Cost to Serve per account includes the costs within consumer operating costs related to serving customers divided by the average number of customers for the year. Cost to Serve per account increased by $1 as a decrease in labour costs was more than offset by higher bad debts expense and increased depreciation costs reflecting further investment in growth initiatives to better serve our customers.

Cost to Grow per account includes the costs within consumer operating costs related to acquiring and retaining customers divided by the number of customers acquired and retained. Cost to Grow per account declined by $2, or $4 excluding the initial costs incurred in entering the Western Australia retail gas market, with higher acquisitions and retentions and the channel mix shifting to internal channels as a result of strategic initiatives. Total acquisitions and retentions increased by 10% driven by increased market activity. Internal acquisitions and retentions increased by 14% with digital acquisitions and retentions increasing 44% driven by AGL's customer experience transformation.

5.1.5 Customer Numbers and Churn

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

	30 June 2017 ('000)	30 June 2016 ('000)	Movement ('000)	Movement %
Consumer Electricity	**2,237**	2,247	(10)	(0.4)
New South Wales	**807**	808	(1)	(0.1)
Victoria	**638**	636	2	0.3
South Australia	**388**	408	(20)	(4.9)
Queensland	**404**	395	9	2.3
Consumer Gas	**1,402**	1,418	(16)	(1.1)
New South Wales	**657**	674	(17)	(2.5)
Victoria	**531**	533	(2)	(0.4)
South Australia	**132**	132	0	(0.0)
Queensland	**82**	79	3	3.8
Total Consumer accounts	**3,639**	3,665	(26)	(0.7)
Total Business Customer accounts	**14**	16	(2)	(12.5)
Total Customer accounts	**3,653**	3,681	(28)	(0.8)

AGL churn increased by 0.7 ppts to 16.4% from 15.7% due to continued strong competition in the market. The Rest of Market churn increased 0.5 ppts to 20.2% from 19.7%, slightly reducing the favourable gap between AGL and the rest of the market. Electricity customer accounts declined 0.4%, largely due to the loss of some multisite accounts. Gas customer accounts declined 1.1% largely as a result of the disconnection of vacant sites and unidentified energy consumers.

5.1.6 New Energy Services Underlying EBIT

Increased 75.0% to ($3 million) from ($12 million)

	Year ended 30 June 2017 $m	Year ended 30 June 2016 $m
Gross margin	**11**	12
Less: net operating costs excluding D&A	**(12)**	(23)
Underlying EBITDA	**(1)**	(11)
Less: depreciation and amortisation	**(2)**	(1)
Underlying EBIT	**(3)**	(12)

New Energy Services gross margin declined $1 million due to strategic decisions to exit several small and non-core businesses, partly offset by growth in solar and market solutions. This led to significantly lower operating costs, resulting in an Underlying EBIT improvement of $9 million.

5.2 Group Operations Underlying EBIT

Increased 2.0% to ($825 million) from ($842 million)

Group Operations Underlying EBIT of ($825 million) was $17 million higher largely attributed to driving value though a sustained productivity and cost management program leading to labour efficiencies and lower maintenance costs across the generation fleet, and the divestment of renewable assets into PARF. The Natural Gas portfolio continued to be optimised through a disciplined approach to the well workover programs. This was partly offset by higher depreciation, predominantly due to a higher asset base driven by the capital investment program at Loy Yang and Macquarie.

	Year ended 30 June 2017 $m	Year ended 30 June 2016 $m
Thermal	**(398)**	(416)
Renewables	**(29)**	(43)
Natural Gas	**(7)**	(10)
Other Operations	**(28)**	(25)
Underlying EBITDA	**(462)**	(494)
Less: depreciation and amortisation	**(363)**	(348)
Underlying EBIT	**(825)**	(842)

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

Thermal	**(692)**	(675)
Renewables	**(52)**	(64)
Natural Gas	**(31)**	(45)
Other Operations	**(50)**	(58)
Underlying EBIT	**(825)**	(842)

5.2.1 Thermal Underlying EBIT

Decreased 2.5% to ($692 million) from ($675 million)

The decrease in Thermal Underlying EBIT was largely attributed to higher depreciation of $35 million driven by a higher asset base, CPI and wage escalation, and coal stockpile management activities. This was partly offset by higher Loy Yang B cost recovery, and labour and maintenance efficiencies.

A new enterprise bargaining agreement at AGL Macquarie was approved by the Fair Work Commission in November 2016 and a new enterprise bargaining agreement at AGL Loy Yang was approved in June 2017.

5.2.2 Renewables Underlying EBIT

Increased 18.8% to ($52 million) from ($64 million)

The increase in Renewables Underlying EBIT was largely due to the divestment of Nyngan and Broken Hill solar plant assets to PARF, partly offset by higher depreciation and wind farm maintenance costs. Refer to section 4.6 for details on the divestment to PARF.

5.2.3 Natural Gas Underlying EBIT

Increased 31.1% to ($31 million) from ($45 million)

The increase in Natural Gas Underlying EBIT was primarily a result of higher Spring Gully and Camden revenue, Hunter and Gloucester asset sales including provision review, lower Moranbah depreciation following the impairment recognised in the prior year, and labour optimisation initiatives. This was partly offset by increased operating costs from Moranbah with capital expenditure recognised as operating expense following the impairment.

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

AGL share of operations	Year ended 30 June 2017	Year ended 30 June 2016	Movement %
Gas sales volume (PJ)	**11.2**	10.2	9.8
Sales revenue ($m)	**45**	40	12.5
Average gas price ($/PJ)	**4.01**	3.88	3.4

5.2.4 Other Operations Underlying EBIT

Increased 13.8% to ($50 million) from ($58 million)

The increase in Other Operations Underlying EBIT was primarily attributed to the discontinuation of Distributed Energy Services depreciation from April 2017 with assets being held-for-sale, and gains from the divestment of development projects. This was partly offset by higher legal costs and the centralisation of labour costs.

5.3 Investments Underlying EBIT

Decreased 32.0% to $17 million from $25 million

	Year ended 30 June 2017 $m	Year ended 30 June 2016 $m
Underlying EBITDA	**17**	25
Less: depreciation and amortisation	**–**	–
Underlying EBIT	**17**	25

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

	Year ended 30 June 2017 $m	Year ended 30 June 2016 $m
ActewAGL	**24**	30
New Energy investments	**(7)**	(3)
Other	**0**	(2)
Underlying EBIT	**17**	25

5.3.1 ActewAGL Underlying EBIT

Decreased 20.0% to $24 million from $30 million

ActewAGL Retail partnership contributed an equity share of profits of $24 million for the year compared with $30 million in the prior year. The decrease was due to lower electricity gross margins resulting from higher wholesale prices.

5.3.2 New Energy investments Underlying EBIT

Decreased 133.3% to ($7 million) from ($3 million)

New Energy investments include Sunverge Energy Inc and Solar Analytics Pty Limited. The operating losses of these investments were consistent with expectations for early stage technology investments.

5.4 Centrally Managed Expenses Underlying EBIT

Increased 3.7% to ($237 million) from ($246 million)

	Year ended 30 June 2017 $m	Year ended 30 June 2016 $m
Underlying EBITDA	**(211)**	(216)
Less: depreciation and amortisation	**(26)**	(30)
Underlying EBIT	**(237)**	(246)

The following table provides a more detailed breakdown of Centrally Managed Expenses.

	Year ended 30 June 2017 $m	Year ended 30 June 2016 $m
Labour	**(93)**	(99)
Hardware and software costs	**(64)**	(55)
Consultants and contractor fees	**(16)**	(14)
Insurance premiums	**(19)**	(23)
Depreciation and amortisation	**(26)**	(30)
Other	**(19)**	(25)
Total	**(237)**	(246)

Targeted cost reductions across corporate functions resulted in an Underlying EBIT increase of $9 million, or 3.7%. Underlying labour costs reduced by 8%, more than offsetting wage inflation of 2%, resulting in a net labour reduction of $6 million. Insurance costs reduced reflecting the renegotiation of a number of premiums. Depreciation and amortisation costs were lower in line with reduced capital expenditure relating to technology projects. These reductions more than offset the increase in hardware and software costs that were driven by business volume growth.

5.5 Segment Restatement

On 21 December 2016, AGL announced changes to its segment reporting. The previous New Energy business was separated and allocated into other AGL business units. New Energy Services was reallocated to Energy Markets and Distributed Energy Services was allocated to Group Operations. The remainder of the New Energy business will become an "innovation accelerator" reported under CME.

Prior Year

Revised Structure	Year ended 30 June 2016 $m
Energy Markets	2,274
Group Operations	(842)
Investments	25
Centrally Managed Expenses	(246)
Underlying EBIT	1,211

Previous Structure	Year ended 30 June 2016 $m
Energy Markets	2,286
Group Operations	(854)
New Energy	(21)
Investments	25
Centrally Managed Expenses	(225)
Underlying EBIT	1,211

6. Portfolio Review

6.1 Electricity Portfolio

Electricity portfolio review reporting combines the Wholesale Markets, Customer (Consumer and Business) and Group Operations businesses (as described in section 5.1 and 5.2) to reflect the procurement and hedging of AGL's electricity requirements, the costs of managing and maintaining AGL's owned and contracted generation assets and the margin from external customers.

All volume generated is sold into the National Electricity Market ("the pool") for which AGL receives pool generation revenue. Pool generation revenue is driven by volume and pool prices, which are set by the real time market and differ by state. The total volume demanded by AGL customers is then purchased from the pool according to the geographical profile of customer demand and is reported as pool purchase costs. Where pool generation volumes exceed volumes purchased for customers, the net generation volume surplus drives revenue from indirect customers, which is incorporated within the pool generation revenue. Costs incurred in generating volume sold into the pool are reported as costs of generation, of which Wholesale Markets manages the fuel costs and Group Operations manages generation running costs and asset depreciation.

	Year ended 30 June 2017 GWh	Year ended 30 June 2016 GWh	Movement %
Pool generation volume	**43,099**	43,774	(1.5)
Less: Pool purchase volume	**41,507**	39,620	4.8
Consumer customers	**14,985**	15,671	(4.4)
Business customers & Wholesale Markets	**26,522**	23,949	10.7
Net generation volume surplus	**1,592**	4,154	(61.7)
Consumer customer sales	**13,888**	14,634	(5.1)
Business customer sales	**11,198**	12,268	(8.7)
Wholesale customer sales	**14,564**	10,937	33.2
Total customer sales volume	**39,650**	37,839	4.8
Energy losses	**1,857**	1,781	4.3
Pool purchase volume	**41,507**	39,620	4.8

Pool generation volumes were 675 GWh lower than the prior year, mainly at Hydro and AGL Macquarie. Total customer sales volumes increased 1,811 GWh or 4.8% to 39,650 GWh. Consumer customer sales volumes decreased 746 GWh or 5.1% driven by lower average customer numbers and lower average consumption driven by unfavourable customer mix changes across the residential and small business portfolios. Business customer sales volumes were 1,070 GWh lower as a result of strategic retention activities within a competitive price driven market. Wholesale customer sales volumes were up 3,627 GWh, or 33.2%, driven by increased commercial load from new and existing Wholesale Customers, and this resulted in pool purchase volumes increasing 1,887 GWh or 4.8% to 41,507 GWh.

	Portfolio Margin		Volume Denominator		Per Unit	
	Year ended 30 June 2017 $m	Year ended 30 June 2016 $m	Year ended 30 June 2017 GWh	Year ended 30 June 2016 GWh	Year ended 30 June 2017 $/MWh	Year ended 30 June 2016 $/MWh
Revenue						
Consumer customers[1]	**3,810**	3,813	**13,888**	14,634	**274.3**	260.6
Business customers, Wholesale Electricity & Eco Markets[1, 7]	**2,317**	2,055	**25,762**	23,205	**89.9**	88.6
Group Operations (Thermal & Renewables)	**108**	89				
Total revenue[1]	**6,235**	5,957	**39,650**	37,839	**157.3**	157.4
Consumer network costs[1]	**(1,777)**	(1,893)	**13,888**	14,634	**(128.0)**	(129.4)
Consumer other cost of sales[1]	**(486)**	(450)	**13,888**	14,634	**(35.0)**	(30.8)
Business customers network costs[1]	**(616)**	(751)	**11,198**	12,268	**(55.0)**	(61.2)
Business customers other cost of sales[1]	**(202)**	(198)	**11,198**	12,268	**(18.0)**	(16.1)
Wholesale cost of sales[2]	**(1,683)**	(1,454)	**41,507**	39,620	**(40.5)**	(36.7)
Costs of generation[3]	**(1,601)**	(1,554)	**43,099**	43,774	**(37.1)**	(35.5)
Fuel[3]	**(760)**	(731)	**43,099**	43,774	**(17.6)**	(16.7)
Generation running costs[3]	**(523)**	(543)	**43,099**	43,774	**(12.1)**	(12.4)
Depreciation & amortisation (Group Operations)[3]	**(318)**	(280)	**43,099**	43,774	**(7.4)**	(6.4)
Net Portfolio Management[4]	**(82)**	100	**39,650**	37,839	**(2.1)**	2.6
Pool generation revenue[5, 7]	**3,577**	2,312	**43,099**	43,774	**83.0**	52.8
Pool purchase costs[2, 7]	**(3,645)**	(2,211)	**41,507**	39,620	**(87.8)**	(55.8)
Net derivative (cost)/revenue[5]	**(14)**	(1)	**43,099**	43,774	**(0.3)**	-
Total cost of sales[6]	**(4,764)**	(4,746)	**39,650**	37,839	**(120.2)**	(125.4)
Portfolio margin[6]	**1,471**	1,211	**39,650**	37,839	**37.1**	32.0
Consumer customers	**485**	463				
Business customers	**40**	35				
Wholesale Electricity	**1,549**	1,383				
Eco Markets	**141**	69				
Group Operations (Thermal & Renewables)	**(744)**	(739)				

1 Customer sales volume – revenue and cost is driven by customer sales volume, which is utilised to calculate $/MWh for key Consumer and Business Customer metrics.
2 Pool purchase volume – as Wholesale Markets manage the purchase of pool volume to meet customer demand, pool purchase volume is utilised to calculate the $/MWh cost.
3 Pool generation volume – this is the direct driver of all costs of generation and is used to calculate the $/MWh cost.
4 Customer sales volume – excluding generation volumes, which drive generation running costs, the portfolio comprises volumes sold to customers. Sold volumes is utilised to calculate the net portfolio management $MWh.
5 Pool generation volume – pool generation revenue is directly earned on pool generation volume, which is utilised calculate a $/MWh value. Additionally, derivative instruments are used to manage hedging requirements of the consumer and business customer loads, as well as the long energy position where generation volume is more than the internal AGL portfolio (the net generation volume surplus).
6 Customer sales volume – whilst various drivers exist within total cost of sales metrics and overall portfolio margin, ultimately the volume sold to customers is the key driver of calculating margin and is used to calculate the $/MWh value.
7 Pool generation revenue, Wholesale electricity revenue and pool purchase costs include amounts from certain wholesale contracts that are treated as derivatives for statutory reporting purposes. In the statutory accounts the amounts associated with these contracts are recognised within cost of goods sold.

Electricity portfolio margin increased by $5.1 per MWh to $37.1 per MWh driven by higher wholesale prices, customer pricing discipline, and cost reduction initiatives across the generation portfolio.

Total revenue increased by $278 million mainly due to higher Wholesale customer sales volumes. Revenue from Consumer customers of $3,810 million was broadly flat but increased $13.7 per MWh to $274.3 per MWh driven by price changes reflecting higher wholesale market prices, offset by lower sales volumes and increased customer discounting within a competitive market. Business customer, Wholesale Electricity & Eco Markets revenue increased $262 million but was up only $1.3 per MWh reflecting the 3,627 GWh increase in Wholesale customer sales volumes.

Wholesale cost of sales increased by $229 million, or $3.8 per MWh, driven by pool purchase costs and commodity market prices. Net portfolio management costs increased $182 million or $4.7 per MWh as higher wholesale market prices and price volatility drove pool purchase costs up $32.0 per MWh, exceeding the $30.2 per MWh increase in pool generation revenue. Fuel costs increased $29 million or $0.9 per MWh reflecting higher commodity market prices for coal and gas as well as additional purchases from the spot market largely in response to increased commercial load from new and existing Wholesale customers. However, generation running costs were $20 million or $0.3 per MWh lower reflecting the successful delivery of transformational operating cost initiatives in Group Operations. Lower network rates and customer sales volumes resulted in lower network costs across Consumer customers ($116 million) and Business customers ($135 million), the benefits of which were passed on to customers through price management.

In addition to the commentary above, Electricity portfolio margin is discussed in sections 5.1.1 Wholesale Markets and 5.1.2 Customer.

6.2 Gas Portfolio

The gas portfolio review reporting combines the Wholesale Markets and Customer (Consumer and Business), as described in section 5.1, to reflect the procurement and hedging of AGL's gas requirements and the margin from external customers.

	Year ended 30 June 2017 PJ	Year ended 30 June 2016 PJ	Movement %
Consumer customers	**58.5**	59.4	(1.5)
Business customers	**61.6**	73.7	(16.4)
Wholesale Markets & generation	**109.7**	101.1	8.5
Total customer sales volume	**229.8**	234.2	(1.9)
Energy losses	**3.4**	2.7	25.9
Gas purchase volume	**233.2**	236.9	(1.6)

Total customer sales volume decreased 4.4 PJ or 1.9% to 229.8 PJ due to the loss of some large Business Customers, partially offset by increased generation at AGL Torrens, which contributed to the 8.6 PJ increase in Wholesale Markets & Generation.

	Portfolio Margin		Volume Denominator		Per Unit	
	Year ended 30 June 2017 $m	Year ended 30 June 2016 $m	Year ended 30 June 2017 PJ	Year ended 30 June 2016 PJ	Year ended 30 June 2017 $/GJ	Year ended 30 June 2016 $/GJ
Revenue						
Consumer customers	**1,400**	1,417	**58.5**	59.4	**23.9**	23.9
Business customers, Wholesale Gas & Eco Markets	**1,342**	1,418	**171.3**	174.8	**7.8**	8.1
Total revenue	**2,742**	2,835	**229.8**	234.2	**11.9**	12.1
Consumer network costs	**(509)**	(520)	**58.5**	59.4	**(8.7)**	(8.8)
Consumer other cost of sales	**(37)**	(37)	**58.5**	59.4	**(0.6)**	(0.6)
Business customers network costs	**(53)**	(68)	**61.6**	73.7	**(0.9)**	(0.9)
Business customers other cost of sales	**(15)**	(14)	**61.6**	73.7	**(0.2)**	(0.2)
Wholesale cost of sales	**(1,455)**	(1,394)	**229.8**	234.2	**(6.3)**	(6.0)
Gas purchases	**(1,096)**	(1,069)	**229.8**	234.2	**(4.8)**	(4.6)
Haulage, storage & other	**(359)**	(325)	**229.8**	234.2	**(1.6)**	(1.4)
Total cost of sales	**(2,069)**	(2,033)	**229.8**	234.2	**(9.0)**	(8.7)
Portfolio margin	**673**	802	**229.8**	234.2	**2.9**	3.4
Consumer customers	**307**	334				
Business customers	**60**	61				
Wholesale Markets	**302**	403				
Eco Markets	**4**	4				

Gas portfolio margin decreased by $0.5 per GJ to $2.9 per GJ driven by a reduction in wholesale margin and a higher cost of sales.

Total revenue decreased by $93 million to $2,742 million largely due to Business customers, Wholesale Gas & Eco Markets being $76 million lower at $1,342 million. This was driven by the roll-off of a number of high margin wholesale customers and lower business customer sales, partly offset by increased demand at Torrens. Lower revenue drove the $129 million decrease in portfolio margin to $673 million. Consumer revenue decreased $17 million as disciplined customer pricing was more than offset by the combined impact of discounting and lower customer sales volumes.

Total cost of sales increased $36 million due to contractual escalation in haulage and storage as well as the additional purchase at spot market price due to the supplier curtailment. This was partially offset by lower network costs across Consumer ($11 million) and Business customers ($15 million) as a result of a decrease in total customer sales volumes.

In addition to the commentary above, Gas portfolio margin is discussed in sections 5.1.1 Wholesale Markets and 5.1.2 Customer.

7. Cash Flow

7.1 Reconciliation of Underlying EBITDA to Cash Flow

		Year ended 30 June 2017 $m		Year ended 30 June 2016 $m
Underlying EBITDA		**1,852**		1,689
Equity accounted income (net of dividend received)		**2**		(8)
Accounting for onerous contracts		**(36)**		(42)
Gain on divestments		**(23)**		–
Movement in other assets / liabilities and non-cash items		**(53)**		28
Working capital movements				
(Increase) / decrease in receivables	**41**		138	
Increase / (decrease) in creditors	**(73)**		(109)	
(Increase) / decrease in inventories	**73**		(10)	
Net derivative premiums paid / roll-offs	**(58)**		(82)	
(Increase) / decrease in other financial assets (margin calls)	**(431)**		(52)	
Net movement in green assets / liabilities	**54**		25	
Other	**14**		11	
Total working capital movements		**(380)**		(79)
Underlying operating cash flow before interest, tax & significant items		**1,362**		1,588
Net finance costs paid		**(179)**		(172)
Income tax paid		**(292)**		(166)
Underlying operating cash flow		**891**		1,250
Cash flow relating to significant items		**–**		(64)
Statutory net cash provided by operating activities		**891**		1,186
Investing cash flow		**(302)**		81
Financing cash flow		**(687)**		(1,274)
Movement in cash and cash equivalents		**(98)**		(7)

Underlying operating cash flow before interest, tax & significant items of $1,362 million was down $226 million compared with the prior year.

Movement in other assets / liabilities and non-cash items predominantly related to the timing of employee provisions.

Total working capital movements for the year ended 30 June 2017 was ($380 million), driven by unfavourable movements in margin calls.

Lower cash flow from receivables compared with prior year was driven by higher collections at end of last financial year and a small increase in customer Days Sales Outstanding (DSO).

Creditor movements were broadly in line with the prior year, with the benefit from lower consumer energy volumes and lower spot prices compared to the end of last financial year.

Reduction in inventories were as a result of de-banking of gas.

Higher margin calls were driven by rises in wholesale electricity prices. The benefit of the higher prices is reflected through current and future earnings. Adjusting for margin calls, cash conversion was 97% (97% in prior year).

The increase in income tax paid was largely related to the taxable gain on the sale of the Macarthur wind farm in FY16 (the final tax paid on lodgement of the FY16 return was made in FY17). It also includes the impact of higher tax instalments due during FY17.

Investing cash flow was ($302 million) and whilst capital expenditure was less than prior year, there were lower asset sales in the current year.

Financing cash flow was ($687 million) and reflected the on-market share buy-back.

7.2 Capital Expenditure

Total capital expenditure was $518 million (FY16: $529 million). Sustaining capital expenditure was $301 million (FY16: $390 million), related primarily to AGL Loy Yang and AGL Macquarie. Capital expenditure on growth initiatives was $217 million (FY16: $139 million) driven by transformation initiatives including the Customer Experience Transformation and metering.

8. Business Acquisitions and Disposals

Current Year

Nil.

Prior Year

AGL disposed of its interests in Macarthur Wind Farm in September 2015 and Diamantina Power Station in March 2016.

Remuneration Report

For the year ended 30 June 2017

This Remuneration Report (pages 27 to 46) is attached to, and forms part of, the Directors' Report.

Message from the Chairman of the People and Performance Committee

Dear Shareholders

On behalf of the Board, I am pleased to introduce AGL's FY17 Remuneration Report (Report). At the 2017 Annual General Meeting (AGM) we will seek your support of this Report.

FY17 was a strong year for AGL. Total shareholder return (TSR) was 42.4%, compared with 14.6% for the S&P/ASX100 Accumulation Index. The company continued to deliver against our transformation objectives. We delivered a record profit and returned approximately $1.1 billion to shareholders through capital management initiatives including a 34% increase in dividends to 91.0 cents per share, amounting to total dividends declared for the year of $602 million, and $473 million under the on-market share buyback.

FY17 marked a successful year for AGL's transformation as the company focused on initiatives that will generate value for shareholders both now and sustainably over the long-term as the energy industry undergoes profound change.

Our strong result reflected prevailing market conditions and past strategic investments, which presented an ongoing opportunity for AGL management to create increased value for shareholders. Management delivered on this potential by executing to a high standard across all areas including operations, retail markets, risk management, industrial relations, cost management and stakeholder engagement. These actions are not only driving strong results today but preserving shareholder value for the long-term.

Key transformation achievements included:

- exceeding our target to deliver a $170 million per annum reduction in operating expenditure and a $100 million reduction in sustaining capital expenditure compared with FY15 levels
- reaching our target of delivering approximately $1 billion in asset sales of non-core or underperforming assets, and
- the modernisation of enterprise agreements at our two largest power generation sites, AGL Macquarie and AGL Loy Yang, providing for significant productivity improvements over time.

In addition to the strong financial performance in the year, AGL is delivering in relation to its key strategic imperatives of prospering in a carbon-constrained future and building customer advocacy as changes in distributed energy and mobile digital technology are profoundly altering consumers' expectations. Key initiatives progressed in the year consistent with these imperatives included:

- the launch of our $300 million customer experience transformation program and the delivery of our first 'signature moments', such as the one-minute move, self-service meter read and one-touch pay
- the creation of the world's largest Virtual Power Plant (VPP) in South Australia, and
- establishing the investment structure under the Powering Australian Renewables Fund (PARF) to develop and/or own $2-3 billion of renewable energy projects - delivering an efficient capital structure and favourable risk profile for AGL while driving renewables development. We have now completed the sale of the Nyngan and Broken Hill solar plants and Silverton wind farm developments into PARF.

Remuneration outcomes

The starting point for considering remuneration outcomes is Statutory Profit. The Board adjusts Statutory Profit for non-cash fair value movements in financial instruments. The Board considers any significant items which are non-recurring events that materially affect AGL's financial results, are not related to the ongoing underlying business and are excluded from AGL's Underlying Profit financial reporting metric.

These adjustments result in a profit after tax metric that the Board uses to determine remuneration outcomes under the company's short and long-term incentive plans that ensures management are not unfairly advantaged or disadvantaged by items outside their control.

There were no significant items in FY17.

Statutory Profit after tax in FY17 was $539 million, up from a Statutory Loss of $(408) million in FY16 - largely reflecting the absence of the significant items that occurred in FY16. Underlying Profit after tax in FY17 was Statutory Profit less adjustments in fair value and increased by 14% to $802 million.

Further details of remuneration outcomes relative to AGL's strategic achievements are available in section 3 of this Report, while a detailed discussion of strategy is included in the Operating & Financial Review (OFR) section of the Directors' Report.

This year, together with AGL's Chairman, Jerry Maycock, my primary focus as Chair of the People and Performance Committee, has been listening to the concerns of shareholders and their advisors following the first 'strike' we received at our AGM in September 2016. A strike occurs when more than 25% of the shares voted in relation to the adoption of a company's remuneration report are voted against that remuneration report.

The Board takes this outcome very seriously and has acted on the concerns raised in a considered manner, as set out in section 1.1 of this Report. Key actions have included:

- improving disclosure on establishment and setting of fixed remuneration of the Managing Director and Chief Executive Officer (MD/CEO)
- reducing the FY17 target short-term incentive (STI) of the MD/CEO by approximately $460,000
- providing significantly more detail of STI metrics and outcomes
- providing more detail about the workings of the transitional grants made to executives for the closure of the old banking long-term incentive (LTI) plan, and
- reviewing and restructuring the Remuneration Report to increase general transparency, readability and clarity.

This brings me to a specific shareholder concern: the remuneration of the MD/CEO, Andy Vesey.

In 2014, the Board conducted a comprehensive global search for the best available talent to lead AGL in tackling challenges confronting the energy industry. These challenges are profound. AGL's strategic imperatives are to prosper in a carbon-constrained future and to build customer advocacy in response to the changes in distributed energy and mobile digital technology.

Amid this environment, AGL, a 180-year old company, must embrace transformation, act swiftly to drive productivity in its existing operations and unlock new growth streams as it seeks to define the business models of the future.

It is truly a once in a generation challenge and it requires strong leadership.

For that reason, the Board was prepared to offer remuneration designed to attract a leader who could deliver on this challenge. Within a highly competitive global talent market, the Board has increased Mr Vesey's fixed remuneration annually to reflect fully his skills, experience and effectiveness. Mr Vesey's fixed remuneration places him at the 73rd percentile (his total remuneration is at the 60th percentile) relative to a peer group of companies that rank 11 to 50 on the ASX by market capitalisation, which the Board believes is appropriate given the performance of the company under his leadership. At 30 June 2017 AGL's market capitalisation is at the 83rd percentile against the ASX11-50 companies.

Mr Vesey is delivering on this challenging transformation agenda, as detailed in the OFR, and shareholders are benefitting. Whilst external factors always play a part in this highly volatile environment, converting opportunities and managing unforeseen risks has been a feature of AGL's performance in the past two and a half years. Between Mr Vesey's commencement on 12 January 2015 and the end of FY17, TSR was 104.2%, exceeding TSR in the S&P/ASX100 Index of 17.6%. The AGL share price increased 86% in the same period, from $13.71 to $25.50 at 30 June 2017.

The Board believes Mr Vesey's remuneration package is warranted by his skills and experience and his remuneration outcomes during his tenure to date reflect strong strategy delivery and financial performance. Mr Vesey's fixed remuneration is at the 73rd percentile against the ASX11-50 companies. The Board has determined that Mr Vesey will not receive a fixed remuneration increase in FY18.

AGL's key management personnel (KMP) achieved remuneration outcomes in FY17 commensurate with the company's strong shareholder returns and the need to attract and retain a leadership team capable of delivering the complex issues facing the company.

STI outcomes reflect the strong performance of the company and are aligned with financial outcomes at the upper end of our guidance and demonstrated progress against AGL's strategy. Furthermore, the FY15 banking LTI plan, which vested and closed at the end of FY17, reflected the company's strong relative and absolute TSR performance.

The Board is confident that AGL executive pay is reflective of performance and the value delivered for shareholders.

I invite you to read this Report and trust that you will find it helpful to understand AGL's approach to remuneration.

On behalf of the directors, we look forward to welcoming you and your feedback at the 2017 AGM.

Yours sincerely

Les Hosking
Chairman, People and Performance Committee

Section 1: Introduction

The directors present the Remuneration Report (Report) for AGL Energy Limited (AGL) and its consolidated entities for the year ended 30 June 2017 (FY17), prepared in line with the Corporations Act 2001 (Cth). The Report forms part of the Directors' Report, and provides shareholders with an understanding of the remuneration principles in place for key management personnel (KMP).

1.1 Issues raised regarding the FY16 Remuneration Report

Following feedback from shareholders with regard to the FY16 Remuneration Report, AGL engaged with a broad range of stakeholders to understand key concerns more fully and address issues appropriately. AGL will continue to engage proactively with stakeholders to ensure any concerns can be discussed at the earliest opportunity.

Table 1.1.1: Summary of responses to concerns raised in relation to FY16 Remuneration Report

Element	Concerns	Response
Fixed Remuneration (FR)	Level of the Managing Director and Chief Executive Officer's (MD/CEO's) fixed remuneration.	• AGL executive FR is principally benchmarked against companies ranked 11 to 50 by market capitalisation on the ASX, against which the MD/CEO's current FR is at the 73rd percentile. • The Board believes it is appropriate to pay the MD/CEO at the 73rd percentile against the ASX11-50 companies given the skills and experience required to respond to the dramatically changing nature of the energy industry. • Mr Vesey will not receive an increase in FR in FY18.
	KMP fixed remuneration increases during FY16.	• AGL's approach is to set executive's FR initially at a level reflecting their experience that allows progressive increases to apply as the executive performs and becomes more experienced in their role. • Further increases in FY17 reflected this practice and the Board's desire to retain strongly performing executives.
Short-Term Incentive (STI)	Level of the STI awards.	• We have reduced the MD/CEO's target STI to 100% of his FR from 120%. • We have reduced the maximum STI opportunity available to the MD/CEO to 144% of his FR from 173%.
	Insufficient detail on the performance measures and targets.	• We have provided greater transparency in relation to the STI performance metrics and outcomes for all KMP in this Report (see section 3.3).
	Use of strategic performance measures in the STI plan.	• The Board has reviewed the inclusion of quantifiable strategic measures (e.g. safety, diversity, customer satisfaction) after consulting widely and found that most shareholders recognise their contribution to long-term value creation. • Executives' STI performance metrics are weighted 70% for financial measures and 30% for quantifiable strategic measures. • We have provided greater transparency in relation to STI performance metrics and outcomes for executives, including showing how the strategic measures are both stretching and quantifiable (see section 3.3).
Long-Term Incentive (LTI)	Disclosure in relation to the rationale for and operation of the transitional grants for the closure of the old banking LTI scheme.	• A more detailed set of disclosures in relation to the reasons for the LTI transitional grants, including a worked example demonstrating the overall impact on the MD/CEO's remuneration, is included in section 3.5 of this Report.
	Peer group used for the relative total shareholder return (TSR) measure for the FY16 plan.	• The peer group of companies for the relative TSR component of the FY16 LTI plan is Amcor, Ansell, Aristocrat Leisure, Asciano (delisted), ASX, Aurizon Holdings, AusNet Services, Brambles, Cochlear, Computershare, CSL, DUET Group (delisted), Federation Centres (now: Vicinity Centres), Healthscope, Insurance Australia Group, Medibank Private, Orora, Primary Health Care, Qantas Airways, Ramsay Health Care, Scentre Group, Sonic Healthcare, Sydney Airport, Tatts Group, Transurban Group and Woolworths.

Element	Concerns	Response
		• We have simplified the peer group for the FY17 LTI award to the constituent companies in the S&P/ASX100 Index.
Profit after tax	Use of Underlying Profit in calculating remuneration outcomes.	• The starting point for considering remuneration outcomes is Statutory Profit. The Board adjusts Statutory Profit for non-cash fair value movements in financial instruments. The Board considers any significant items, which are non-recurring events that materially affect AGL's financial results, are not related to the ongoing underlying business - and are excluded from AGL's Underlying Profit financial reporting metric. These adjustments result in a profit after tax metric that the Board uses to determine remuneration outcomes under the company's STI and LTI plans that ensures management are not unfairly advantaged or disadvantaged by items outside their control. There were no significant items in FY17 affecting profit after tax. • Return on equity (ROE) outcomes in relation to both the FY16 and FY17 LTI plans will be adjusted to prevent any benefit accruing to executives from the asset write-downs in FY16 and share buyback in FY17 for all targets set before these events occurred.

1.2 Organisation and KMP

This Report explains the FY17 remuneration framework and outcomes for the KMP of AGL. The KMP are the MD/CEO, certain AGL executives with operational and/or financial responsibility (together referred to in this Report as 'executives') and the non-executive directors. The executives defined as KMP for FY17 are the MD/CEO, the Chief Financial Officer (CFO) and the Executive General Managers (EGMs) of the two major operating segments, Energy Markets and Group Operations.

In the FY16 Report, Alistair Preston was reported as a KMP in his role as Acting EGM, New Energy, whilst a global search was conducted for the vacant role. On 19 September 2016, Elisabeth Brinton commenced as EGM, New Energy and Mr Preston returned to his existing role of EGM, Organisational Transformation, which is not a KMP role. As such, Mr Preston is only reported for the portion of FY17 he was considered a KMP.

Upon the appointment of Ms Brinton, the business unit was restructured as an innovation accelerator. As a result, sales, marketing, and installation services relating to mature products such as solar roof-tops and digital metering were transferred into the Energy Markets and Group Operations segments. This enables New Energy to focus on fast-tracking development of technologies that can position AGL to lead in a future of higher customer centricity and greater asset orchestration. Due to this change, the EGM, New Energy role is no longer considered to be KMP and is not reported as such in this Report.

Further, as announced on 10 May 2017, Stephen Mikkelsen will be leaving AGL in the course of FY18. He remained in his role of EGM, Energy Markets and a KMP for FY17. Additional executive appointments were announced on 24 May 2017 - the appointment of Melissa Reynolds as Chief Customer Officer (from 29 May 2017), the promotion of Richard Wrightson to EGM, Wholesale Markets (from 1 July 2017), and the promotion of Simon Moorfield to EGM, Information Systems & Technology (from 1 July 2017). During the transition between Mr Mikkelsen and Ms Reynolds at the end of FY17, Ms Reynolds was not considered a KMP. Any impact of these changes on AGL's KMP will be determined in FY18, and reported in the FY18 Remuneration Report.

Table 1.2.1: Key management personnel

Name	Position	Dates
Non-executive directors		
Current		
Jerry Maycock	Chairman	Full year
Peter Botten	Non-Executive Director	From 21 October 2016
Jacqueline Hey	Non-Executive Director	Full year
Les Hosking	Non-Executive Director	Full year
Graeme Hunt	Non-Executive Director	Full year
Belinda Hutchinson	Non-Executive Director	Full year
Diane Smith-Gander	Non-Executive Director	From 28 September 2016
John Stanhope	Non-Executive Director	Full year
Former		
Bruce Phillips	Non-Executive Director	Until 28 September 2016
Executives		
Current		
Andy Vesey	MD/CEO	Full year
Doug Jackson	EGM, Group Operations	Full year
Stephen Mikkelsen	EGM, Energy Markets	Full year

Name	Position	Dates
Brett Redman	CFO	Full year
Former		
Alistair Preston	Acting EGM, New Energy	Until 18 September 2016

Section 2: Remuneration framework

2.1 Remuneration strategy

The objective of the remuneration strategy is to support and drive the strategic agenda of AGL as it helps shape a sustainable energy future for Australia and responds to the strategic imperatives of prospering in a carbon-constrained future and building customer advocacy.

In pursuit of these imperatives, we use the strategic framework of embracing transformation, driving productivity and unlocking growth to organise our activities, including the metrics that govern executives' STI outcomes.

The exact implications on AGL's business model of the changes taking shape in the energy industry are not yet known - including in relation to decarbonisation, the adoption of distributed energy and the digitisation of how consumers buy services.

The Board believes that if AGL does not act strongly now, then risks to shareholder value in the long term will increase.

For that reason, AGL's remuneration framework places emphasis on rewarding executives for achieving AGL's strategic plans and creating shareholder value as follows:

- fixed remuneration that attracts and retains executives with the skills and experience needed to respond to the complex challenges facing the company and industry
- short-term incentives that drive strong action in operational improvement, cultural transformation and the pursuit of new growth opportunities in preparation for the changes ahead, and
- long-term incentives that align executive outcomes over time with the delivery of sustainable shareholder returns.

AGL strives to create an executive remuneration framework that drives a performance culture, ensuring there is a strong link between executive pay and the achievement of company performance and returns to shareholders. This is supported by a minimum shareholding policy that applies to all executives and directors.

2.2 Remuneration framework

Table 2.2.1: FY17 executive remuneration framework

Element	Inputs	Remuneration at risk weighting	Strategy and performance link
Fixed Remuneration (FR) Base salary and superannuation +	Skills, proven experience, qualifications, role complexity and responsibility. Peer group companies e.g. ASX11-50. Whilst not used for benchmarking purposes, international companies in sectors that are experiencing similar disruption and transformation are considered, where appropriate, in the context of attracting international candidates or retention.	N/A	• To attract, retain and motivate executives with the right capability and experience to achieve results. • Reviewed annually by the Board, and considers performance during the year, relevant external market data, tenure and experience. • AGL's approach is to initially set FR at a level that allows progressive increases to apply as the individual performs in their role and becomes more experienced. FR outcomes for FY17 are set out in section 3.2.
Short-Term Incentive (STI) MD/CEO = 50% cash and 50% Restricted Shares Other executives = 90% cash and 10% Restricted Shares Restricted Shares vest twelve months from allocation date +	Financial measures: 70% weighting • Profit after tax, • Operating expenditure. Strategic quantifiable measures: 30% weighting • Transformation measures (e.g. customer experience transformation) • Productivity measures (e.g. improve capital efficiency through asset portfolio management), • Growth measures (e.g. establishment of the Powering Australian Renewables Fund (PARF)). Individual performance moderator. Stretching quantifiable non-financial drivers of shareholder value. Categories of culture, customer, financial and strategic.	MD/CEO: FY17 Target = 100% of FR FY17 Maximum* = 144% of FR (Compared to: FY16 Target = 120% of FR FY16 Maximum* = 173% of FR) Other executives: Target = 70% of FR Maximum* = 100.8% of FR *Includes individual performance moderator up to 1.2. Individual performance moderator applies to the overall core financial and strategic outcome, not the weighting.	• AGL's approach is to provide STIs that reward executives for delivering financial returns and progress relative to AGL's strategic agenda consistent with the delivery of value creation for shareholders. • Financial measures (weighted 70%) are selected to drive profitability consistent with shareholder expectations of capital growth and dividend income. The current financial measures are profit after tax and, depending on the executive's scope of responsibility, either AGL or business unit operating expenditure. • Strategic quantifiable measures (weighted 30%) are linked to AGL's strategy as defined in section 2.1. • The starting point for considering remuneration outcomes is Statutory Profit. The Board adjusts Statutory Profit for non-cash fair value movements in financial instruments. The Board considers any significant items, which are non-recurring events that materially affect AGL's financial results, are not related to the ongoing underlying business - and are excluded from AGL's Underlying Profit financial reporting metric. These adjustments result in a profit after tax metric that the Board uses to determine remuneration outcomes under the company's STI and LTI plans that ensures management are not unfairly advantaged or disadvantaged by items outside their control. There were no significant items in FY17 affecting profit after tax. • In general, the Board expects an executive delivering strongly against all financial and strategic objectives would normally achieve a target STI outcome (i.e. 100% of FR in the case of the MD/CEO or 70% of FR in the case of executives) and that stretch outcomes would only occur in years of exceptional performance. • STI outcomes are moderated by personal, quantifiable outcomes linked to strategy and adjusts the STI outcomes up or down depending on the executive's individual performance (0-1.2). STI outcomes for FY17 are set out in section 3.3 including details of the financial and strategic measures and related outcomes in Table 3.3.1 and the individual performance moderators applying in FY17 and related outcomes in Table 3.3.2. See examples of MD/CEO STI calculations at Table 2.2.2.

Element	Inputs	Remuneration at risk weighting	Strategy and performance link
Long-Term Incentive (LTI) Performance Rights	Relative total shareholder return (TSR): 50% weighting • The TSR calculation is based on the June volume-weighted average share prices at the start and end of the performance period • Against AGL's peer group being the S&P/ASX100, • Straight line vesting from 50-100% of award for 50th to 75th percentile performance against the peer group. Return on equity (ROE): 50% weighting • Straight line vesting from 50-100% of award for 9-10% of three-year average ROE. Performance period: three years (1 July-30 June). Allocation methodology: based on the June volume-weighted average AGL share price preceding the start of the relevant performance period.	MD/CEO: At threshold = 60% of FR Maximum = 120% of FR Other executives: At threshold = 35% of FR Maximum = 70% of FR	• Reward executives for long-term performance, encourage shareholding and deliver long-term value creation for shareholders. • Relative TSR is chosen because it provides a comparative, external market performance benchmark against the S&P/ASX100 companies. • ROE is chosen because it provides a measure of the effectiveness with which AGL is deploying shareholders' funds by dividing profit after tax for a given period by the monthly average of shareholders' equity during the period in question. To ensure sustained performance, average ROE over the three years is calculated at the end of the performance period. • Both LTI measures are key to AGL's long-term success as they clearly link to the creation of shareholder absolute and comparative value.
= TOTAL REMUNERATION (TR)	The remuneration mix is designed to reward for the achievement of both short and longer term objectives which in turn, align executive and shareholder experiences through share ownership and value.		

Table 2.2.2: Example STI calculations for the MD/CEO

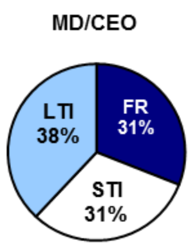
The following table includes some worked examples of STI calculations for the MD/CEO based on a range of performance-based STI outcomes.

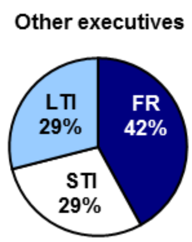
	Fixed Remuneration $	X	STI Target %	X	STI Performance Outcome (0-120%)	X	Individual Performance Moderator (0-1.2)	=	STI Award $	% of FR
At minimum	2,300,000	X	100%	X	0%	X	0	=	-	0%
Between minimum and target	2,300,000	X	100%	X	80%	X	0.9	=	1,656,000	72%
At target	2,300,000	X	100%	X	100%	X	1	=	2,300,000	100%
Between target and maximum	2,300,000	X	100%	X	110%	X	1.05	=	2,656,500	116%
At maximum	2,300,000	X	100%	X	120%	X	1.2	=	3,312,000	144%

STI performance outcomes can range at any level between 0-120%, adjusted by the individual performance moderator, which can also vary at any level between 0-1.2.

2.3 Remuneration mix

The total remuneration mix intends to attract, retain and motivate appropriately. The FY17 remuneration mix for executives is summarised below.





The variable/at-risk component of total remuneration is 69% and 58% for the MD/CEO and other executives respectively.

Section 3: FY17 Performance and executive remuneration outcomes

3.1 AGL five-year performance

Element	FY13	FY14	FY15	FY16	FY17
Statutory Profit/(Loss)[1] ($m)	375	570	218	(408)	539
Underlying Profit[1] ($m)	585	562	630	701	802
Statutory EPS[1 & 2] (cents)	65.5	98.2	33.3	(60.5)	80.5
Underlying EPS[1 & 2] (cents)	102.2	96.9	96.4	103.9	119.8
Dividends (cents)	63.0	63.0	64.0	68.0	91.0
Closing share price at 30 June ($)	14.48	15.48	15.55	19.29	25.50
Return on Equity (ROE)[3 & 4] (%)	8.0	7.5	7.2	8.3	10.2

1 FY13 restated for adoption of revised accounting standard AASB 119 Employee Benefits.
2 FY13 and FY14 have been restated for the bonus element of the one-for-five share rights issue completed in September 2014.
3 Used to calculate a portion of executives' LTI outcome for the FY16 and FY17 grants.
4 FY17 ROE includes share buybacks.

3.2 Fixed remuneration outcomes

Executive remuneration is reviewed annually. Performance and remuneration, both in Australia and internationally is considered in setting remuneration. Fixed remuneration increases for KMP in FY17 primarily reflected the need to retain executives in a competitive market.

Andy Vesey

In appointing Mr Vesey in November 2014, the Board believed it was right to pay around the market median (which was $1,950,000 based on an analysis of MD/CEO remuneration within the ASX 11-50 at that time), reflecting:

- Mr Vesey's considerable experience in energy businesses globally, including in the United States, Australia, Asia, Europe, Africa and Latin America
- the need for an incoming MD/CEO to set a new strategic agenda given the changing nature of the energy industry and the challenges arising from technological disruption and the community's expectation for decarbonisation, and
- the need to consider international comparisons given AGL was recruiting Mr Vesey from the United States and the skills the Board were seeking were not available in Australia at that time.

Increases to Mr Vesey's fixed remuneration since he joined AGL have reflected his performance in the role and the Board's view that it is highly desirable to retain him to deliver the transformation of AGL while continuing to drive strong shareholder returns at a time of extensive change in the energy industry. In FY16, the Board increased Mr Vesey's fixed remuneration by 10.5% to $2,100,000, placing him just above the market median against ASX11-50 companies. The Board determined this increase in the context of company performance, community expectations and retention based on market demand for executive talent.

In FY17, the Board increased Mr Vesey's fixed remuneration by a further 9.5%, effective 1 September 2016, to $2,300,000. Mr Vesey's fixed remuneration placed him at the 62nd percentile (as at March 2016) relative to a peer group of companies that ranked 11-50 on the ASX by market capitalisation. This decision preceded the strike against the FY16 Remuneration Report, which occurred on 28 September 2016. The current positioning of Mr Vesey's fixed remuneration places him at the 73rd percentile (as at March 2017) relative to a peer group of companies that rank 11-50 on the ASX by market capitalisation. At 30 June 2017 AGL's market capitalisation is at the 83rd percentile of the ASX11-50. Mr Vesey will not receive a fixed remuneration increase in FY18.

The Board reduced Mr Vesey's target STI award from 120% to 100% of fixed remuneration and his maximum STI opportunity from 173% to 144% of fixed remuneration.

Doug Jackson

Mr Jackson received a 10.7% increase in his fixed remuneration to $775,000 effective 1 September 2016 to align his remuneration to the market and more appropriately reflect the scale and complexity of the generating assets for which he is accountable. The Board believes Mr Jackson's remuneration now aligns with his experience and performance.

Stephen Mikkelsen

Mr Mikkelsen received a 2.5% increase in fixed remuneration to $973,750 effective 1 September 2016.

Brett Redman

Mr Redman received an 8.3% increase in fixed remuneration to $975,000 effective 1 September 2016. Mr Redman continues to perform strongly in his role. The Board believes Mr Redman's remuneration relative to market benchmarks now aligns with his experience and performance.

3.3 STI outcomes

The Board is satisfied with the FY17 STI payments to the executives for the following reasons:

- profit outcomes exceeded guidance
- operating expenditure reduction exceeded targets
- strong recurring cash flow
- delivery of financial transformation targets, and
- customer experience transformation program on target (with five signature moments launched).

Table 3.3.1: STI performance measures and FY17 outcomes

SCORECARD

Goal	Type	Performance Measure	A Vesey				D Jackson				S Mikkelsen				B Redman				Outcome
			MD/CEO				EGM, Group Operations				EGM, Energy Markets				CFO				
			Weighting	Min	Target	Max	Weighting	Min	Target	Max	Weighting	Min	Target	Max	Weighting	Min	Target	Max	
Financial	Growth	Profit after tax	50%				50%				50%				50%				Statutory Profit after tax in FY17 was $539 million, up from a Statutory Loss of $(408) million in FY16 - largely reflecting the absence of the significant items that occurred in FY16. Underlying Profit after tax of $802 million, up 14% on FY16.
	Productivity	AGL/Business unit operating expenditure	15%				20%				20%				20%				Targeted reduction of AGL operating expenditure of $170 million exceeded.
		Embed lean processes across AGL to achieve quantifiable efficiency improvements	5%																More than $40 million of targeted process efficiency improvement projects to be realised in FY18 following implementation of lean processes in 95% of cost centres.
Strategic	Transfor-mation	Deliver AGL's customer experience transformation with specific deliverables each financial year	10%								30%								Customer experience transformation program on target. Five signature moments launched.
	Growth	Establish the Powering Australian Renewables Fund (PARF) and build growth pipelines	10%				30%								30%				PARF: established with QIC/Future Fund signed as partners; Nyngan, Broken Hill and Silverton assets vended in to structure. Silverton wind farm - under construction. Cooper's Gap wind farm - awaiting financial approval. Growth: Western Australia market entry launched; several New Energy investments executed.*
		Facilitate a review of strategic technology investments for generating future growth options	10%																Global review of strategic investment opportunities undertaken and several partnerships and/or investments executed.*
		Overall																	

* Due to commercial sensitivity certain initiatives and investments undertaken cannot be disclosed. Similarly, certain initiatives and investments were deliberately not executed reflecting strong discipline.

Table 3.3.2: Individual performance moderators and FY17 outcomes

The individual performance moderator has the capacity to increase or decrease within the range of 0-1.2 the outcomes of the scorecard. Moderator applies to the overall core financial and strategic outcome in the scorecard, not the weighting.

			A Vesey MD/CEO				D Jackson EGM, Group Operations				S Mikkelsen EGM, Energy Markets				B Redman CFO				
Goal	Type	Performance Measure	Weighting	Min	Target	Max	Weighting	Min	Target	Max	Weighting	Min	Target	Max	Weighting	Min	Target	Max	Outcome
Culture	Safety	Drive the safety culture through measurable initiatives	15%			●	15%			●	15%			●	15%			●	Strong improvement in all areas of safety performance as measured by: • Employee Total Injury Frequency Rate improved by 53% from 4.3 to 2.0. • Contractor Total Injury Frequency Rate improved by 50% from 10.9 to 5.4.
		Improvement of site-specific safety					20%			●									Number of safety hazards reported at sites increased by 29% from FY16 as a result of proactive reporting measures.
	Talent	Identify and develop potential successors for key roles	15%			●													Structured program undertaken to increase capability within Senior Leadership Pipeline.
	Diversity	Increase female representation at senior levels of the company	15%			●	15%			●	15%			●	15%			●	Senior Leadership Pipeline now 38% females, up from 34% in FY16. Three female EGMs appointed to Executive Team, up from zero.
Customer	Satisfaction	Enhance customer experience and net promoter score	15%		●						20%		●						Net Promoter Score improved to -18.7 from -19.8 in FY16.
		Reduction in customer complaints									20%		●						Customer complaints down 13.4% from FY16.
	Value	Grow high value customer base									30%			●					The high value customers increased by 3.8% from FY16.
Financial	Productivity	Achievement of financial performance measures with regard to broader metrics, i.e. quality of the financial result	25%			●													High quality financial result reflected by: - $947 million increase in Statutory Profit - 14% increase in Underlying Profit - absence of significant items - strong recurring cash flows - 34% increase in dividends, and - delivery of financial transformation targets.
		Improve capital efficiency through asset management													25%			●	~$1 billion target for divestment of non-core or under-performing assets met.
		Fleet lost capacity factor					25%		●										Achieved plan for lost capacity factor across AGL's fleet.
		Commercial availability of fleet					25%		●										Achieved more than budgeted commercial availability of AGL's fleet.
Strategic	Growth	Enhance reputation and standing of the company	15%		●														Strong improvement in scores received from confidential third party shareholder confidence surveys. Public leadership in energy policy issues established.
	Transform-ation	Develop strategy and roadmap for systems transformation													25%			●	All transformation projects tracking on budget and on time.
		Communicate and clarify strategy with stakeholders													20%			●	Strong improvement in scores received from confidential third party shareholder confidence surveys relating to strategy and communication following overhaul of investor communication strategy.

Table 3.3.3: Actual FY17 STI outcomes

Executives[1]	Total STI award $	Cash $[2]	Restricted Shares $[3]	Total STI paid as % of target %	Total STI paid as % of maximum opportunity %
A Vesey	2,656,500	1,328,250	1,328,250	115.5	80.2
D Jackson	662,393	596,154	66,239	122.1	84.8
S Mikkelsen[4]	780,120	780,120	-	114.5	79.5
B Redman	840,840	756,756	84,084	123.2	85.6

1 Table 3.3.3 reports only executives who were KMP at 30 June 2017.
2 Cash component will be paid in September 2017.
3 Restricted Share component will be allocated once the full-year financial results have been disclosed to the market, generally in August/September 2017.
4 Mr Mikkelsen's FY17 STI award will be delivered 100% in cash due to his pending cessation of employment.

3.4 LTI outcomes

FY17 LTI plan

The LTI is a Performance Rights plan which assesses AGL's performance against two key metrics over a three-year period. The metrics for FY17 are relative TSR and ROE and are explained below.

TSR metric

For the FY17 LTI plan, following shareholder feedback, AGL moved to simplify the relative TSR metric to use the constituent companies in the S&P/ASX100 index as the comparator group. (For the FY16 plan, AGL had used a customised peer group (refer Table 1.1.1) selected to reflect similar characteristics to AGL in relation to volatility, industry, size and other factors - but this was deemed too opaque and complicated by many shareholders.)

ROE metric

Setting ROE targets is inherently difficult in the rapidly evolving Australian energy market. The Board is always striving to strike a balance between setting goals that are appropriately stretching for management while not being unattainable and that are viewed by shareholders as targeting appropriate levels of returns. While always judged by shareholders with the benefit of hindsight, the Board sets these targets prospectively based on the best information available at the time:

- For FY16, the Board approved LTI ROE targets across a vesting range of 10-15% from a base ROE of 7.2% in FY15. In light of the transformative strategy led by the new MD/CEO, the Board set challenging aspirational targets to drive early outperformance on that plan. At the time, AGL was only in the early phases of forming its view on the direction and shape of its strategy to become an agile, customer focused organisation. With benefit of hindsight, these appear to have been too stretching from the base year. Average ROE across FY16 and FY17 has been 8.6% (excluding share buyback and asset write-downs). At this level there will be no vesting under this grant. ROE would need to increase to 12.8% excluding the benefit of buybacks and write-offs in FY18 (from 9.24% in FY17) for threshold vesting and up to 27.8% for full vesting. With a year to go before these rights are tested management will continue to attempt to maximise opportunities to realise some vesting of these LTIs.
- For FY17, having noted the strong progress being made at transforming AGL and the impact that transformation has had on ROE over the financial year, the Board approved LTI ROE targets across a vesting range of 9-10% from a base ROE of 8.3% in FY16 to re-set expectations of a newly formed executive team and motivate them to deliver on AGL's strategy. At this time, these were considered challenging as the outlook for wholesale prices and customer margins were expected to be flat and there was considerable uncertainty around the outcome of the Loy Yang enterprise agreement negotiations. Importantly, the targets were also set prior to the announcement of the closure of Engie's Hazelwood power station which occurred earlier than anticipated and was a contributing factor to the sudden and unexpected rise in wholesale electricity prices. To achieve threshold vesting under the FY17 grant, profit would have increased on average by 6.6% per annum over the three years, requiring average increase of approximately 13% per annum for full vesting. The Board felt these were stretching targets at the time of setting these targets. With the benefit of hindsight, having achieved an increase in ROE to 10.2% including share buyback (9.97% excluding share buyback) in FY17, these appear now to have been set too low. However, management need to continue to manage in an agile manner and innovate ahead of our competitors and market disruptors to ensure vesting when tested in two years' time. The Board also believes that this is an appropriate result when combined with the aspirational targets set in FY16.
- In further reviewing AGL's outlook, the Board has approved a vesting range of 11.5% to 14% for the FY18 grant, from a base ROE of 10.2% including share buyback in FY17. The Board took comfort from its internal business plans, understanding of market consensus and consideration of what should constitute an acceptable level of return to its shareholders that these are appropriately robust targets that require strong performance. This takes into account the significant investments required including the customer experience transformation program, development of the Barker Inlet power station in South Australia and potential further significant investment in gas storage, new generation capacity in the National Electricity Market, new energy investments and potential geographical expansion. The company has sought independent advice on the appropriateness of the hurdle range which considered the stretched forecast, extrapolation of historical growth and shareholder expectations as represented in broker reporting. The Board believes that the FY18 targets appropriately strike a balance between driving an outperformance and truly motivating executives to deliver value to shareholders. However, as the company's recent history attests, setting targets three years out in a rapidly evolving industry is difficult.

In assessing outcomes under the FY16, FY17 and FY18 LTI grants, the Board will assess the quality of the results and the manner in which they were achieved as well as ensuring that those outcomes are aligned with the experience of AGL's shareholders.

Table 3.4.1: FY17 LTI Performance Rights

Executives[1]	Grant date	Vesting date	Number of awards granted	Value at grant date $[2]	Maximum value yet to vest $[3]
A Vesey[4]	21 October 2016	30 June 2019	147,068	1,927,326	1,927,326
D Jackson	21 October 2016	30 June 2019	28,907	356,708	356,708
S Mikkelsen	21 October 2016	30 June 2019	36,320	448,189	448,189
B Redman	21 October 2016	30 June 2019	36,367	448,764	448,764

1 Table 3.4.1 reports only executives who were KMP at the grant date.
2 The value at grant date is calculated based on the fair values shown in note 34 to the consolidated financial report, being $7.96 for relative TSR and $16.72 for ROE.
3 The maximum value is calculated based on the fair values shown in note 34 to the consolidated financial report, being $7.96 for relative TSR and $16.72 for ROE. The minimum value of the grant is zero.
4 As Mr Vesey received his LTI offer after the 2016 AGM, the values at grant and maximum value yet to vest are based on the alternate fair values shown in note 34 to the consolidated financial report, being $9.10 for relative TSR and $17.11 for ROE. The minimum value of the grant is zero.

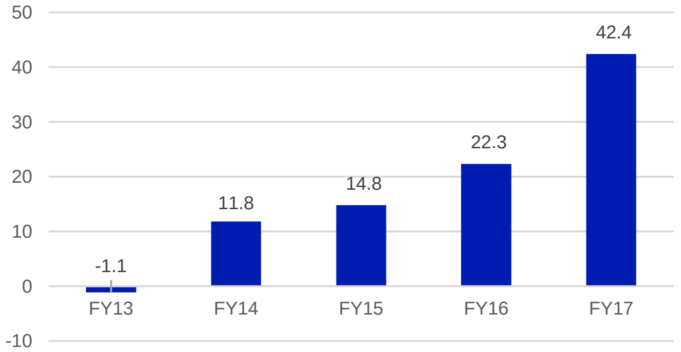
FY17 performance outcomes under FY15 annual banking LTI plan (pre-FY16 LTI plan)

The FY15 Remuneration Report outlined the Board's decision to replace the previous LTI annual banking plan with the current LTI plan introduced in FY16. Although the pre-FY16 plan was directly linked to share price performance (combining both absolute and relative TSR in testing Performance Rights), the current LTI plan is simpler and more aligned with standard practice among ASX companies. The pre-FY16 LTI plan provided for vesting for the last time in FY17.

In relation to the absolute TSR metric, the closing of the plan means that TSR performance beyond 14% up to 42% will never be taken into account in executive's future remuneration outcomes but continues to benefit shareholders. The plan has now closed and has aligned executive remuneration outcomes with the significant value delivered to shareholders. This is illustrated in the diagram below.

Potential vesting opportunities for executives under the new plan are materially lower when the company performs well and similar when it under performs. The outcome of these final tests are presented in the next two diagrams.

Absolute TSR: AGL



FY13 Actual Growth: (1.1%) No Allocation

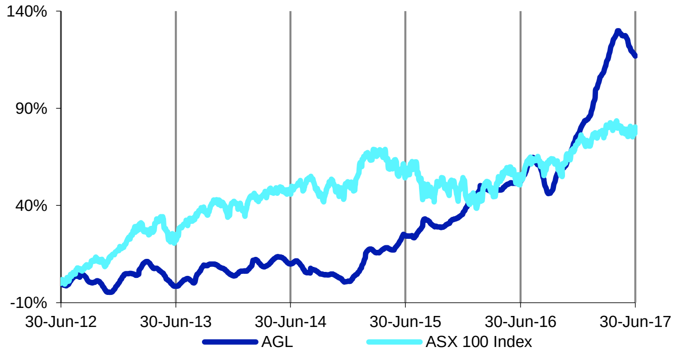
FY14 Actual Growth: 11.8% Deposit: 1.56x

FY15 Actual Growth: 14.8% Deposit: 2.0x

FY16 Actual Growth: 22.3% Deposit: 2.0x

FY17 Actual Growth: 42.4% Deposit: 2.0x

Relative TSR: AGL and ASX100



RTSR replaced EBIT/Funds Employed in FY14

FY14 Percentile Ranking: 34.70th No Allocation

FY15 Percentile Ranking: 47.00th Deposit: 0.47x

FY16 Percentile Ranking: 74.50th Deposit: 1.36x

FY17 Percentile Ranking: 84.78th Deposit: 1.79x

Table 3.4.2: LTI annual banking plan bank balance movement of Performance Rights for FY17

Executives[1]	Performance hurdles	Opening balance	Balance after adjustments for FY17 performance	Vested – fully released after adjustments made	Closed bank balance
A Vesey	Absolute TSR	44,705	89,410	(89,410)	-
	Relative TSR	7,144	12,787	(12,787)	-
	Total	**51,849**	**102,197**	**(102,197)**	**-**
D Jackson	Absolute TSR	3,659	7,318	(7,318)	-
	Relative TSR	386	690	(690)	-
	Total	**4,045**	**8,008**	**(8,008)**	**-**
S Mikkelsen	Absolute TSR	31,160	62,320	(62,320)	-
	Relative TSR	2,837	5,078	(5,078)	-
	Total	**33,997**	**67,398**	**(67,398)**	**-**
B Redman	Absolute TSR	22,156	44,312	(44,312)	-
	Relative TSR	2,506	4,485	(4,485)	-
	Total	**24,662**	**48,797**	**(48,797)**	**-**

1 Table 3.4.2 reports only executives who were KMP at 30 June 2017.

3.5 LTI transitional grants

Under the pre-FY16 LTI plan, AGL granted LTI awards to executives under an annual banking methodology. Under this methodology, executives maintained two bank accounts, one for each performance measure, with balances of Performance Rights. Each year, a grant of Performance Rights was made into each bank account and the resulting balances were subject to performance testing based on the previous financial year's performance against the relevant targets. Depending on the performance outcomes, each executives' bank balance was adjusted for either clawback of existing Performance Rights (in the case of underperformance) or an additional grant of Performance Rights (in the case of outperformance). Once adjusted, 40% of the remaining Performance Rights would vest to the executive, and the residual 60% rolled over for testing in future years. The pre-FY16 plan was lucrative for executives when AGL performed well and punitive when it did not. This plan terminated at the end of FY17.

To ensure executives were not unfairly disadvantaged by the closure of the pre-FY16 annual banking plan, the Board introduced a transitional arrangement for FY16 and FY17 under which impacted executives were provided a grant of Restricted Shares. This was to provide continuity in the annual vesting opportunities (in FY16 and FY17) under the old plan. The transitional share grants are subject to a twelve-month restriction period from grant, being September 2016 and September 2017.

A worked example below demonstrates the difference in outcome had the pre-FY16 plan remained in place, the actual outcomes from closing the plan and the impact of the transitional grant:

- Under the pre-FY16 annual banking LTI plan, the MD/CEO would have received shares to a value of approximately $2,408,174 (Table 3.5.2) in FY16 and $4,858,078 (Table 3.5.4) in FY17. Instead, he received $973,040 (Table 3.5.1) in FY16 and $2,634,271 in FY17 (Table 3.5.3).
- To offset this forgone opportunity, the Board granted the MD/CEO two transitional grants of $600,000 each. The first was allocated in September 2016 (Table 3.5.5) and the second will be allocated in September 2017.

Table 3.5.1: Grant made to MD/CEO under the former annual banking plan in FY15, annual testing applied in FY16

FY16 (actual) Performance measure	Opening bank account balance	Annual award granted	Multiplier	Awards to be allocated to bank account after performance testing	Cumulative bank account balance	Awards vested (50% of bank balance after allocation) [1]	Value of vested shares $[2]
Absolute TSR	44,705	-	2 x	44,705	89,410	44,705	838,970
Relative TSR	10,506	-	1.36 x	3,782	14,288	7,144	134,070
Total	**55,211**	**-**		**48,487**	**103,698**	**51,849**	**973,040**

Table 3.5.2: Hypothetical grant to MD/CEO had pre-FY16 annual banking plan remained

FY16 (old) Performance measure	Opening bank account balance	Annual award granted (120% of FR)[3]	Multiplier	Awards to be allocated to bank account after performance testing	Cumulative bank account balance	Awards vested (40% of bank balance after allocation)	Value of vested shares $[2]
Absolute TSR	44,705	79,046	2 x	158,092	202,797	81,118	1,522,325
Relative TSR	10,506	79,046	1.36 x	107,502	118,008	47,203	885,849
Total	**55,211**	**158,092**		**265,594**	**320,805**	**128,321**	**2,408,174**

1 In closing the plan, the Board determined to vest the bank accounts at 50% over a two-year period, FY16 and FY17.
2 Value calculated based on an assumed vesting share price of $18.7668 (June 2016 volume-weighted average AGL share price).
3 Based on FR at 1 September 2015 ($2,100,000) and June 2015 volume-weighted average AGL share price ($15.94).

Table 3.5.3: Grant made to MD/CEO under the former annual banking plan in FY16, annual testing applied in FY17

FY17 (actual) Performance measure	Opening bank account balance	Annual award granted	Multiplier	Awards to be allocated to bank account after performance testing	Cumulative bank account balance	Awards vested (remainder of bank balance after allocation) [1]	Value of vested shares $[2]
Absolute TSR	44,705	-	2 x	44,705	89,410	89,410	2,304,668
Relative TSR	7,144	-	1.79 x	5,643	12,787	12,787	329,603
Total	**51,849**	**-**		**50,348**	**102,197**	**102,197**	**2,634,271**

Table 3.5.4: Hypothetical grant to MD/CEO had pre-FY16 annual banking plan remained

FY17 (old) Performance measure	Opening bank account balance	Annual award granted (120% of FR)[3]	Multiplier	Awards to be allocated to bank account after performance testing	Cumulative bank account balance	Awards vested (40% of bank balance after allocation)	Value of vested shares $[2]
Absolute TSR	121,679	73,534	2 x	147,068	268,747	107,498	2,770,911
Relative TSR	70,805	73,534	1.79 x	131,625	202,430	80,972	2,087,167
Total	**192,484**	**147,068**		**278,693**	**471,177**	**188,470**	**4,858,078**

1 Full balance to vest in FY17 as a result of the closure of the annual banking plan.
2 Value calculated based on an assumed vesting share price of $25.7764 (June 2017 volume-weighted average AGL share price).
3 Based on FR at 1 September 2016 ($2,300,000) and June 2016 volume-weighted average AGL share price ($18.7668).

Table 3.5.5: FY16 LTI Transitional Restricted Share awards

Executives[1]	Allocation date	Number of awards allocated	Value at allocation date $[2]	Vesting date
A Vesey	30 September 2016	31,971	599,993	30 September 2017
D Jackson	30 September 2016	852	15,989	30 September 2017
S Mikkelsen	30 September 2016	6,394	119,995	30 September 2017
B Redman	30 September 2016	5,594	104,981	30 September 2017

1 Table 3.5.5 reports only executives who were KMP at 30 June 2017.
2 Value at allocation date calculated based on allocation price of $18.7668 (June 2016 volume-weighted average AGL share price).

Section 4: Executive remuneration disclosure

The Board considered the inclusion of a ‘take home pay’ table and determined otherwise, as practices are not standardised across the market. The Board will continue to review this practice as it evolves.

4.1 Statutory remuneration

Table 4.1.1: Executive remuneration and benefits for FY17 (prepared in accordance with the statutory accounting requirements)

		Short-term benefits				Post-employment benefits	Share-based payments					
Executives	Year	Cash salary/ fees $[1]	Total cash incentive $[2]	Non-monetary benefits $[3]	Other short-term benefits $[4]	Superannuation / pension $	STI Restricted Shares $[5]	LTI equity $[6]	Other equity $[7]	Total $	Performance-related %[8]	Termination benefits $
Current												
A Vesey	**FY17**	**2,266,667**	**1,328,250**	**250,129**	**-**	**-**	**1,328,250**	**1,728,310**	**-**	**6,901,606**	**63.5%**	**-**
	FY16	2,066,667	1,723,680	120,515	-	-	1,723,680	1,307,477	-	6,942,019	68.5%	-
D Jackson	**FY17**	**742,884**	**596,154**	**43,349**	**-**	**19,616**	**66,239**	**224,728**	**-**	**1,692,970**	**52.4%**	**-**
	FY16	654,093	476,280	-	-	19,308	52,920	111,922	-	1,314,523	48.8%	-
S Mikkelsen	**FY17**	**950,176**	**780,120**[9]	**3,308**	**-**	**19,616**	**-**	**431,219**	**-**	**2,184,439**	**55.5%**	**-**
	FY16	938,022	718,200	-	20,447	19,308	79,800	326,126	-	2,101,903	53.5%	-
B Redman	**FY17**	**942,884**	**756,756**	**11,874**	**-**	**19,616**	**84,084**	**388,226**	**-**	**2,203,440**	**55.8%**	**-**
	FY16	897,359	782,460	-	-	19,308	86,940	277,426	-	2,063,493	55.6%	-
Former												
M England	FY16 Until 29 Apr 16	615,844	-	-	-	16,090	-	-	-	631,934	0.0%	-
A Fowler	FY16 Until 1 Jul 15	359,743	-	-	-	-	-	-	-	359,743	0.0%	730,052
A Preston[10]	**FY17 Until 18 Sep 16**	**169,697**	**-**	**4,401**	**-**	**-**	**-**	**64,892**	**-**	**238,990**	**27.2%**	**-**
	FY16 From 1 Jan 16	400,000	570,240	-	-	-	63,360	106,043	-	1,139,643	64.9%	-
Total	**FY17**	**5,072,308**	**3,461,280**	**313,061**	**-**	**58,848**	**1,478,573**	**2,837,375**	**-**	**13,221,445**		**-**
	FY16	5,931,728	4,270,860	120,515	20,447	74,014	2,006,700	2,128,994	-	14,553,258		730,052

1 Represents cash salary including any salary-sacrificed items (such as additional superannuation contributions, expatriate benefits and charitable donations) and accrued leave payments at cessation of employment.
2 Represents cash payments under the STI achieved in the year, excluding the Restricted Share portion, which is allocated in August/September following the relevant financial year-end. The Restricted Share portion is disclosed under STI Restricted Shares.
3 Includes the provision of car parking, expatriate benefits and fringe benefits tax (FBT) on all benefits, where applicable. FBT included is in respect of the FBT year ended 31 March 2017.
4 Includes allowances such as, but not limited to, living away from home allowances.
5 Includes the value of all STI Restricted Shares expected to be granted in relation to the performance year.
6 Includes a proportion of the fair value of all outstanding LTI offers at the start of the year or offered during the year (including the LTI transitional grants). Under Australian Accounting Standards, the fair value is determined as at the offer date and is apportioned on a straight-line basis across the expected vesting period after adjusting at each reporting date for an estimation of the number of shares that will ultimately vest.
7 Includes a proportion of the fair value of all Restricted Shares held at the start of the year, or which were granted during the year, generally for retention or sign-on purposes.
8 Represents the sum of cash STIs and Performance Rights/Restricted Shares/other equity as a percentage of total remuneration, excluding termination payments.
9 Mr Mikkelsen’s FY17 STI award will be delivered 100% in cash due to his pending cessation of employment.
10 Mr Preston ceased to be a KMP from 19 September 2016 and continues to perform his role of EGM Organisational Transformation and Strategy. Mr Preston received no STI award for FY17 in relation to his KMP role.

4.2 Prior year equity arrangements

STI awards – Restricted Shares

Table 4.2.1: FY16 STI Restricted Share awards outstanding (FY16 STI deferral)

Executives[1]	Allocation date	Number of awards allocated	Value at allocation date $[2]	Vesting date
A Vesey	23 August 2016	90,481	1,723,663	23 August 2017
D Jackson	23 August 2016	2,777	52,902	23 August 2017
S Mikkelsen	23 August 2016	4,188	79,781	23 August 2017
B Redman	23 August 2016	4,563	86,925	23 August 2017

1 Table 4.2.1 reports only executives who were KMP at 30 June 2017.
2 Value at allocation date calculated based on allocation price of $19.05 (actual weighted average price paid for AGL shares for all participants receiving STI deferral), rounded to the nearest dollar. Due to the residual amount being less than the value of a share, the value at allocation date is slightly lower than the values reported in Table 4.1.

Table 4.2.2: FY15 STI Restricted Share awards vested during FY17 (FY15 STI deferral)

Executives[1]	Allocation date	Number of awards vested	Value vested $[2]	Vesting date
A Vesey	25 August 2015	33,510	628,313	25 August 2016
D Jackson	25 August 2015	2,284	42,825	25 August 2016
S Mikkelsen	25 August 2015	2,982	55,913	25 August 2016
B Redman	25 August 2015	2,634	49,388	25 August 2016

1 Table 4.2.2 reports only executives who were KMP at 30 June 2017.
2 The value vested is calculated based on the closing share price on the vesting date, being $18.75.

LTI awards – Performance Rights

Table 4.2.3: FY16 LTI Performance Rights outstanding

Executives[1]	Grant date	Vesting date	Number of awards granted	Value at grant date $[2]	Maximum value yet to vest $[3]
A Vesey	30 September 2015	30 June 2018	158,093	1,827,553	1,827,553
D Jackson	30 September 2015	30 June 2018	21,958	253,834	253,834
S Mikkelsen	30 September 2015	30 June 2018	29,800	344,488	344,488
B Redman	30 September 2015	30 June 2018	28,231	326,348	326,348

1 Table 4.2.3 reports only executives who were KMP at 30 June 2017.
2 Value at grant date calculated based on fair values shown in note 34, being $9.00 for relative TSR and $14.12 for ROE.
3 Maximum value calculated based on fair values shown in note 34, being $9.00 for relative TSR and $14.12 for ROE. The minimum total value of the grant is zero.

4.3 Movement in Performance Rights

Table 4.3.1: FY17 movement in executive Performance Right holdings under the LTI plan

Executives	Balance at start of year	Acquired during the year as part of remuneration	Performance Rights vested but not yet allocated[1]	Other changes during the year[2]	Balance at end of year
Current					
A Vesey	209,942	147,068	(102,197)	50,348	305,161
D Jackson	26,003	28,907	(8,008)	3,963	50,865
S Mikkelsen	63,797	36,320	(67,398)	33,401	66,120
B Redman	52,893	36,367	(48,797)	24,135	64,598
Former					
A Preston[3]	25,095	-	-	(25,095)	-
Total	**377,730**	**248,662**	**(226,400)**	**86,752**	**486,744**

1 Includes Performance Rights that have vested under the LTI but will not be allocated as shares to executives until August/September 2017.
2 Represents increase/decrease from annual LTI performance testing before any vesting, balance adjustments for executives joining or leaving KMP and any units forfeited during FY17.
3 Mr Preston ceased to be a KMP from 19 September 2016. As such, his closing balance has been adjusted to reflect no further holdings as a KMP.

Section 5: Non-executive directors' remuneration

5.1 Fee pool

The maximum aggregate fee pool for non-executive directors is $2.75 million per annum. The fee pool is regularly reviewed by the Board and, if appropriate, adjusted (subject to shareholder approval), having regard to the anticipated time commitment, workload and responsibilities attached and the fees paid by comparable organisations. The current fee pool was approved by shareholders at the 2016 AGM. The Board does not anticipate fee increases in calendar year 2018 to be more than the prevailing consumer price index (CPI) movements.

5.2 Fee policy

Non-executive directors receive a base fee. Members of a Committee receive a Committee fee to recognise the associated higher workload and extra responsibilities. Chairing a Committee attracts a higher fee rate. The Chairman of the Board receives a higher base fee in recognition of the added responsibility and time commitment; however the Chairman does not receive any extra remuneration for participating in or chairing any Committees. Fees are inclusive of superannuation. There are no additional committee fees in relation to the Nominations Committee.

In setting non-executive directors' fees, the Board considers the following:

- time commitment
- workload
- risk and responsibility
- individual background, skills and experience, and
- market benchmark data, sourced from companies with a similar market capitalisation.

To ensure independence, non-executive directors do not receive performance-related remuneration. This allows the Board to focus on governance and both short and long-term strategy.

5.3 FY17 fees

Table 5.3.1: Non-executive director fees (effective 1 January 2017)

Board/Committee	Chair fee $	Director fee $
Base fee	546,000	189,300
Audit and Risk Management Committee	52,000	26,000
Other Committees	40,000	20,000

Table 5.3.2: Non-executive director remuneration for FY17

Non-executive director[1]	Year	Cash fees $	Superannuation $	Total $
Current				
J Maycock	**FY17**	**519,734**	**19,616**	**539,350**
	FY16	506,892	19,308	526,200
P Botten	**FY17 From 21 Oct 2016**	**131,565**	**12,499**	**144,064**
J Hey	**FY17**	**212,084**	**19,616**	**231,700**
	FY16 From 21 Mar 2016	59,007	5,457	64,464
L Hosking	**FY17**	**231,534**	**19,616**	**251,150**
	FY16	224,592	19,308	243,900
G Hunt	**FY17**	**227,619**	**19,381**	**247,000**
	FY16	198,995	18,905	217,900
B Hutchinson	**FY17**	**212,084**	**19,616**	**231,700**
	FY16	205,903	19,297	225,200
D Smith-Gander	**FY17 From 28 Sep 2016**	**157,506**	**14,812**	**172,318**
J Stanhope	**FY17**	**237,734**	**19,616**	**257,350**
	FY16	230,892	19,308	250,200
Former				
S McPhee	FY16	224,592	19,308	243,900
B Phillips	**FY17 Until 28 Sep 2016**	**50,542**	**4,755**	**55,297**
	FY16	205,903	19,297	225,200
Total	**FY17**	**1,980,402**	**149,527**	**2,129,929**
	FY16	1,856,776	140,188	1,996,964

1 During FY17 AGL increased the number of non-executive directors to eight. AGL closed FY16 with only seven non-executive directors. There was crossover between Jacqueline Hey and Sandra McPhee between 21 March 2016 and 30 June 2016.

Section 6: Remuneration governance

6.1 Role of the People and Performance (P&P) Committee

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

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

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

6.2 Remuneration advisers

Any recommendations made by consultants in relation to remuneration arrangements of KMP must be made directly to the Board without any influence from management. There are arrangements in place to ensure any advice is independent of management. The Board did not receive any 'remuneration recommendations' as defined in the Corporations Act 2001 (Cth) during FY17.

Over the course of FY17, the P&P Committee engaged *KPMG – 3dc* to act as independent remuneration advisers. *KPMG – 3dc* provided a broad range of services to AGL during the year, including advice on AGL's approach to stakeholder engagement and communication post the first strike received in 2016, the provision of market data regarding peer remuneration practices, updates on best practice and market trends and related governance advice. *KPMG – 3dc* did not provide any remuneration recommendations as defined in the Corporations Act 2001 (Cth) to the P&P Committee during FY17.

6.3 Executive contract terms

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

Table 6.3.1: Information relating to service agreements of executives

	Notice period[2]			
Executives[1]	By executive	By AGL	Termination payment[3]	Post-employment restraint period
A Vesey	6 months[4]	12 months	N/A	12 months
D Jackson	6 months[5]	3 months	9 months FR	12 months
S Mikkelsen	6 months[5]	3 months[6]	9 months FR	12 months
B Redman	6 months[5]	3 months	9 months FR	12 months

1 Table reports only executives who were KMP at 30 June 2017.
2 AGL can, at its election, make a payment in lieu of part or all of the notice period.
3 Maximum termination payment (exclusive of any payment in lieu of notice) payable if AGL terminates the executive's employment other than for cause.
4 Mr Vesey may also terminate his agreement with three months' notice in the event of a 'fundamental change', which includes circumstances where he ceases to hold the most senior management role within AGL or ceases to report directly to the Chairman, or if the scope of his responsibilities is materially diminished. In this case he will be entitled to a payment equivalent to twelve months' fixed remuneration.
5 Executives may also terminate their agreement with three months' notice in the event of a 'fundamental change', which includes circumstances where there has been a substantial diminution of role and responsibility of the executive, in which event they will be entitled to a payment equivalent to nine months' FR.
6 AGL will provide six months' notice in circumstances of unsatisfactory performance.

6.4 Equity plan governance

Table 6.4.1: Key elements of equity plan governance

Element	Details
Clawback	The Board has discretion to prescribe clawback events in which any unvested equity awards may be clawed back from executives.
Change of control	The Board will determine at the time a change of control event occurs how to treat unvested equity in accordance with the plan rules, and ultimately has absolute discretion in determining this treatment, taking into consideration market practice.
Hedging policy	AGL has a policy in place that prevents executives from entering into any derivative or other financial product in relation to equity plans.

Element	Details
Cessation of employment	*Prior to vesting date:* if an executive leaves AGL before the scheduled vesting date, they are generally not entitled to participate in the vesting event. The Board has discretion to determine the relevant treatment at termination in the event of redundancy or other involuntary termination, including bona fide retirement. *Post-vesting date:* once equity has vested, generally no further employment or other restrictions apply.
Board discretion	In relation to assessing equity awards, including treatment at vesting, the Board's overarching discretion will apply, particularly when determining whether an extraordinary event should be taken into consideration in relation to assessing the performance of AGL for the purposes of the vesting event.

6.5 KMP share ownership

Minimum shareholding policy

To provide for shareholder alignment, AGL operates two minimum shareholding policies for executives and for non-executive directors. All KMP are expected to demonstrate meaningful progress towards meeting their minimum shareholding level across the required period. Tracking against the relevant minimum shareholding policy for each KMP is reported in Table 6.5.1.

The minimum shareholding policies stipulate that:

Non-executive directors	Executives
• over a four-year period, directors should accumulate and thereafter maintain AGL securities to the value of 100% of the base annual director's fee • half of the above requirement should be accumulated within two years of the adoption of the policy (4 December 2015) or within two years of the date of appointment for new directors, and • each newly appointed director is encouraged to acquire AGL securities equal to at least 10% of the base annual director's fee by the financial year-end in which they are appointed.	• the MD/CEO should accumulate and thereafter maintain AGL securities equal to the value of 100% of FR • the CFO should accumulate and thereafter maintain AGL securities equal to the value of 75% of FR • remaining executives should accumulate and thereafter maintain in AGL securities equal to the value of 50% of FR, and • the above requirement should be accumulated within five years of the end of FY16 or up to five years from the date of appointment for new executives.

Movement in AGL shares

The movement during FY17 in the number of AGL shares, including Restricted Shares, held by each KMP, including their related parties, is shown in Table 6.5.1. Restricted Shares generally relate to the STI deferral, or for attraction/retention purposes in certain circumstances.

Table 6.5.1: KMP shareholdings

FY17	Balance at start of year	Acquired during the year[1]	Other changes during the year[2]	Balance at end of year	% base fees[3]
Non-executive directors					
Current					
J Maycock	79,787	44	-	79,831	373%
P Botten	-	-	2,390	2,390	32%
J Hey	2,170	1,349	-	3,519	47%
L Hosking	2,801	2,200	-	5,001	67%
G Hunt	1,500	2,500	-	4,000	54%
B Hutchinson	9,156	-	-	9,156	123%
D Smith-Gander	-	4,670	1,000	5,670	76%
J Stanhope	7,540	177	-	7,717	104%
Former					
B Phillips	40,601	-	(40,601)	-	N/A
Non-executive director total	**143,555**	**10,940**	**(37,211)**	**117,284**	

FY17	Balance at start of year	Granted / acquired during the year[4]	Received upon vesting / exercise[5]	Other changes during year[6]	Balance at end of year	Performance Rights vested but not yet allocated[7]	% FR[3, 8]
Executives							
Current							
A Vesey	143,316	122,452	51,849	(50,000)	267,617	102,197	410%
D Jackson	10,142	4,262	4,045	-	18,449	8,008	87%
S Mikkelsen	56,477	10,582	33,996	(51,000)	50,055	67,398	308%
B Redman	28,642	10,157	24,662	(17,500)	45,961	48,797	248%

FY17	Balance at start of year	Granted / acquired during the year[4]	Received upon vesting / exercise[5]	Other changes during year[6]	Balance at end of year	Performance Rights vested but not yet allocated[7]	% FR[3, 8]
Former							
A Preston	-	3,325	-	(3,325)	-	-	N/A
Executive total	**238,577**	**150,778**	**114,552**	**(121,825)**	**382,082**	**226,400**	
Total (all non-executive directors and executives)	**382,132**	**161,718**	**114,552**	**(159,036)**	**499,366**	**226,400**	

1 Includes the purchase/sale of ordinary shares during FY17, including the dividend reinvestment plan.
2 Includes balance adjustments for directors joining or leaving KMP.
3 Based on share price at 30 June 2017 of $25.50.
4 Includes shares acquired during FY17, including Restricted Shares allocated under the FY16 STI.
5 Includes shares acquired upon vesting of LTI awards during FY17.
6 Includes the sale of ordinary shares during FY17, including balance adjustments for executives joining or leaving KMP.
7 Includes shares that have vested under the LTI but will not be allocated as shares to executives until August/September 2017.
8 Including Performance Rights vested but not yet allocated.

Other Required Disclosures

These Other Required Disclosures (pages 47 to 49) are attached to and form part of the Directors' report.

Changes in State of Affairs

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

Proceedings on Behalf of the Company

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

Commercial in Confidence Information

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

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

Non-Audit Services

Non-audit services have been provided during the year by the external auditor, Deloitte Touche Tohmatsu. Disclosure of the details of these services can be found in Note 27 of the Financial Report 2017.

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. The Directors are satisfied that the provision of $241,000 of other 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 or prior periods.

Rounding

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

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 2017.

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, 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 covered and the amount of premium.

Information on Audits

This Report has been derived from the AGL Financial Report 2017 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 gives a true and fair view of the matters disclosed.

This Report is based on financial statements that have been audited. The audit report, which is unmodified, is attached to the AGL Financial Report 2017 also released to the market on 10 August 2017.

Dividends

The Directors have declared a final dividend of 50.0 cents per share, compared with 36.0 cents per share for the prior final dividend. The annual dividend for the year ended 30 June 2017 was 91.0 cents per share compared with 68.0 cents per share for the prior year. The dividend will be 80% franked and will be paid on 22 September 2017. The record date to determine shareholders' entitlements to the final dividend is 24 August 2017. Shares will commence trading ex-dividend on 23 August 2017.

The following dividends have been paid or declared by the Directors since 30 June 2016:

Final dividend of 36.0 cents per share (100% franked) paid on 22 September 2016	$243 million
Interim dividend of 41.0 cents per share (franked to 80%) paid on 27 March 2017	$274 million
Final dividend of 50.0 cents per share (80% franked) payable on 22 September 2017	$328 million

Before declaring each 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.

On 28 September 2016, AGL announced a change to its dividend policy. AGL will target a payout ratio of approximately 75% of Underlying Profit after tax and a minimum franking level of 80%.

AGL is able to pay the unfranked component of the dividend out of certain foreign source income (known as Conduit Foreign Income, or CFI). This is relevant only for non-resident shareholders. The effect is that the unfranked portion of the dividend will not be subject to Australian dividend withholding tax.

Unfranked dividends sourced from CFI have no tax implications for Australian resident shareholders.

The AGL Dividend Reinvestment Plan (DRP) will operate in respect of the 2017 final dividend. AGL will acquire shares on market and allot them to DRP participants at no discount to the simple average of the daily weighted average price at which AGL's ordinary shares trade during each of the 10 trading days commencing 28 August 2017. The last date for shareholders to elect to participate in the DRP for the 2017 final dividend is 25 August 2017.

Subsequent Events

Apart from the matters identified elsewhere in this Directors' Report and the AGL Financial Report, the Directors are not aware of any other matter or circumstance that has arisen since 30 June 2017 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 other than:

On 5 July 2017, AGL invested US$2.2 million in Advanced Microgrid Solutions which sells a distributed energy response management solution.

Non-IFRS Financial Information

The Operating & Financial Review attached to and forming part of this Directors' Report includes a number of non-International Financial Reporting Standards (IFRS) financial measures. AGL management uses these non-IFRS financial measures to assess the performance of the business and make decisions on the allocation of resources.

Principal among these non-IFRS financial measures is Underlying Profit. This measure is Statutory Profit/(Loss) adjusted for:

- significant items (which are material items of revenue or expense that are unrelated to the underlying performance of the business); and
- 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 financial instruments and the underlying asset differently).

AGL believes that Underlying Profit provides a better understanding of its financial performance than Statutory Profit/(Loss) and allows for a more relevant comparison of financial performance between financial periods.

Underlying Profit is presented with reference to the Australian Securities & Investment Commission (ASIC) 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.

Corporate Governance

A copy of AGL's Corporate Governance Statement can be found on the AGL website at:

agl.com.au/CorporateGovernance

Environmental Regulation

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

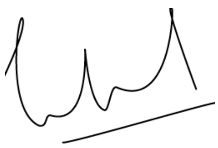
During the financial year ended 30 June 2017, there were no non-compliances that became the subject of environmental and planning regulation under relevant legislation (that is, there were no non-compliances that resulted in regulatory action such as a penalty infringement notice and/or official caution). Certain AGL businesses were subject to non-compliances which did not result in regulatory action. These were notified to the relevant regulator, and reported under the AGL site licence conditions, as required under relevant legislation.

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

More information on the Group's environmental performance is published in AGL's Sustainability Performance Report 2017, available on the AGL website.

Approval of Directors Report

This Directors' Report is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Board this 10th day of August 2017.



Jerry Maycock
Chairman

AGL Financial Report 2017

AGL Energy Limited
ABN 74 115 061 375

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AGL Energy Limited and controlled entities

Consolidated Statement of Profit or Loss

For the year ended 30 June 2017

	Note	2017 $m	2016 $m
Continuing operations			
Revenue	4	**12,584**	11,150
Other income	5	**-**	25
Expenses	6	**(11,131)**	(10,979)
Share of profits of associates and joint ventures	14	**19**	26
Profit before net financing costs, depreciation and amortisation		**1,472**	222
Depreciation and amortisation		**(484)**	(478)
Profit/(loss) before net financing costs		**988**	(256)
Finance income		**13**	18
Finance costs		**(237)**	(236)
Net financing costs	7	**(224)**	(218)
Profit/(loss) before tax		**764**	(474)
Income tax (expense)/benefit	8	**(225)**	67
Profit/(loss) for the year		**539**	(407)
Profit/(loss) attributable to:			
Owners of AGL Energy Limited		**539**	(408)
Non-controlling interests		**-**	1
		539	(407)
Earnings per share			
Basic earnings per share	24	**80.5 cents**	(60.5 cents)
Diluted earnings per share	24	**80.4 cents**	(60.4 cents)

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

AGL Energy Limited and controlled entities

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2017

	Note	2017 $m	2016 $m
Profit/(loss) for the year		**539**	(407)
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement gain/(loss) on defined benefit plans	33	**107**	(111)
Income tax relating to items that will not be reclassified subsequently	8	**(32)**	33
		75	(78)
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges			
Gain in fair value of cash flow hedges		**72**	12
Reclassification adjustments transferred to profit or loss		**(15)**	29
Share of other comprehensive income of a joint venture		**-**	(1)
Reclassification of joint venture losses transferred to profit or loss on disposal of investment		**-**	15
Income tax relating to items that may be reclassified subsequently	8	**(17)**	(12)
		40	43
Other comprehensive income for the year, net of income tax		**115**	(35)
Total comprehensive income for the year		**654**	(442)
Total comprehensive income attributable to:			
Owners of AGL Energy Limited		**654**	(443)
Non-controlling interests		**-**	1
		654	(442)

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

AGL Energy Limited and controlled entities

Consolidated Statement of Financial Position

As at 30 June 2017

	Note	2017 $m	2016 $m
Current assets			
Cash and cash equivalents	36	**154**	252
Trade and other receivables	10	**1,944**	1,975
Inventories	11	**351**	414
Other financial assets	12	**744**	267
Other assets	13	**231**	232
		3,424	3,140
Assets classified as held for sale	17	**201**	447
Total current assets		**3,625**	3,587
Non-current assets			
Trade and other receivables	10	**-**	44
Inventories	11	**20**	30
Other financial assets	12	**142**	147
Investments in associates and joint ventures	14	**80**	70
Property, plant and equipment	15	**6,447**	6,482
Intangible assets	16	**3,286**	3,232
Deferred tax assets	8	**792**	953
Other assets	13	**66**	59
Total non-current assets		**10,833**	11,017
Total assets		**14,458**	14,604
Current liabilities			
Trade and other payables	18	**1,507**	1,519
Borrowings	19	**173**	22
Provisions	20	**201**	226
Current tax liabilities	8	**13**	102
Other financial liabilities	21	**827**	460
Other liabilities		**10**	-
		2,731	2,329
Liabilities directly associated with assets classified as held for sale	17	**-**	224
Total current liabilities		**2,731**	2,553
Non-current liabilities			
Borrowings	19	**3,173**	3,086
Provisions	20	**520**	487
Other financial liabilities	21	**293**	301
Other liabilities	22	**167**	251
Total non-current liabilities		**4,153**	4,125
Total liabilities		**6,884**	6,678
Net assets		**7,574**	7,926
Equity			
Issued capital	23	**6,223**	6,696
Reserves		**16**	(24)
Retained earnings		**1,335**	1,243
Total equity attributable to owners of AGL Energy Limited		**7,574**	7,915
Non-controlling interests		**-**	11
Total equity		**7,574**	7,926

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

AGL Energy Limited and controlled entities

Consolidated Statement of Changes in Equity

For the year ended 30 June 2017

	Attributable to owners of AGL Energy Limited						
	Issued capital $m	Employee equity benefits reserve $m	Hedging reserve $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
Balance at 1 July 2016	**6,696**	**1**	**(25)**	**1,243**	**7,915**	**11**	**7,926**
Profit for the year	**-**	**-**	**-**	**539**	**539**	**-**	**539**
Other comprehensive income for the year, net of income tax	**-**	**-**	**40**	**75**	**115**	**-**	**115**
Total comprehensive income for the year	**-**	**-**	**40**	**614**	**654**	**-**	**654**
Transactions with owners in their capacity as owners:							
On-market share buy-back	**(473)**	**-**	**-**	**-**	**(473)**	**-**	**(473)**
Payment of dividends	**-**	**-**	**-**	**(517)**	**(517)**	**-**	**(517)**
Acquisition of non-controlling interests	**-**	**-**	**-**	**(5)**	**(5)**	**(11)**	**(16)**
Balance at 30 June 2017	**6,223**	**1**	**15**	**1,335**	**7,574**	**-**	**7,574**
Balance at 1 July 2015	6,696	3	(68)	2,175	8,806	9	8,815
Loss for the year	-	-	-	(408)	(408)	1	(407)
Other comprehensive income for the year, net of income tax	-	-	43	(78)	(35)	-	(35)
Total comprehensive income for the year	-	-	43	(486)	(443)	1	(442)
Transactions with owners in their capacity as owners:							
Issue of ordinary shares	-	-	-	-	-	1	1
Payment of dividends	-	-	-	(446)	(446)	-	(446)
Share-based payments	-	(2)	-	-	(2)	-	(2)
Balance at 30 June 2016	6,696	1	(25)	1,243	7,915	11	7,926

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

Consolidated Statement of Cash Flows

For the year ended 30 June 2017

	Note	2017 $m	2016 $m
Cash flows from operating activities			
Receipts from customers		**13,552**	11,903
Payments to suppliers and employees		**(12,216)**	(10,397)
Dividends received		**22**	19
Finance income received		**13**	13
Finance costs paid		**(188)**	(186)
Income taxes paid		**(292)**	(166)
Net cash provided by operating activities	36(b)	**891**	1,186
Cash flows from investing activities			
Payments for property, plant and equipment		**(498)**	(533)
Payments for other assets		**(6)**	(13)
Payments for investments in associates and joint ventures		**(13)**	(30)
Payments for available-for-sale financial assets		**(31)**	-
Payments for deferred consideration for prior period acquisitions		**(33)**	(33)
Government grants received		**1**	8
Proceeds from sale of property, plant and equipment		**278**	8
Proceeds from sale of other assets		**-**	1
Proceeds from sale of subsidiaries and businesses, net of cash disposed	30	**-**	673
Net cash (used in)/provided by investing activities		**(302)**	81
Cash flows from financing activities			
Payments for buy-back of shares		**(473)**	-
Proceeds from issue of shares to non-controlling interests		**-**	1
Purchase of shares on-market for equity based remuneration		**(7)**	(8)
Proceeds from borrowings		**1,472**	550
Repayment of borrowings		**(1,146)**	(1,371)
Payments to acquire non-controlling interests		**(16)**	-
Dividends paid	9	**(517)**	(446)
Net cash used in financing activities		**(687)**	(1,274)
Net decrease in cash and cash equivalents		**(98)**	(7)
Cash and cash equivalents at the beginning of the financial year		**252**	259
Cash and cash equivalents at the end of the financial year	36(a)	**154**	252

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

Note 1 - Summary of significant accounting policies

AGL Energy Limited (the Parent Entity) is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX). The address of its registered office is Level 24, 200 George Street, Sydney NSW 2000 Australia.

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

The principal activities of AGL are described in Note 3.

(a) Statement of compliance

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

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

The consolidated financial statements were authorised for issue by the Directors on 10 August 2017.

(b) Basis of preparation

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

The Parent Entity is a company of the kind referred to in ASIC Corporations Instrument 2016/191, dated 24 March 2016, and in accordance with that Instrument, amounts in the financial statements are rounded off to the nearest million dollars, unless otherwise indicated.

The significant accounting policies that have been adopted in the preparation and presentation of the consolidated financial statements are set out below.

(c) Adoption of new and revised accounting standards and Interpretations

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

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

(d) Basis of consolidation

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

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

(e) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred is measured at fair value as are the identifiable net assets acquired. Acquisition-related costs are recognised in profit or loss as incurred except if related to the issue of debt or equity securities. Subsequent changes (after 12 months) in the fair value are recognised in profit or loss.

(f) Segment reporting

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

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

(g) Investments in equity accounted investees

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

Investments in associates and joint ventures are accounted for using the equity method.

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

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

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

(h) Joint operations

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

(i) Foreign currency transactions and balances

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

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

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

(j) Cash and cash equivalents

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

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

(k) Trade and other receivables

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

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

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

(l) Inventories

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

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

(m) Financial assets

Loans and receivables and all other financial assets are recognised on trade date.

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

Financial assets at fair value through profit or loss

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

Available-for-sale financial assets

Investments in unlisted equity securities and unit trusts held by the consolidated entity that are traded in an active market are classified as available-for-sale and are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of impairment losses, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Loans and receivables

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

Impairment of financial assets

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

For financial assets measured at amortised cost, the amount of the impairment loss recognised in profit or loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. Impairment of trade receivables is recognised in accordance with the accounting policy set out in Note 1(k).

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

Derecognition of financial assets

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

(n) Green commodity scheme certificates

AGL participates in a number of renewable energy and energy efficiency schemes administered by the Commonwealth and State governments. AGL holds green commodity scheme certificates in order to satisfy its surrender obligations under the various schemes.

Green commodity scheme certificates are initially recorded at cost, being the fair value of the consideration paid or the cost of generation of the certificate. Subsequent to initial recognition, they are stated at the lower of cost and net realisable value.

(o) Non-current assets and disposal groups held for sale

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

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

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

(p) Property, plant and equipment

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

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

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

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

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

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

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

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

(q) Leases

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

AGL as lessor

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

AGL as lessee

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

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

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

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

(r) Intangible assets

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

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

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

(r) Intangible assets (cont'd)

The following estimated useful lives are used in the calculation of amortisation for intangible assets with finite lives:
Customer relationships and contracts - 3 to 20 years

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

Goodwill

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

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

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

Licences

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

Customer relationships and contracts

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

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

(s) Impairment of non-financial assets excluding goodwill

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

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

(t) Trade and other payables

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

(u) Borrowings

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

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

(v) Employee benefits

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

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

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

Defined contribution superannuation plans

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

Defined benefit superannuation plans

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

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

(w) Share-based payments

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

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

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

(x) Provisions

Provisions are recognised when AGL has a present obligation (legal or constructive) as a result of a past event, it is probable that AGL will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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

Onerous contracts

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

Environmental restoration

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

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

Restructuring

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

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

(y) Derivative financial instruments and hedging

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

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

Fair value hedges

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

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

Cash flow hedges

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

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

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

Derivatives that do not qualify for hedge accounting - economic hedges

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

(z) Government grants

Government grants are recognised when there is reasonable assurance that AGL will comply with the conditions attaching to the grant and the grant will be received.

Government grants which required AGL to construct an asset were recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systemic basis over the useful life of the related assets.

(aa) Issued capital

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

(ab) Revenue recognition

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

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

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

(ab) Revenue recognition (cont'd)

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

Dividend income is recognised when AGL's right to receive the payment is established.

(ac) Net financing costs

Interest income is recognised as it accrues in profit or loss, using the effective interest method.

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

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

(ad) Income tax

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

Current tax

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

Deferred tax

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

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

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

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

Current and deferred tax for the period

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

Tax consolidation

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

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

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

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

(ad) Income tax (cont'd)

Tax consolidation (cont'd)

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

(ae) Standards and Interpretations in issue not yet adopted

A number of Australian Accounting Standards have been issued by the AASB but are not effective for the year ended 30 June 2017. AGL's assessment of the expected impact of these Standards is set out below.

AASB 9 *Financial Instruments* and the related subsequent amendments replaces AASB 139 *Financial Instruments: Recognition and Measurement* and applies to the classification, measurement and derecognition of financial instruments. The standard includes a single approach for the classification and measurement of financial assets, based on cash flow characteristics and the business model used for the management of the financial instruments. It introduces the expected credit loss model for impairment of financial assets which replaces the incurred loss model used in AASB 139. Lastly, the standard amends the rules on hedge accounting to more closely align the accounting treatment with the risk management practices of the business.

AASB 9 is effective for annual reporting periods commencing on or after 1 January 2018, which means it will be effective for AGL's 30 June 2019 financial statements.

Overview of assessment activities

In FY16, AGL established a project team which comprises appropriate financial instrument subject matter specialists working with individual business units. Work to date has focused on AGL's energy risk management operations and debtors, including unbilled revenue. A review of treasury operations and the various debt facilities has also been completed during FY17.

Potential impact on AGL's financial report

To date, some of the key issues for consideration which have been identified include: development and application of an impairment model for debtors (including unbilled debtors) to reflect the expected loss (as opposed to the current standard requirements of incurred loss); identification of components that may be able to be hedged within treasury and energy financial instruments; the application of the new hedge accounting rules; the interaction of AASB 9 and AASB 15 and 16; and specific quantitative and qualitative disclosures that may be required under AABS 9.

The project team has provided periodic updates to management, the audit committee and the auditors.

While a considerable portion of FY16 and FY17 has been spent progressing AGL's assessment of the potential impact of AASB 9, at this stage, management cannot reasonably estimate and quantify the impact.

Application date

AGL plans to adopt the new standard on the required effective date.

AASB 15 *Revenue from Contracts with Customers* and the related subsequent amendments replaces all existing revenue requirements (AASB 111 *Construction Contracts,* AASB 118 *Revenue* and related Interpretations) and applies to all revenue from contracts with customers.

The new requirements provide a single, contract-based revenue recognition model. AASB 15 establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The core principle of AASB 15 is that an entity recognises revenue when a customer obtains control of promised goods or services and is recognised in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The requirements include a five-step framework to determine the timing and amount of revenue to recognise relating to contracts with customers. In addition, the standard requires new and expanded disclosures related to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers and the key judgements made. AASB 15's increased focuses on contracts with customers will require a greater understanding of customer contracts at a level of detail not previously required.

AASB 15 is effective for annual reporting periods commencing on or after 1 January 2018, which means it will be effective for AGL's 30 June 2019 financial statements. The standard permits two methods of adoption: full retrospective – by retrospectively adjusting each prior reporting period presented and recognising the cumulative effect of initially applying the new requirements at the start of the earliest period presented, which would be 1 July 2017 for AGL; or modified retrospective – by recognising the cumulative effect of initially applying the new requirements at the date of initial application, which would be 1 July 2018 for AGL.

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

(ae) Standards and Interpretations in issue not yet adopted (cont'd)

AASB 15 *Revenue from Contracts with Customers* (cont'd)

Overview of assessment activities

In the first half of FY17, AGL established a project team comprising appropriate revenue subject matter specialists working with individual business units. Work to date has focused on segregating AGL's revenue streams into major components to further understand the nature of the contractual arrangements with each of these customer groups. While AGL has more than 25 revenue streams, approximately 87% of its annual revenue comes from four main customer groups including:

• Consumer market - electricity and gas;
• Electricity generation sales to pool;
• Business customers - electricity and gas; and
• Wholesale markets electricity and gas.

The project team has initially focused on the larger revenue streams and has undertaken a range of activities to identify those streams that have the highest potential risk of impact and/or will require a greater level of work effort to assess and/or quantify the financial impact of AASB 15.

Subsequent to this, further activities have been undertaken, including reviewing an initial representative sample of contracts, to gain a more detailed understanding of the contractual arrangements with customers. The team is now analysing the impact of the new standard by assessing these contracts in light of the requirements of AASB 15, comparing to AGL's current accounting policies and practices, and identifying potential differences. Further contract reviews, as required, will be completed throughout FY18. This will be followed by consideration of broader business impacts.

Potential impact on AGL's financial report

To date, some of the key issues for consideration that have been identified include: identifying AGL's customer for some types of contracts (e.g., generation); identifying what represents the enforceable contract for the purposes of applying AASB 15; impact on the estimates and judgements involved in the unbilled revenue process; impact on long-term gas sales agreements; treatment of upfront fees such as connection fees; treatment of customer acquisition costs such as sales commissions; and specific quantitative and qualitative disclosures that may be required under AASB 15.

The project team has provided periodic updates to management, the audit committee and our auditors.

While a considerable portion of FY17 has been spent progressing AGL's assessment of the potential impact of AASB 15, at this stage, management cannot reasonably estimate and quantify the potential impact.

Application date and transition approach

AGL plans to adopt the new standard on the required effective date. AGL is still in the process of assessing which transition method it will adopt. This decision will depend in part upon the completion of, and impact arising from, the evaluation of our revenue arrangements.

AASB 16 *Leases* replaces all existing leases requirements (AASB 117 *Leases,* Interpretation 4 *Determining whether an Arrangement contains a Lease* and related Interpretations). For lessees, the distinction between operating and finance leases will no longer exist. Instead, AASB 16 will require lessees to account for practically all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117.

The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability representing its obligation to make future lease payments (i.e., the lease liability) and an asset representing its right to use the underlying asset for the lease term (i.e., the right-of-use ("ROU") asset). Lessees will be required to separately recognise interest expense on the lease liability and depreciation expense on the ROU asset rather than operating lease expense.

The lease expense recognition pattern for lessees will generally be accelerated as compared to today. Key balance sheet metrics such as gearing and finance ratios, debt covenants and income statement of profit or loss metrics, such as earnings before interest, taxes, depreciation and amortisation ("EBITDA"), will be impacted. Also, statement of cash flows for lessees will be affected as payments for the principal portion of the lease liability will be presented within financing activities.

Lessor accounting is substantially unchanged from today's accounting under AASB 117. Lessors will continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases: operating and finance leases.

The standard will require lessees and lessors to make more extensive disclosures than under AASB 117. Given the significant accounting implications, lessees will have to carefully consider the contracts they enter into to identify any that are, or contain, leases. This evaluation will also be important for lessors to determine which contracts (or portions of contracts) are subject to the new revenue recognition standard.

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

(ae) Standards and Interpretations in issue not yet adopted (cont'd)

AASB 16 *Leases* (cont'd)

AASB 16 is effective for annual reporting periods commencing on or after 1 January 2019, which means it will be effective for AGL's 30 June 2020 financial statements. The standard permits two methods of adoption: full retrospective – by retrospectively adjusting each prior reporting period presented and recognising the cumulative effect of initially applying the new requirements at the start of the earliest period presented, which would be 1 July 2018 for AGL; or modified retrospective – by recognising the cumulative effect of initially applying the new requirements at the date of initial application, which would be 1 July 2019 for AGL.

Overview of assessment activities

In the first half of FY17, AGL established a project team comprising appropriate leases subject matter specialists working with individual business units. Work to date has focused on identifying the current operating leases that will be in the scope of AASB 16 at transition and reviewing and analysing the terms of these contracts. While note 25 contains the population of existing operating leases as at 30 June 2017, a number of these leases will expire or will have a remaining lease term of less than 12 months at the date of initial application and therefore will not be impacted by AASB 16. The majority of the existing operating leases relate to property and equipment leases.

The project team worked with management to assess AGL's ability to apply the grandfathering provision available under AASB 16, which is a practical expedient available to help manage the cost of implementation the new standard. The application of this provision will mean AGL will not be required to reassess whether a contract is, or contains, a lease under the requirements of AASB 16 at the date of initial application, i.e., 1 July 2019. Instead, the current AASB 117 and Interpretation 4 lease/non-lease assessments would remain. That is, for existing arrangements that have been identified as a lease under AASB 117 at the date of initial application, will continue to be accounted for as a lease under AASB 16 with operating leases coming on balance sheet. Those not identified as leases under AASB 117 at the date of initial application will not be subject to AASB 16. AASB 16 will only apply to new arrangements entered into, or modified, after the date of initial application.

Subsequent to this, the team commenced its review of the in scope operating lease contracts, to identify the key terms required to calculate the lease liabilities and related ROU assets, and to identify key decisions made under the existing lease arrangements which may affect the lease calculation. The team is currently in the process of analysing the impact of the new standard by assessing the terms of these contracts in light of the requirements of AASB 16. Further contract reviews, as required, and computation of the likely lease liability and ROU assets to be recognised on transition (including modelling the impact of the various transition methods), will be completed throughout FY18. This will be followed by consideration of broader business impacts.

Potential impact on AGL's financial report

To date, some of the key issues identified include: application of the grandfathering provision; determination of what constitutes a low-value asset; determination of the incremental borrowing rates; and assessment of what constitutes "reasonably certain" for the purposes of assessing whether an option to extend, or to terminate, a lease contract, will be exercised.

AGL has concluded that it intends to apply the grandfathering provision under AASB 16 at the date of initial application. This therefore means the focus of the project team has been, and will continue to be, on analysing the current operating lease contracts that will be impacted by AASB 16 and identifying and assessing the key terms which will impact the calculation of the lease-related balances.

As at 30 June 2017, AGL had $165 million of non-cancellable operating lease commitments as disclosed in note 25. Operating leases included in this note, which will still be effective and will have a lease term of more than 12 months from the date of initial application, will be subject to AASB 16 and will therefore be recognised on balance sheet. Any new leases entered into subsequent to 30 June 2017 will also be subject to a scoping assessment.

AGL's existing finance leases (in note 19) are not expected to be materially impacted by the new standard. The relevant finance lease assets will be presented as ROU asset under the new standard.

The project team has provided periodic updates to management, the audit committee and our auditors.

While a considerable portion of FY17 has been spent progressing AGL's assessment of the potential impact of AASB 16, at this stage, management cannot reasonably estimate and quantify the impact.

Application date and transition approach

AGL is still in the process of assessing the appropriate adoption date of AASB 16 and which transition method it will adopt. This decision will depend in part upon our completion of, and impact arising from, the evaluation of the lease arrangements.

In addition to the above Standards, which are applicable in future years, other issued amendments and new Standards are not expected to materially impact AGL's financial statements upon adoption.

Note 2 - Significant accounting judgements, estimates and assumptions

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

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

Unbilled revenue

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

Unbilled distribution costs

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

Allowance for doubtful debts

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

Impairment of goodwill and other intangibles with indefinite useful lives

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

Fair value of financial instruments

Management uses their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices and rates. Refer to Note 37 for further details.

Provision for environmental restoration

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

Deferred tax assets relating to tax losses

AGL recognises a deferred tax asset relating to tax losses incurred by a subsidiary, as detailed in Note 8. The recoverability of this deferred tax asset is dependent on the generation of sufficient taxable income, by the subsidiary, to utilise those tax losses. Management judgements and estimates are required in the assessment of this recoverability, including forecasting sufficient future taxable income.

Defined benefit superannuation plans

Various actuarial assumptions are utilised in the determination of AGL's defined benefit obligations. AGL uses external actuarial experts to determine these assumptions. These assumptions and the related carrying amounts are discussed in Note 33.

Note 3 - Segment information

Operating segments

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

On 21 December 2016, AGL announced changes to its segment reporting. The previous New Energy business was separated and allocated into other AGL business units. New Energy Services was reallocated to Energy Markets and Distributed Energy Services was allocated to Group Operations. The remainder of the New Energy business will become an “innovation accelerator” reported under Other.

The previous operating segments were: Energy Markets, Group Operations, New Energy and Investments.

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

• **Energy Markets** sells electricity, gas, and energy-related products and services to consumer, business and wholesale customers and is responsible for managing the wholesale risks associated with servicing those customers.

• **Group Operations** comprises AGL's power generation portfolio and other key sites and operating facilities including the Newcastle Gas Storage Facility.

• **Investments** includes AGL's interests in the ActewAGL Retail Partnership, Powering Australian Renewables Fund, Energy Impact Partners' Fund and Sunverge Energy.

In the segment financial results, the 'Other' category consists of the various Corporate activities which includes the head office and central support functions and the innovation accelerator portion of the previous New Energy segment. These are not considered to be reportable segments.

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

Segment financial results

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

AGL operates as an integrated business and uses a portfolio approach to manage the operations and assets to drive value and efficiency. AASB 8 *Operating Segments* requires AGL to report segment information on the same basis as the internal management structure. As a result, the Energy Markets segment reports the revenue and margin associated with satisfying the gas and electricity requirements of AGL’s wholesale, consumer and business customer portfolio. In contrast, the Group Operations segment reports the majority of expenses associated with these operations and is therefore a cost centre.

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

Note 3 - Segment information (cont'd)

	Energy Markets $m	Group Operations $m	Investments $m	Other $m	Total $m
2017					
Revenue					
Total segment revenue	**12,210**	**455**	**-**	**1**	**12,666**
Inter-segment revenue	**(16)**	**(66)**	**-**	**-**	**(82)**
External revenue	**12,194**	**389**	**-**	**1**	**12,584**
Underlying earnings before interest, tax, depreciation and amortisation (Underlying EBITDA)	**2,508**	**(462)**	**17**	**(211)**	**1,852**
Depreciation and amortisation	**(95)**	**(363)**	**-**	**(26)**	**(484)**
Underlying EBIT	**2,413**	**(825)**	**17**	**(237)**	**1,368**
Net financing costs					**(228)**
Underlying profit before tax					**1,140**
Income tax expense					**(338)**
Underlying profit after tax					**802**
Segment assets	**5,530**	**7,403**	**109**	**121**	**13,163**
Segment liabilities	**1,472**	**771**	**1**	**161**	**2,405**
Other segment information					
Share of profits of associates and joint ventures	**-**	**1**	**18**	**-**	**19**
Investments in associates and joint ventures	**-**	**2**	**78**	**-**	**80**
Additions to non-current assets	**115**	**531**	**43**	**46**	**735**
Other non-cash expenses	**(76)**	**-**	**-**	**(7)**	**(83)**

Note 3 - Segment information (cont'd)

	Energy Markets $m	Group Operations $m	Investments $m	Other $m	Total $m
2016					
Revenue					
Total segment revenue	10,969	238	-	1	11,208
Inter-segment revenue	(13)	(45)	-	-	(58)
External revenue	10,956	193	-	1	11,150
Underlying earnings before interest, tax, depreciation and amortisation (Underlying EBITDA)	2,374	(494)	25	(216)	1,689
Depreciation and amortisation	(100)	(348)	-	(30)	(478)
Underlying EBIT	2,274	(842)	25	(246)	1,211
Net financing costs					(222)
Underlying profit before tax					989
Income tax expense					(287)
Non-controlling interests					(1)
Underlying profit after tax					701
Segment assets	5,196	7,695	68	101	13,060
Segment liabilities	1,555	984	-	168	2,707
Other segment information					
Share of profits of associates and joint ventures	-	1	25	-	26
Investments in associates and joint ventures	-	2	68	-	70
Additions to non-current assets	62	504	30	22	618
Other non-cash expenses	(73)	-	-	(6)	(79)

Note 3 - Segment information (cont'd)

	2017 $m	2016 $m
Segment revenue reconciliation to the statement of profit or loss		
Reconciliation of segment revenue to total revenue is as follows:		
Total segment revenue for reportable segments	**12,665**	11,207
Elimination of inter-segment revenue	**(82)**	(58)
Total revenue for reportable segments	**12,583**	11,149
Other	**1**	1
Total revenue	**12,584**	11,150
Revenue from major products and services		
The following is an analysis of AGL's revenue from its major products and services:		
Electricity	**5,822**	5,779
Gas	**2,506**	2,649
Generation sales to pool	**3,602**	2,336
Other goods and services	**654**	386
Total revenue	**12,584**	11,150
Segment Underlying EBIT reconciliation to the statement of profit or loss		
Reconciliation of segment Underlying EBIT to profit/(loss) before tax is as follows:		
Underlying EBIT for reportable segments	**1,605**	1,457
Other	**(237)**	(246)
	1,368	1,211
Amounts excluded from underlying results:		
- loss in fair value of financial instruments	**(376)**	(595)
- significant items (a)	**-**	(868)
Finance income included in Underlying EBIT	**(4)**	(4)
Finance income	**13**	18
Finance costs	**(237)**	(236)
Profit/(loss) before tax	**764**	(474)

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

Note 3 - Segment information (cont'd)

	2017 $m	2016 $m
Segment assets reconciliation to the statement of financial position		
Reconciliation of segment assets to total assets is as follows:		
Segment assets for reportable segments	**13,042**	12,959
Other	**121**	101
	13,163	13,060
Cash and cash equivalents	**154**	252
Deferred tax assets	**792**	953
Derivative financial instruments	**349**	339
Total assets	**14,458**	14,604
Segment liabilities reconciliation to the statement of financial position		
Reconciliation of segment liabilities to total liabilities is as follows:		
Segment liabilities for reportable segments	**2,244**	2,539
Other	**161**	168
	2,405	2,707
Borrowings	**3,346**	3,108
Current tax liabilities	**13**	102
Derivative financial instruments	**873**	435
Deferred consideration and other contractual liabilities	**247**	326
Total liabilities	**6,884**	6,678

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 percent or more of AGL's total external revenue (2016: none).

	Note	2017 $m	2016 $m
Note 4 - Revenue			
Revenue from sale of goods		**12,207**	10,971
Revenue from rendering of services		**152**	174
Other revenue - government grants		**225**	5
		12,584	11,150

	Note	2017 $m	2016 $m
Note 5 - Other income			
Gain on disposal of subsidiaries and businesses	30	**-**	25
		-	25

	Note	2017 $m	2016 $m
Note 6 - Expenses			
Cost of sales		**9,192**	8,110
Administrative expenses		**229**	226
Employee benefits expense		**566**	576
Other expenses			
Loss on fair value of financial instruments		**376**	595
Impairment loss on trade receivables (net of bad debts recovered)		**77**	73
Impairment loss on exploration and evaluation, oil and gas, property, plant and equipment assets		**-**	779
Cumulative loss reclassified from equity on disposal of investment in a joint venture	30	**-**	15
Restructuring and related costs		**-**	77
Net loss on disposal of property, plant and equipment		**199**	3
Operating lease rental expenses		**21**	27
Other		**471**	498
		11,131	10,979

	Note	2017 $m	2016 $m
Note 7 - Net financing costs			
Finance income			
Interest income			
Joint ventures		**-**	7
Other entities		**13**	11
		13	18
Finance costs			
Interest expense		**178**	179
Finance costs capitalised		**(5)**	(6)
Unwinding of discounts on provisions and other liabilities		**30**	28
Unwinding of discount on deferred consideration		**25**	26
Other finance costs		**9**	9
		237	236
Net financing costs		**224**	218

The weighted average capitalisation rate on funds borrowed for finance costs capitalised is 5.66% (2016: 5.72%).

Note 8 - Income tax

	2017 $m	2016 $m
Income tax recognised in the statement of profit or loss		
The major components of income tax expense/(benefit) are:		
Current tax		
Current tax expense in respect of the current year	**282**	217
Deferred tax		
Relating to the origination and reversal of temporary differences	**(57)**	(284)
Total income tax expense/(benefit)	**225**	(67)

Numerical reconciliation between tax expense/(benefit) and pre-tax accounting profit/(loss)

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

	2017 $m	2016 $m
Profit/(loss) before tax	**764**	(474)
Income tax expense/(benefit) calculated at the Australian tax rate of 30% (2016: 30%)	**229**	(142)
Impairment loss on non-current assets	**-**	81
Adjustments in relation to current tax of prior years	**(4)**	(6)
	225	(67)

	2017 $m	2016 $m
Income tax recognised in other comprehensive income		
Deferred tax		
Cash flow hedges	**17**	12
Remeasurement gain/(loss) on defined benefit plans	**32**	(33)
	49	(21)

	2017 $m	2016 $m
Note 8 - Income tax (cont'd)		
Current tax liabilities		
Income tax payable	**13**	102
Deferred income tax recognised in the statement of profit or loss		
Temporary differences		
Exploration and evaluation assets	**(1)**	(48)
Oil and gas assets	**6**	(138)
Property, plant and equipment	**52**	(1)
Payables and accruals	**(4)**	4
Provisions	**(5)**	64
Derivative financial instruments	**(103)**	(157)
Other	**(2)**	(8)
	(57)	(284)
Deferred tax balances		
Deferred tax assets/(liabilities) arise from the following:		
Allowance for doubtful debts	**31**	28
Other receivables	**-**	(15)
Oil and gas assets	**112**	118
Property, plant and equipment	**(531)**	(486)
Intangible assets	**(90)**	(8)
Defined benefit superannuation plans	**19**	46
Payables and accruals	**25**	14
Provisions	**150**	158
Derivative financial instruments	**278**	212
Tax losses	**778**	861
Other	**20**	25
Net deferred tax assets	**792**	953
Recognised in the statement of financial position as follows:		
Deferred tax assets	**792**	953
Deferred tax liabilities	**-**	-
Net deferred tax assets	**792**	953

Deferred tax assets of $90 million (2016: $90 million) remain unrecognised.

AGL has issued its taxes paid report under the voluntary Tax Transparency Code.

	2017 $m	2016 $m
Note 9 - Dividends		
Recognised amounts		
Final dividend		
Final dividend for 2016 of 36.0 cents per share, fully franked, paid 22 September 2016 (2016: Final dividend for 2015 of 34.0 cents per share, fully franked, paid 24 September 2015)	**243**	230
Interim dividend		
Interim dividend for 2017 of 41.0 cents per share, franked to 80%, paid 27 March 2017 (2016: Interim dividend for 2016 of 32.0 cents per share, fully franked, paid 16 March 2016)	**274**	216
Dividends paid as per the statement of cash flows	**517**	446

Unrecognised amounts

Since the end of the financial year, the Directors have declared a final dividend for 2017 of 50.0 cents per share, franked to 80%, (2016: 36.0 cents per share, fully franked), payable 22 September 2017.	**328**	243

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 2018 financial year.

Dividend reinvestment plan

The AGL Dividend Reinvestment Plan (DRP) will operate in respect of the 2017 final dividend. AGL will acquire shares on market and allot them to DRP participants at no discount to the simple average of the daily weighted average price at which AGL's ordinary shares trade during each of the 10 trading days commencing 28 August 2017. The last date for shareholders to elect to participate in the DRP for the 2017 final dividend is 25 August 2017.

Dividend franking account

Adjusted franking account balance	**63**	52
Impact on franking account balance of dividends proposed after the reporting date but not recognised as a liability	**(112)**	(104)

	2017 $m	2016 $m
Note 10 - Trade and other receivables		
Current		
Trade receivables	**1,074**	990
Allowance for doubtful debts	**(103)**	(95)
	971	895
Unbilled revenue	**889**	1,032
Other receivables	**84**	48
	1,944	1,975

Allowance for doubtful debts

Movements in the allowance for doubtful debts are detailed below:

	2017 $m	2016 $m
Balance at beginning of financial year	**95**	95
Impairment losses recognised on receivables	**101**	93
Amounts written off as uncollectible	**(93)**	(93)
Balance at end of financial year	**103**	95

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

	2017		2016	
	Total $m	Allowance $m	Total $m	Allowance $m
Not past due	**764**	**(9)**	665	(19)
Past due 31 - 60 days	**62**	**(10)**	66	(10)
Past due 61 - 90 days	**41**	**(12)**	38	(10)
Past 90 days	**207**	**(72)**	221	(56)
	1,074	**(103)**	990	(95)

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

At the end of the reporting period, trade receivables with a carrying amount of $216 million (2016: $249 million) were past due but not considered impaired. These trade receivables relate to customers for whom there has not been a significant change in credit quality and the amounts are considered recoverable.

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

Unbilled revenue

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

Fair value and credit risk

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

	2017 $m	2016 $m

Note 10 - Trade and other receivables (cont'd)

	2017 $m	2016 $m
Non-current		
Finance lease receivables	-	44

The finance lease receivables at the end of the reporting period have been classified as held for sale as part of the sale process of AGL's National Assets portfolio within Group Operations.

	Minimum lease payments		Present value of minimum lease payments	
Finance lease receivables	2017 $m	2016 $m	2017 $m	2016 $m
Not later than one year	-	5	-	2
Later than one year and not later than five years	-	21	-	9
Later than five years	-	48	-	35
	-	74	-	46
Less unearned finance income	-	(28)	-	-
Present value of minimum lease payments receivable	-	46	-	46
Included in the financial statements as:				
Current finance lease receivables			-	2
Non-current finance lease receivables			-	44
			-	46

Note 11 - Inventories

	2017 $m	2016 $m
Current		
Raw materials and stores - at cost	**211**	198
Finished goods - at cost	**140**	216
	351	414
Non-current		
Finished goods - at cost	**20**	30
	20	30

Note 12 - Other financial assets

	2017 $m	2016 $m
Current		
Derivative financial instruments - at fair value		
- Interest rate swap contracts - cash flow hedges	**2**	2
- Energy derivatives - cash flow hedges	**80**	49
- Energy derivatives - economic hedges	**156**	141
	238	192
Futures deposits and margin calls	**506**	75
	744	267
Non-current		
Derivative financial instruments - at fair value		
- Cross currency swap contracts - cash flow and fair value hedges	**75**	117
- Interest rate swap contracts - cash flow hedges	**2**	2
- Energy derivatives - cash flow hedges	**4**	17
- Energy derivatives - economic hedges	**30**	11
	111	147
Available-for-sale financial assets - at fair value		
- Unlisted equity securities	**15**	-
- Unlisted investment funds	**16**	-
	142	147

Note 13 - Other assets

	2017 $m	2016 $m
Current		
Green commodities scheme certificates and instruments	**194**	193
Prepayments	**37**	39
	231	232
Non-current		
Prepayments	**3**	7
Defined benefit superannuation plan asset	**15**	5
Other	**48**	47
	66	59

	2017 $m	2016 $m
Note 14 - Investments in associates and joint ventures		
Investments in joint ventures - unlisted	**60**	42
Investments in associates - unlisted	**20**	28
	80	70
Reconciliation of movements in investments in associates and joint ventures		
Balance at beginning of financial year	**70**	91
Additions	**13**	30
Disposals	**-**	(52)
Impairment loss recognised in profit or loss	**-**	(5)
Share of profits after income tax	**19**	26
Share of other comprehensive income	**-**	(1)
Dividends received	**(22)**	(19)
Balance at end of financial year	**80**	70

Name of entity	Principal activities	Ownership interest 2017 %	Ownership interest 2016 %	Carrying value 2017 $m	Carrying value 2016 $m
Associates					
CSM Energy Limited	Coal mine methane gas extraction	**35**	35	**-**	-
Matter Technology Ltd	Energy management services	**19.9**	19.9	**-**	-
Solar Analytics Pty Ltd	Solar PV monitoring	**37.2**	37.2	**1**	2
Sunverge Energy Inc	Energy storage and management services	**22**	22	**20**	26
Joint ventures					
ActewAGL Retail Partnership	Energy and water services	**50**	50	**43**	40
Energy Infrastructure Management Pty Ltd	Pipeline management services	**50**	50	**2**	2
Central Queensland Pipeline Pty Ltd	Gas pipeline development	**50**	50	**-**	-
Powering Australian Renewables Fund (a)	Development and owner of renewable energy generation projects	**20**	**-**	**14**	-
				80	70

All the above entities are incorporated and operate in Australia except for Sunverge Energy Inc, which is incorporated and predominantly operating in the USA.

(a) On 14 November 2016, AGL acquired a 20% interest in the Powering Australian Renewables Fund (PARF).

	2017 $m	2016 $m
Note 14 - Investments in associates and joint ventures (cont'd)		
Aggregate information of joint ventures that are not individually material		
Current assets	**236**	200
Non-current assets	**61**	45
Total assets	**297**	245
Current liabilities	**203**	150
Non-current liabilities	**3**	6
Total liabilities	**206**	156
Net assets	**91**	89
Revenue	**771**	686
Expenses	**(722)**	(626)
AGL's share of joint ventures' profit	**25**	31

Dividends received from joint ventures

During the year, AGL received dividends of $22 million (2016: $19 million) from its joint ventures.

Capital commitments and contingent liabilities

AGL's share of capital expenditure commitments and contingent liabilities of associates and joint ventures are disclosed in Notes 25 and 26 respectively.

	Plant and equipment $m	Other $m	Total $m
Note 15 - Property, plant and equipment			
Year ended 30 June 2017			
Balance at 1 July 2016, net of accumulated depreciation and impairment	**6,383**	**99**	**6,482**
Additions	**596**	**-**	**596**
Disposals	**(14)**	**(1)**	**(15)**
Reclassified as held for sale	**(152)**	**-**	**(152)**
Depreciation expense	**(462)**	**(2)**	**(464)**
Balance at 30 June 2017, net of accumulated depreciation and impairment	**6,351**	**96**	**6,447**
Balance at 1 July 2016			
Cost (gross carrying amount)	**8,277**	**147**	**8,424**
Accumulated depreciation and impairment	**(1,894)**	**(48)**	**(1,942)**
Net carrying amount	**6,383**	**99**	**6,482**
Balance at 30 June 2017			
Cost (gross carrying amount)	**8,584**	**144**	**8,728**
Accumulated depreciation and impairment	**(2,233)**	**(48)**	**(2,281)**
Net carrying amount	**6,351**	**96**	**6,447**
Year ended 30 June 2016			
Balance at 1 July 2015, net of accumulated depreciation and impairment	6,849	109	6,958
Additions	530	1	531
Reclassified from/ (to)	(28)	28	-
Reclassified to inventories	(12)	-	(12)
Disposals	(3)	(9)	(12)
Reclassified as held for sale	(432)	(15)	(447)
Depreciation expense	(421)	(3)	(424)
Impairment loss recognised in profit or loss	(100)	(12)	(112)
Balance at 30 June 2016, net of accumulated depreciation and impairment	6,383	99	6,482
Balance at 1 July 2015			
Cost (gross carrying amount)	8,285	153	8,438
Accumulated depreciation and impairment	(1,436)	(44)	(1,480)
Net carrying amount	6,849	109	6,958
Balance at 30 June 2016			
Cost (gross carrying amount)	8,277	147	8,424
Accumulated depreciation and impairment	(1,894)	(48)	(1,942)
Net carrying amount	6,383	99	6,482

Leased plant and equipment

The net carrying amount of plant and equipment disclosed above includes plant and equipment held under finance leases of $131 million (2016: $125 million).

Property, plant and equipment under construction

The net carrying amount of plant and equipment disclosed above includes expenditure recognised in relation to plant and equipment which is in the course of construction of $329 million (2016: $286 million).

Software

The net carrying amount of plant and equipment disclosed above includes software of $70 million (2016: $100 million).

Note 16 - Intangible assets

	Goodwill $m	Licences $m	Other $m	Total $m
Year ended 30 June 2017				
Balance at 1 July 2016, net of accumulated amortisation and impairments	**2,791**	**311**	**130**	**3,232**
Additions	**90**	**-**	**-**	**90**
Disposals	**-**	**-**	**(15)**	**(15)**
Reclassified as held for sale	**-**	**-**	**(6)**	**(6)**
Amortisation expense	**-**	**-**	**(15)**	**(15)**
Balance at 30 June 2017, net of accumulated amortisation and impairment	**2,881**	**311**	**94**	**3,286**
Balance at 1 July 2016				
Cost (gross carrying amount)	**2,792**	**311**	**472**	**3,575**
Accumulated amortisation and impairment	**(1)**	**-**	**(342)**	**(343)**
Net carrying amount	**2,791**	**311**	**130**	**3,232**
Balance at 30 June 2017				
Cost (gross carrying amount)	**2,882**	**311**	**448**	**3,641**
Accumulated amortisation and impairment	**(1)**	**-**	**(354)**	**(355)**
Net carrying amount	**2,881**	**311**	**94**	**3,286**

During the year, the IFRS Interpretations Committee (IFRIC) clarified the tax accounting treatment relating to indefinite life intangible assets. As a result of this clarification AGL have recognised a deferred tax liability of $90 million, and a corresponding increase to goodwill.

	Goodwill $m	Licences $m	Other $m	Total $m
Year ended 30 June 2016				
Balance at 1 July 2015, net of accumulated amortisation and impairments	2,792	311	163	3,266
Amortisation expense	-	-	(33)	(33)
Impairment loss recognised in profit or loss	(1)	-	-	(1)
Balance at 30 June 2016, net of accumulated amortisation and impairment	2,791	311	130	3,232
Balance at 1 July 2015				
Cost (gross carrying amount)	2,792	311	472	3,575
Accumulated amortisation and impairment	-	-	(309)	(309)
Net carrying amount	2,792	311	163	3,266
Balance at 30 June 2016				
Cost (gross carrying amount)	2,792	311	472	3,575
Accumulated amortisation and impairment	(1)	-	(342)	(343)
Net carrying amount	2,791	311	130	3,232

Note 16 - Intangible assets (cont'd)

Impairment testing for goodwill and intangibles with indefinite useful lives

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

	Goodwill $m	Licences $m	Total intangible assets with indefinite lives $m
Year ended 30 June 2017			
Cash-generating unit			
Energy Markets	**2,254**	**-**	**2,254**
Group Operations	**627**	**311**	**938**
	2,881	**311**	**3,192**
Year ended 30 June 2016			
Cash-generating unit			
Energy Markets	2,254	-	2,254
Group Operations	537	311	848
	2,791	311	3,102

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

Impairment testing for Energy Markets and Group Operations

The recoverable amounts for the Energy Markets and Group Operations CGUs have been determined using value in use models including an appropriate terminal value. The key assumptions in the calculation of value in use are customer numbers, consumption volumes, energy procurement costs, and gross margin including assumptions around regulatory outcomes, pricing in unregulated markets and customer discounts. Management do not believe that any reasonable possible change in these assumptions would result in an impairment.

The estimate of regulatory outcomes is based on actual regulatory decisions for the current price reset period, which are publicly available, together with AGL's expectations of regulatory decisions beyond the current reset period and market prices in unregulated markets. The assumed future gross margin in unregulated markets is determined with reference to historic achieved rates along with AGL's expectations of future price changes together with the impact of expected customer discounts. Customer numbers and consumption volumes are estimated based on historical experience in various segments, together with marketing strategies for the retention and winning of customers. Energy procurement costs are estimated based on the actual hedge portfolio, together with an estimate of future hedging prices and volumes beyond the period of the actual hedge portfolio.

Cash flow forecasts are based on Board approved budgets and the most recent three-year plan. The terminal value is based on final year free cash flow, except for capital expenditure, which is averaged across the three year period, and then capitalised in perpetuity adjusted for inflation of 2.5% (2016: 2.5%). Discount rates used are the pre-tax weighted average cost of capital of 13.4% (2016: 13.4%). The terminal value cash flows are also adjusted for known power station closures.

No impairment loss has been recognised for the Energy Markets or the Group Operations CGUs for the year ended 30 June 2017 (2016: $nil).

	2017 $m	2016 $m
Note 17 - Assets and liabilities classified as held for sale		
Assets of disposal groups held for sale	**201**	447
Liabilities directly associated with assets classified as held for sale	**-**	224

Disposal groups held for sale

2017

Active Stream Pty Limited

A sale process is currently underway to sell AGL's digital metering business, Active Stream Pty Limited, within the Distributed Energy Services (DES) business of Group Operations. The business is expected to be sold within one year and as such has been classified as held for sale. There is currently $108 million of property, plant and equipment held directly by the entity that is proposed to be sold.

National Assets portfolio

A sale process is currently underway to sell AGL's National Assets portfolio within the DES business of Group Operations. The assets located throughout Australia include landfill gas, biogas and biomass generation, co-generation and compressed natural gas refuelling ($43 million of receivables and $32 million of property, plant and equipment). The assets are expected to be sold within one year and as such have been classified as held for sale.

2016

Solar plants

On 14 November 2016, AGL reached financial close on selling its 102 MW Nyngan and 53 MW Broken Hill solar plants into the PARF for a consideration of $257 million, excluding transaction costs. AGL owns 20% of the PARF. $447 million of property, plant and equipment and $224 million of deferred revenue was classified as held for sale as at 30 June 2016 in relation to the solar plants.

As part of the divestment of the solar plants, AGL acquired the 5% non-controlling interests in AGL PV Solar Holdings Pty Limited for a consideration of $16 million.

Note 18 - Trade and other payables

	2017 $m	2016 $m
Current		
Trade payables and accrued expenses	**907**	903
Unbilled distribution costs	**368**	453
Green commodity scheme obligations	**200**	145
Other	**32**	18
	1,507	1,519

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

Note 19 - Borrowings

	2017 $m	2016 $m
Current - at amortised cost		
Bank loans - unsecured	**150**	-
CPI bonds - unsecured	**12**	11
Other loans - unsecured	**11**	11
	173	22
Non-current - at amortised cost		
USD senior notes - unsecured	**938**	463
Subordinated notes - unsecured	**650**	650
Medium term notes - unsecured	**598**	597
Bank loans - unsecured	**680**	1,060
CPI bonds - unsecured	**148**	157
Other loans - unsecured	**144**	156
Finance lease liabilities - secured	**30**	19
Deferred borrowing costs	**(15)**	(16)
	3,173	3,086

Financing facilities

AGL has access to the following committed bank facilities:

	Total facilities		Amounts used	
	2017 $m	2016 $m	2017 $m	2016 $m
USD senior notes - unsecured (after effect of cross currency swaps)	**910**	338	**910**	338
Subordinated notes - unsecured	**650**	650	**650**	650
Medium term notes - unsecured	**598**	597	**598**	597
Bank loans - unsecured	**1,585**	1,610	**830**	1,060
CPI bonds - unsecured	**160**	168	**160**	168
Other loans - unsecured	**155**	167	**155**	167
Bank guarantees - unsecured	**370**	330	**331**	225
	4,428	3,860	**3,634**	3,205

Note 19 - Borrowings (cont'd)

USD senior notes

On 8 December 2016, AGL issued US$395 million of fixed rate unsecured senior notes in the US private placement market, comprising three tranches of 12 year, 13 year and 15 year maturities for US$150 million, US$70 million and US$175 million, respectively. To manage the foreign exchange risk arising from the future principal and interest payments required on the US$395 million, the notes were converted back to approximately A$522 million through cross currency interest rate swaps. On 8 December 2016, AGL further issued A$50 million of fixed rate unsecured senior notes in the US private placement market with a 10 year maturity.

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

Subordinated notes

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

Medium term notes

On 5 November 2014, AGL issued A$600 million of senior unsecured, seven year fixed rate medium term notes. The notes were issued at a spread of swap plus 170 basis points, equating to a 5% coupon.

Bank loans

On 14 February 2014, AGL executed an amendment to its syndicated loan facility to add a $650 million four year term facility. On 8 February 2017, AGL executed a further amendment to its syndicated loan facility to decrease the facility to $150 million. As at 30 June 2017, the facility was fully utilised.

On 4 February 2015, AGL executed a $410 million 6.5 year club debt facility with a group of Asian banks. As at 30 June 2017, the facility was fully utilised.

On 8 October 2015, AGL extended a $150 million revolving facility for a further year until December 2019. As at 30 June 2017, $130 million has been drawn from the facility.

During February 2017, AGL amended and extended the $400 million revolving tranche of the syndicated loan facility to mature in September 2020. As at 30 June 2017, $140 million has been drawn from this tranche.

During the FY17 financial year, AGL executed $375 million of new bank bilateral debt facilities for tenors between 1.5 to 5 years. AGL also extended one of its existing bilateral facilities to provide an additional $100 million capacity.

CPI bonds

On 13 November 2015, AGL restructured the remaining CPI bonds which allowed for the removal of the security provisions over specific Loy Yang assets. The Security provision was replaced with AGL's senior unsecured covenants. The CPI bonds now rank pari passu with other unsecured debt and will mature in May 2027.

Other loans

On 5 July 2011, AGL entered into a $200 million loan facility with EKF, the Danish export credit agency. Amortising over 18 years, the loan matures in 2031. As at 30 June 2017, the facility was fully utilised.

Note 20 - Provisions

	2017 $m	2016 $m
Current		
Employee benefits	**156**	183
Environmental restoration	**11**	4
Restructuring	**4**	8
Onerous contracts	**30**	31
	201	226
Non-current		
Employee benefits	**37**	36
Environmental restoration	**296**	234
Onerous contracts	**187**	217
	520	487

Movements in each class of provision, except employee benefits are set out below:

	Environmental restoration $m	Restructuring $m	Onerous contracts $m	Total $m
Year ended 30 June 2017				
Balance at beginning of financial year	**238**	**8**	**248**	**494**
Provisions utilised and derecognised	**(21)**	**(4)**	**(38)**	**(63)**
Remeasurement debited to property, plant & equipment	**69**	**-**	**-**	**69**
Unwinding of discount	**21**	**-**	**7**	**28**
Balance at end of financial year	**307**	**4**	**217**	**528**

Note 21 - Other financial liabilities

	2017 $m	2016 $m
Current		
Derivative financial instruments - at fair value		
- Cross currency swap contracts - cash flow and fair value hedges	**3**	-
- Interest rate swap contracts - cash flow hedges	**25**	28
- Energy derivatives - cash flow hedges	**2**	-
- Energy derivatives - economic hedges	**737**	328
	767	356
Deferred consideration	**34**	33
Other contractual liabilities	**26**	71
	827	460
Non-current		
Derivative financial instruments - at fair value		
- Cross currency swap contracts - cash flow and fair value hedges	**52**	-
- Interest rate swap contracts - cash flow hedges	**37**	74
- Energy derivatives - cash flow hedges	**5**	1
- Energy derivatives - economic hedges	**12**	4
	106	79
Deferred consideration	**187**	196
Other contractual liabilities	**-**	26
	293	301

Note 22 - Other liabilities

	2017 $m	2016 $m
Non-current		
Deferred revenue	**18**	50
Defined benefit superannuation plan liability	**77**	160
Other	**72**	41
	167	251

Note 23 - Issued capital

	2017 $m	2016 $m
655,825,043 fully-paid ordinary shares (2016: 674,712,378)	**6,223**	6,696

	2017 Number	2017 $m	2016 Number	2016 $m
Movement in fully-paid ordinary shares				
Balance at beginning of financial year	**674,712,378**	**6,696**	674,712,378	6,696
On-market share buy-back (a)	**(18,887,335)**	**(473)**	-	-
Balance at end of financial year	**655,825,043**	**6,223**	674,712,378	6,696

(a) During the period, AGL completed the buy-back of 18,887,335 shares. This is part of AGL's on-market share buy-back program for up to five percent of its issued share capital, or 33,735,619 shares from 13 October 2016 to 12 October 2017. As at 30 June 2017, the total consideration paid for shares bought back on market was $473 million and at an average price of $25.04.

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

Note 24 - Earnings per share (EPS)

	2017 $m	2016 $m
Statutory earnings per share		
Basic earnings per share	**80.5 cents**	(60.5 cents)
Diluted earnings per share	**80.4 cents**	(60.4 cents)
Underlying earnings per share		
Basic earnings per share	**119.8 cents**	103.9 cents
Diluted earnings per share	**119.7 cents**	103.8 cents

	2017 $m	2016 $m
Earnings used in calculating basic and diluted earnings per share		
Profit/(loss) for the year attributable to owners of AGL Energy Limited	**539**	(408)
Statutory earnings used to calculate basic and diluted EPS	**539**	(408)
Significant expense items after income tax	**-**	692
Loss in fair value of financial instruments after income tax	**263**	417
Underlying earnings used to calculate basic and diluted EPS	**802**	701

	2017 Number	2016 Number
Weighted average number of ordinary shares		
Number of ordinary shares used in the calculation of basic EPS	**669,299,682**	674,712,378
Effect of dilution - LTIP share performance rights	**863,519**	494,516
Number of ordinary shares used in the calculation of diluted EPS	**670,163,201**	675,206,894

Note 25 - Commitments

	2017 $m	2016 $m
(a) Capital expenditure commitments		
Property, plant and equipment		
Not later than one year	**47**	81
Later than one year and not later than five years	**-**	9
Later than five years	**-**	-
	47	90

There are nil joint operations capital commitments and AGL's share of associates' and joint ventures' capital commitments is $2 million (2016: $5 million).

(b) Lease commitments

Finance lease liabilities	Minimum lease payments 2017 $m	Minimum lease payments 2016 $m	Present value of minimum lease payments 2017 $m	Present value of minimum lease payments 2016 $m
Not later than one year	**-**	-	**-**	-
Later than one year and not later than five years	**1**	-	**-**	-
Later than five years	**196**	178	**30**	19
Minimum future lease payments *	**197**	178	**30**	19
Less future finance charges	**(167)**	(159)	**-**	-
Present value of minimum lease payments	**30**	19	**30**	19
Included in the financial statements as:				
Current borrowings (Note 19)			**-**	-
Non-current borrowings (Note 19)			**30**	19
			30	19

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

Finance leases primarily relate to the land and property, plant and equipment affixed to that land at the Kiewa and Rubicon hydro electric schemes. These leases have terms of 60 years (commenced 1997) and payments are not required under the lease agreements until the year 2028.

Operating leases	2017 $m	2016 $m
Non-cancellable operating lease rentals are payable as follows:		
Not later than one year	**19**	20
Later than one year and not later than five years	**70**	70
Later than five years	**76**	81
	165	171

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

Note 26 - Contingent liabilities and contingent assets

Contingent liabilities

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

Provisions are not required in respect of these matters, as it is either not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

Note 27 - Remuneration of auditors

	2017 $000	2016 $000
Auditor of the Parent Entity		
Audit and review of financial reports	**1,393**	1,315
Other regulatory audit services	**172**	174
Other assurance services	**288**	277
Other services	**241**	91
	2,094	1,857

The auditor of AGL Energy Limited is Deloitte Touche Tohmatsu.

Note 28 - Subsidiaries

Name of subsidiary	Note	Country of incorporation	Ownership interest and voting power held 2017 %	2016 %
AGL Energy Limited		Australia		
Subsidiaries				
Active Stream Pty Limited	(a)	Australia	**100**	100
AGL Limited		New Zealand	**100**	100
AGL ACT Retail Investments Pty Limited	(a)	Australia	**100**	100
AGL Community Legacy Program Pty Limited	(a)	Australia	**100**	100
AGL Corporate Services Pty Limited	(a)	Australia	**100**	100
AGL Electricity (VIC) Pty Limited	(a)	Australia	**100**	100
Victorian Energy Pty Limited	(a)	Australia	**100**	100
AGL Sales Pty Limited	(a)	Australia	**100**	100
AGL Sales (Queensland) Pty Limited	(a)	Australia	**100**	100
AGL Sales (Queensland Electricity) Pty Limited	(a)	Australia	**100**	100
AGL Torrens Island Holdings Pty Limited	(a)	Australia	**100**	100
AGL SA Generation Pty Limited	(a)	Australia	**100**	100
AGL Torrens Island Pty Limited	(a)	Australia	**100**	100
AGL South Australia Pty Limited	(a)	Australia	**100**	100
AGL APG Holdings Pty Limited	(a)	Australia	**100**	100
Australian Power and Gas Company Limited	(a)	Australia	**100**	100
Australian Power and Gas Pty Limited	(a)	Australia	**100**	100
APG Operations Pty Ltd	(a)	Australia	**100**	100
Australian Power and Gas (NSW) Pty Ltd	(a)	Australia	**100**	100
Ignition Energy Pty Ltd	(a)	Australia	**100**	100
Greentricity Pty Limited	(a)	Australia	**100**	100
IQ Energy Services Pty Ltd	(a)	Australia	**100**	100
AGL Energy Limited		New Zealand	**100**	100
AGL Energy Sales & Marketing Limited	(a)	Australia	**100**	100
AGL Energy Services Pty Limited	(a)	Australia	**100**	100
AGL Gas Developments (Hunter) Pty Limited	(a)	Australia	**100**	100
AGL Gas Developments (PNG) Pty Limited	(a)	Australia	**100**	100
AGL Gas Developments (Sydney) Pty Limited	(a)	Australia	**100**	100
AGL Generation Holdco Pty Ltd		Australia	**99.99**	99.99
AGL Generation Proprietary Limited		Australia	**100**	100
Great Energy Alliance Corporation Pty Limited	(b)	Australia	**100**	100
GEAC Operations Pty Limited	(b)	Australia	**100**	100
AGL LYP 1 Pty Ltd	(b)	Australia	**100**	100
AGL Loy Yang Partnership		Australia	**25**	25
AGL Loy Yang Pty Ltd		Australia	**25**	25
AGL Loy Yang Projects Pty Ltd		Australia	**25**	25
AGL LYP 2 Pty Ltd	(b)	Australia	**100**	100
AGL Loy Yang Partnership		Australia	**25**	25
AGL Loy Yang Pty Ltd		Australia	**25**	25
AGL Loy Yang Projects Pty Ltd		Australia	**25**	25
AGL LYP 3 Pty Ltd	(b)	Australia	**100**	100
AGL Loy Yang Partnership		Australia	**24.63**	24.63
AGL Loy Yang Pty Ltd		Australia	**24.63**	24.63
AGL Loy Yang Projects Pty Ltd		Australia	**24.63**	24.63
AGL LYP 4 BV		Netherlands	**100**	100
AGL Loy Yang Partnership		Australia	**25.37**	25.37
AGL Loy Yang Pty Ltd		Australia	**25.37**	25.37
AGL Loy Yang Projects Pty Ltd		Australia	**25.37**	25.37
Loy Yang Marketing Holdings Pty Limited	(b)	Australia	**100**	100
AGL Loy Yang Marketing Pty Ltd	(b)	Australia	**100**	100
AGL Gloucester MG Pty Ltd	(a)	Australia	**100**	100

Note 28 - Subsidiaries (cont'd)

Name of subsidiary	Note	Country of incorporation	Ownership interest and voting power held 2017 %	2016 %
AGL HP1 Pty Limited	(a)	Australia	**100**	100
AGL Hydro Partnership		Australia	**49.5**	49.5
AGL Southern Hydro (NSW) Pty Limited	(a)	Australia	**100**	100
AGL HP2 Pty Limited	(a)	Australia	**100**	100
AGL Hydro Partnership		Australia	**20.0**	20.0
AGL HP3 Pty Limited	(a)	Australia	**100**	100
AGL Hydro Partnership		Australia	**30.5**	30.5
AGL Macquarie Pty Limited	(a)	Australia	**100**	100
AGL New Energy Pty Limited	(a)	Australia	**100**	100
AGL New Energy EIF Pty Limited	(a) (c)	Australia	**100**	-
AGL New Energy Investments Pty Limited	(a) (c)	Australia	**100**	-
AGL PARF NSW Pty Limited	(a) (c)	Australia	**100**	-
AGL PARF QLD Pty Limited	(c)	Australia	**100**	-
AGL Power Generation Pty Limited	(a)	Australia	**100**	100
AGL Power Generation (Wind) Pty Limited	(a)	Australia	**100**	100
Australia Plains Wind Farm Pty Ltd	(a)	Australia	**100**	100
Ben Lomond Wind Farm Pty Ltd	(a)	Australia	**100**	100
Box Hill Wind Farm Pty Limited	(a)	Australia	**100**	100
Crows Nest Wind Farm Pty Ltd	(a)	Australia	**100**	100
Highfields Wind Farm Pty Limited	(a)	Australia	**100**	100
Worlds End Wind Farm Pty Ltd	(a)	Australia	**100**	100
AGL PV Solar Holdings Pty Limited	(a)	Australia	**100**	95
AGL PV Solar Developments Pty Limited	(a)	Australia	**100**	100
AGL Retail Energy Limited	(a)	Australia	**100**	100
AGL Share Plan Pty Limited	(a)	Australia	**100**	100
AGL (SG) (Camden) Operations Pty Limited	(a)	Australia	**100**	100
AGL (SG) (Hunter) Operations Pty Limited	(a)	Australia	**100**	100
AGL (SG) Operations Pty Limited	(a)	Australia	**100**	100
AGL Upstream Gas (Mos) Pty Limited	(a)	Australia	**100**	100
AGL Cooper Basin Pty Ltd	(a)	Australia	**100**	100
AGL Gas Storage Pty Ltd	(a)	Australia	**100**	100
AGL Upstream Infrastructure Investments Pty Limited	(a)	Australia	**100**	100
AGL Upstream Investments Pty Limited	(a)	Australia	**100**	100
AGL Wholesale Gas Limited	(a)	Australia	**100**	100
AGL Wholesale Gas (SA) Pty Limited	(a)	Australia	**100**	100
Barn Hill Wind Farm Pty Ltd	(a)	Australia	**100**	100
Connect Now Pty Ltd	(a)	Australia	**100**	100
Coopers Gap Wind Farm Pty Ltd	(a)	Australia	**100**	100
Digital Energy Exchange Australia Pty Limited	(a) (c)	Australia	**100**	-
Geogen Victoria Pty Ltd	(a)	Australia	**100**	100
H C Extractions Pty Limited	(a)	Australia	**100**	100
NGSF Asset Pty Limited	(a)	Australia	**100**	100
NGSF Finance Pty Limited	(a)	Australia	**100**	100
NGSF Operations Pty Limited	(a)	Australia	**100**	100
Powerdirect Pty Ltd	(a)	Australia	**100**	100
Silverton Wind Farm Holdings Pty Limited	(a)	Australia	**100**	100
Silverton Wind Farm Developments Pty Limited	(a)	Australia	**100**	100
Silverton Wind Farm Transmission Pty Limited	(a)	Australia	**100**	100
The Australian Gas Light Company	(a)	Australia	**100**	100

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

(a) Parties to a Deed of Cross Guarantee with AGL Energy Limited as detailed in Note 32.

(b) Parties to a Deed of Cross Guarantee with AGL Generation Proprietary Limited as detailed in Note 32.

(c) Incorporated during the financial year.

Note 29 - Acquisition of subsidiaries and businesses

There were no acquisitions of subsidiaries and businesses made during the year ended 30 June 2017 and 30 June 2016.

Note 30 - Disposal of subsidiaries and businesses

2017

There were no disposals of subsidiaries and businesses made during the year ended 30 June 2017.

2016

Disposal of Macarthur Wind Farm Pty Ltd

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

Disposal of AGL DPS Pty Limited

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

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

	2017 $m	MWF $m	DPS $m	2016 $m
Assets				
Other financial assets	-	-	81	81
Investments in associates and joint ventures	-	-	52	52
Property, plant and equipment	-	491	-	491
Liabilities				
Deferred tax liabilities	-	(1)	-	(1)
Net assets disposed	-	490	133	623
Consideration				
Consideration received in cash	-	532	151	683
Consideration receivable	-	2	-	2
Costs directly attributable to the disposal	-	(10)	-	(10)
Liability assumed	-	(27)	-	(27)
	-	497	151	648
Gain on disposal of subsidiaries and businesses				
Consideration	-	497	151	648
Net assets disposed	-	(490)	(133)	(623)
	-	7	18	25
Cumulative loss reclassified from equity on disposal	-	-	(15)	(15)
	-	7	3	10
Net cash inflow on disposal of subsidiaries and businesses				
Consideration received in cash	-	532	151	683
Costs directly attributable to the disposal paid	-	(10)	-	(10)
	-	522	151	673

Note 31 - Joint operations

Joint operation	Principal activities	Interest 2017 %	Interest 2016 %
Bowen Basin - Queensland			
Moranbah Gas Project - PL 191, PL 196, PL 222, PL 223 & PL 224	Gas production and exploration	**50**	50
Spring Gully Project - ATP 592P, PL 195, PL 203 & PL 417	Gas production and exploration	**0.75**	0.75
Spring Gully Project - PL 204	Gas production	**0.0375**	0.0375
Surat Basin - Queensland			
ATP 1190 (Bainbilla Block)	Oil and gas exploration	**75.252**	75.252
ATP 1190 (Spring Grove #2 sole risk)	Oil and gas exploration	**52.752**	52.752
ATP 1190 (Weribone)	Oil and gas exploration	**28.71**	28.71
PL 1 (Cabawin)	Oil production	**15**	15
PL 15	Gas production	**75**	75
PL 30 (Riverslea)	Oil production	**10**	10
PL 74 (Major)	Oil production	**16**	16
Cooper/Eromanga Basin - Queensland			
ATP 934P	Oil and gas exploration	**28.5714**	28.5714
Others			
North Queensland Energy Joint Venture	Sale of gas and electricity	**50**	50
Lytton Joint Venture	Crude oil storage terminal	**33.333**	33.333

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

	2017 $m	2016 $m
Current assets		
Cash and cash equivalents	**10**	6
Trade and other receivables	**11**	6
Inventories	**-**	1
Total current assets	**21**	13
Total non-current assets	**-**	-
Total assets	**21**	13

AGL's share of capital expenditure commitments and contingent liabilities of joint operations are disclosed in Notes 25 and 26 respectively.

Note 32 - Deeds of cross guarantee

The wholly-owned subsidiaries identified in Note 28 have entered into a Deed of Cross Guarantee with AGL in accordance with *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785* and are relieved from the *Corporations Act 2001* requirement to prepare and lodge an audited financial report and directors' report. The effect of the deed is that each party guarantees the debts of the others.

The following wholly-owned subsidiaries became a party to the Deed of Cross Guarantee by way of an Assumption Deed dated 3 May 2017:

AGL PV Solar Holdings Pty Limited
AGL PV Solar Developments Pty Limited
AGL New Energy EIF Pty Limited
AGL New Energy Investments Pty Limited
AGL PARF NSW Pty Limited
AGL Share Plan Pty Limited
AGL Community Legacy Program Pty Limited
Connect Now Pty Ltd
Digital Energy Exchange Australia Pty Limited
NGSF Asset Pty Limited
NGSF Finance Pty Limited
NGSF Operations Pty Limited

Set out below is the consolidated statement of profit or loss, statement of comprehensive income, statement of financial position and a summary of movements in retained earnings of the entities party to a Deed of Cross Guarantee.

	AGL Energy Limited		AGL Generation Pty Ltd	
	2017 $m	2016 $m	2017 $m	2016 $m
Statement of profit or loss				
Revenue	**10,676**	9,697	**4**	4
Other income	**-**	25	**-**	-
Expenses	**(10,369)**	(9,469)	**(4)**	(4)
Share of profits/(losses) of associates and joint ventures	**19**	26	**562**	(175)
Profit/(loss) before net financing costs, depreciation and amortisation	**326**	279	**562**	(175)
Depreciation and amortisation	**(329)**	(334)	**-**	-
(Loss)/profit before net financing costs	**(3)**	(55)	**562**	(175)
Finance income	**115**	112	**-**	-
Finance costs	**(213)**	(168)	**(13)**	(12)
Net financing costs	**(98)**	(56)	**(13)**	(12)
(Loss)/profit before tax	**(101)**	(111)	**549**	(187)
Income tax (expense)/benefit	**(24)**	(22)	**(165)**	52
(Loss)/profit for the year	**(125)**	(133)	**384**	(135)
Statement of comprehensive income				
(Loss)/profit for the year	**(125)**	(133)	**384**	(135)
Other comprehensive income				
Items that will not be reclassified subsequently to profit or loss				
Remeasurement gain/(loss) on defined benefit plans	**58**	(78)	**36**	(24)
Income tax relating to items that will not be reclassified subsequently	**(17)**	23	**(11)**	7
	41	(55)	**25**	(17)
Items that may be reclassified subsequently to profit or loss				
Cash flow hedges	**57**	40	**-**	1
Share of other comprehensive income of a joint venture	**-**	(1)	**-**	-
Reclassification adjustments of a joint venture transferred to profit or loss on disposal of investment	**-**	15	**-**	-
Income tax relating to items that may be reclassified subsequently	**(17)**	(12)	**-**	-
	40	42	**-**	1
Other comprehensive income for the year, net of income tax	**81**	(13)	**25**	(16)
Total comprehensive income for the year	**(44)**	(146)	**409**	(151)

Note 32 - Deed of cross guarantee (cont'd)

	AGL Energy Limited 2017 $m	AGL Energy Limited 2016 $m	AGL Generation Pty Ltd 2017 $m	AGL Generation Pty Ltd 2016 $m
Statement of financial position				
Current assets				
Cash and cash equivalents	**136**	219	**1**	2
Trade and other receivables	**1,769**	1,814	**1**	1
Inventories	**281**	350	**-**	-
Other financial assets	**431**	177	**-**	-
Other assets	**52**	41	**4**	4
Assets classified as held for sale	**201**	-	**-**	-
Total current assets	**2,870**	2,601	**6**	7
Non-current assets				
Trade and other receivables	**-**	44	**569**	643
Inventories	**20**	30	**-**	-
Other financial assets	**4,542**	5,003	**3,533**	2,750
Investments in associates and joint ventures	**80**	70	**-**	-
Property, plant and equipment	**3,089**	3,142	**-**	-
Intangible assets	**2,359**	2,363	**-**	-
Deferred tax assets	**374**	230	**-**	-
Other assets	**61**	52	**3**	7
Total non-current assets	**10,525**	10,934	**4,105**	3,400
Total assets	**13,395**	13,535	**4,111**	3,407
Current liabilities				
Trade and other payables	**1,336**	1,386	**10**	10
Borrowings	**161**	11	**-**	-
Provisions	**153**	176	**-**	-
Current tax liabilities	**13**	95	**-**	-
Other financial liabilities	**1,425**	557	**-**	-
Other liabilities	**9**	-	**-**	-
Total current liabilities	**3,097**	2,225	**10**	10
Non-current liabilities				
Borrowings	**2,996**	2,910	**-**	-
Provisions	**450**	437	**-**	-
Deferred tax liabilities	**-**	-	**206**	104
Other financial liabilities	**293**	317	**137**	124
Other liabilities	**133**	199	**-**	-
Total non-current liabilities	**3,872**	3,863	**343**	228
Total liabilities	**6,969**	6,088	**353**	238
Net assets	**6,426**	7,447	**3,758**	3,169
Equity				
Issued capital	**6,223**	6,696	**2,878**	2,878
Reserves	**16**	(24)	**25**	25
Retained earnings	**187**	775	**675**	266
Total equity	**6,426**	7,447	**3,578**	3,169
Summary of movements in retained earnings				
Retained earnings at beginning of financial year	**775**	1,409	**266**	418
(Loss)/profit for the year	**(125)**	(133)	**384**	(135)
Dividends paid	**(517)**	(446)	**-**	-
Adjustment for entities added to the deed of cross guarantee	**18**	-	**-**	-
Remeasurement gain/(loss) on defined benefit plans, net of tax	**41**	(55)	**25**	(17)
Excess of consideration paid on acquisition of non-controlling interests	**(5)**	-	**-**	-
Retained earnings at end of financial year	**187**	775	**675**	266

Note 33 - Defined benefit superannuation plans

AGL contributes to six superannuation plans that provide defined benefit members a lump sum on retirement, death, disablement and withdrawal. Some defined benefit members are eligible for pension benefits in some cases. Lump sum benefits are calculated based on years of service and final average salary. The defined benefit plans are closed to new members. All new members receive accumulation benefits only.

The six plans are the SuperSolution Master Trust - AGL Division (SSMT), Equipsuper Fund (EF), Electricity Industry Superannuation Scheme (EISS), State Superannuation Scheme (SSS), State Authorities Superannuation Scheme (SASS) and the State Authorities Non-contributory Superannuation Scheme (SANCS).

The Superannuation Industry (Supervision) (SIS) legislation governs the superannuation industry and provides the framework within which superannuation plans operate. The SIS Regulations require an actuarial valuation to be performed for each defined benefit plan every three years, or every year if the plan pays defined benefit pensions.

The plans' trustees are responsible for the governance of the plans. The trustees have a legal obligation to act solely in the best interests of plan beneficiaries. The trustees have the following roles: administration of the plans and payment to the beneficiaries from plan assets when required in accordance with the plan rules; management and investment of the plan assets; and compliance with other applicable regulations.

There are a number of risks to which the plans expose AGL. The most significant risks are investment risk, salary growth risk, inflation risk, interest rate risk, legislative risk and changes in the life expectancy for members.

AGL also contributes to defined contribution superannuation plans for employees, which are also provided by these plans. Contributions made to these defined contribution plans are expensed as incurred.

	2017 $m	2016 $m
Amounts recognised in profit or loss		
Current service cost	**24**	23
Net interest expense	**4**	2
Expense recognised in profit or loss as part of employee benefits expense	**28**	25
Amounts recognised in other comprehensive income		
Remeasurements		
Return on plan assets (excluding amounts included in net interest expense)	**(43)**	14
Actuarial (gain)/loss arising from changes in demographic assumptions	**-**	6
Actuarial (gain)/loss arising from changes in financial assumptions	**(49)**	99
Actuarial gain arising from experience	**(15)**	(8)
Remeasurement (gain)/loss on defined benefit plans recognised in other comprehensive income	**(107)**	111
Amounts included in the statement of financial position		
Present value of funded defined benefit obligations	**766**	856
Fair value of plan assets	**(704)**	(701)
Net defined benefit liability	**62**	155
Defined benefit superannuation plan asset (Note 13)	**(15)**	(5)
Defined benefit superannuation plan liability (Note 22)	**77**	160
Net defined benefit liability	**62**	155
Net liability at beginning of financial year	**155**	36
Expense recognised in profit or loss	**28**	25
Amounts recognised in other comprehensive income	**(107)**	111
Employer contributions	**(14)**	(17)
Net liability at end of financial year	**62**	155

Note 33 - Defined benefit superannuation plans (cont'd)

	2017 $m	2016 $m
Movements in the present value of defined benefit obligations		
Opening defined benefit obligations	**856**	752
Current service cost	**24**	23
Interest expense	**27**	32
Contributions by plan participants	**8**	9
Actuarial (gain)/loss arising from changes in demographic assumptions	**-**	6
Actuarial (gain)/loss arising from changes in financial assumptions	**(49)**	99
Actuarial (gain)/loss arising from experience	**(15)**	(8)
Benefits paid	**(81)**	(52)
Taxes, premiums and expenses paid	**(4)**	(5)
Closing defined benefit obligations	**766**	856
Movements in the fair value of plan assets		
Opening fair value of plan assets	**701**	716
Interest income	**23**	30
Return on plan assets (excluding amounts included in net interest expense)	**43**	(14)
Employer contributions	**14**	17
Contributions by plan participants	**8**	9
Benefits paid	**(81)**	(52)
Taxes, premiums and expenses paid	**(4)**	(5)
Closing fair value of plan assets	**704**	701

Categories of plan assets

The major categories of plan assets as a percentage of the fair value of total plan assets at the end of the reporting period are as follows:

	SSMT %	EF %	EISS %	SSS, SASS, and SANCS %
2017				
Australian equities	**29**	**26**	**24**	**24**
International equities	**31**	**20**	**23**	**30**
Fixed interest securities	**22**	**11**	**9**	**7**
Property	**6**	**9**	**15**	**9**
Cash	**8**	**14**	**8**	**8**
Alternatives/other	**4**	**20**	**21**	**22**
2016				
Australian equities	28	30	25	26
International equities	29	21	21	32
Fixed interest securities	10	13	11	9
Property	6	9	14	10
Cash	4	7	7	5
Alternatives/other	23	20	22	18

All plan assets are held within investment funds which do not have a quoted market price in an active market.

The fair value of plan assets include no amounts relating to any of AGL's own financial instruments; or any property occupied by, or other assets used by AGL.

Note 33 - Defined benefit superannuation plans (cont'd)

Principal actuarial assumptions

The principal actuarial assumptions at the end of the reporting period (expressed as weighted averages) were as follows:

	SSMT %	EF %	EISS %	SSS, SASS, & SANCS %
2017				
Discount rate active members	**3.75**	**3.5**	**3.9 - 4.0**	**4.4**
Discount rate pensioners	**-**	**3.5**	**3.9 - 4.0**	**-**
Expected salary increase rate	**3.0**	**3.0 - 4.0**	**3.0**	**2.5 - 3.5**
Expected pension increase rate	**-**	**2.5**	**2.25**	**-**
2016				
Discount rate active members	3.2	3.3	3.5	3.6
Discount rate pensioners	-	3.3	3.5	-
Expected salary increase rate	3.0	3.0 - 4.0	3.0	2.5 - 3.5
Expected pension increase rate	-	2.5	2.5	-

Sensitivity analysis

The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

	Defined benefit obligation			
	Increase 2017 $m	Decrease 2017 $m	Increase 2016 $m	Decrease 2016 $m
Discount rate (0.5 percentage point movement)	**(42)**	**49**	(50)	58
Expected salary increase rate (0.5 percentage point movement)	**27**	**(25)**	24	(23)
Expected pension increase rate (0.5 percentage point movement)	**9**	**(9)**	12	(11)

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

Funding arrangements and employer contributions

Employer contributions are determined based on actuarial advice and are set to target the assets of the plans exceeding the total of members' vested benefits. Funding levels are reviewed regularly. Where assets are less than vested benefits, a management plan must be established to restore the coverage to at least 100%.

AGL expects to contribute $5 million to the defined benefit plans during the year ended 30 June 2018.

The weighted average duration of the defined benefit obligation as at 30 June 2017 was SSMT 8 years; EF 8 years; EISS 13 years; and SSS, SASS and SANCS 16 years.

Defined contribution superannuation plans

AGL makes contributions to a number of defined contribution superannuation plans. The amount recognised as an expense for the year ended 30 June 2017 was $27 million (2016: $28 million).

Note 34 - Share-based payment plans

AGL has the following share-based payment plans:

- AGL Share Reward Plan;
- AGL Share Purchase Plan;
- AGL Restricted Equity Plan; and
- AGL Long-Term Incentive Plan.

AGL Share Reward Plan

The AGL Energy Limited Board of Directors approved the AGL Share Reward Plan (SRP) on 5 October 2006. Under the SRP, eligible employees may be invited on an annual basis to acquire up to $1,000 worth of fully-paid ordinary shares in AGL for no consideration. The Board determines whether to make an offer of shares based on AGL's performance measured against specific performance hurdles set by the Board each financial year.

Eligible employees include full-time or permanent part-time employees who have completed 12 months continuous service.

SRP shares may not be disposed before the earlier of three years after the date of acquisition or the date on which the participating employee ceases to be employed by AGL.

Details of share movements in the AGL Share Reward Plan during the year are set out below:

Grant date	Balance at 1 July Number	Granted during the year Number	Fair value per share $	Released during the year Number	Balance at 30 June Number
2017					
30 September 2016	**-**	**138,964**	**$17.31**	**(11,613)**	**127,351**
30 September 2015	**162,016**	**-**	**-**	**(25,803)**	**136,213**
30 September 2014	**82,203**	**-**	**-**	**(13,959)**	**68,244**
27 September 2013	**94,912**	**-**	**-**	**(94,912)**	**-**
	339,131	**138,964**		**(146,287)**	**331,808**
2016					
30 September 2015	-	178,852	$16.14	(16,836)	162,016
30 September 2014	100,533	-	-	(18,330)	82,203
27 September 2013	116,480	-	-	(21,568)	94,912
28 September 2012	70,080	-	-	(70,080)	-
	287,093	178,852		(126,814)	339,131

During the year, there were 2,836 eligible employees (2016: 2,932) who were each granted 49 ordinary shares in AGL (2016: 61). All shares granted were purchased on-market and the fair value per share is market value.

The expense recognised in profit or loss as part of employee benefits expense during the year in relation to the AGL Share Reward Plan was $2 million (2016: $3 million).

AGL Share Purchase Plan

The AGL Energy Limited Board of Directors approved the AGL Share Purchase Plan (SPP) on 5 October 2006. Under the SPP, the Board may in its discretion, from time to time invite any eligible employees to acquire fully-paid ordinary shares in AGL with funds provided in lieu of remuneration they would have received. The total amount that can be allocated to the purchase of shares under the SPP in any financial year is $5,000.

Under the FY17 SPP, shares may not be disposed before the earlier of four years after allocation (or, in the case of SPP shares acquired on or before 31 May 2010 and on or before 1 August 2016, ten years and seven years respectively), the date on which the participating employee ceases to be employed by AGL, or in the event the Board or the trustee determines that the shares should be freed from this restriction following the written request of the participating employee.

Note 34 - Share-based payment plans (cont'd)

AGL Share Purchase Plan (cont'd)

Details of share movements in the AGL Share Purchase Plan during the year are set out below:

Share movements	Balance at 1 July Number	Purchased/ granted during the year Number	Fair value per share $	Released during the year Number	Balance at 30 June Number
2017					
Non-executive Directors	**20,136**	**44**	**$19.05**	**(640)**	**19,540**
Managing Director and Chief Executive Officer (a)	**33,510**	**-**	**-**	**(33,510)**	**-**
Employees	**175,062**	**20,604**	**$22.30**	**(103,747)**	**91,919**
	228,708	**20,648**		**(137,897)**	**111,459**
2016					
Non-executive Directors	19,848	288	$17.39	-	20,136
Managing Director and Chief Executive Officer (a)	-	33,510	$17.01	-	33,510
Employees	242,475	127,722	$17.01	(195,135)	175,062
	262,323	161,520		(195,135)	228,708

(a) Mr Vesey was granted 33,510 restricted share awards on 25 August 2015 as part of the FY15 performance year short-term incentive plan. The restricted shares vested on 25 August 2016.

At the end of the reporting period, there was one Non-executive Director (2016: one) and 248 employees (2016: 231) participating in the SPP. All shares were purchased on-market and the fair value per share is market value.

AGL Restricted Equity Plan

The AGL Energy Limited Board of Directors approved the AGL Restricted Equity Plan (REP) on 7 November 2016 as part of the new AGL Share Plan Rules. The REP provides a separate mechanism for allocating restricted shares under the short-term incentive plan deferral, and any other ad-hoc retention, performance or sign-on incentives. These awards were previously governed under the AGL Share Purchase Plan.

Details of share movements in the AGL Restricted Equity Plan during the year are set out below:

Share movements	Balance at 1 July Number	Purchased/ granted during the year Number	Fair value per share $	Released during the year Number	Balance at 30 June Number
2017					
Managing Director and Chief Executive Officer (a)(b)	**73,000**	**122,452**	**$18.60**	**-**	**195,452**
Employees	**-**	**105,880**	**$19.13**	**(3,883)**	**101,997**
	73,000	**228,332**		**(3,883)**	**297,449**

(a) Mr Vesey was granted 90,481 restricted share awards on 23 August 2016 as part of the FY16 performance year short-term incentive plan. The restricted shares vest after a period of twelve months, subject to continued service and forfeiture conditions.

(b) Mr Vesey was granted 31,971 restricted share awards on 30 September 2016 as part of the transitional arrangements for closure of the pre-FY16 Long-term Incentive Plan, to make up for the forgone annual vesting opportunity. The restricted shares vest after a period of twelve months, subject to continued service and forfeiture conditions.

At the end of the reporting period, there was 128 employees including the Managing Director (2016: 1) participating in the REP. All shares were purchased on-market and the fair value per share is market value.

Note 34 - Share-based payment plans (cont'd)

AGL Long-Term Incentive Plan

The AGL Energy Limited Board of Directors approved the AGL Long-Term Incentive Plan (LTI Plan) on 5 October 2006 and has been amended by the Board subsequently to ensure it remains relevant and aligned with AGL's strategy. The LTI Plan is an integral part of AGL's remuneration policy and is also governed by the AGL Share Plan Rules.

Participants are granted Performance Rights, which vest over time if specific applicable hurdles are met. A Performance Right is an entitlement to one fully-paid ordinary share in AGL. On vesting, Performance Rights are exercised and converted to fully-paid ordinary shares in AGL. Performance Rights do not carry dividend or voting rights. Performance Rights participate in bonus issues, rights issues and reconstructions and reorganisations of the capital of AGL in the same manner as AGL ordinary shares at the discretion of the Board.

If a participant ceases employment before the expiry of the vesting period, they will ordinarily forfeit the unvested balance of Performance Rights. The Board, with reference to the relevant facts and circumstances of the cessation, may choose to vest all or part of the balance, or authorise a portion of the award to be retained and assessed post-employment at their discretion.

AGL may issue shares or purchase shares in the ordinary course of trading on the ASX to satisfy Performance Rights which have vested.

FY17 Long-Term Incentive Plan

During the year, eligible participants received a grant of Performance Rights in respect of the year ended 30 June 2017. The number of Performance Rights granted was determined by taking the participant's fixed remuneration as at 1 September 2016 multiplied by their pre-agreed LTI opportunity, and divided by $18.77 (being the VWAP for June 2016).

The Performance Rights are subject to two performance hurdles, weighted equally, based on:

• Relative Total Shareholder Return (Relative TSR); and
• Return on Equity (ROE).

Relative TSR is calculated by ranking AGL's TSR on a relative basis against the peer group, being S&P/ASX100 companies.

ROE measures the amount of net income returned as a percentage of shareholders equity.

The performance period for the FY17 LTI is three years from 1 July 2016 to 30 June 2019. The number of shares vested are determined by the vesting schedules detailed in the tables below.

Relative TSR vesting schedule

AGL's TSR ranking against comparator group	Percentage of Performance Rights which vest
Below 50th percentile	Nil
50th - 75th percentile	50 - 100%
At or above 75th percentile	100%

ROE vesting schedule

AGL's average ROE	Percentage of Performance Rights which vest
Below 9%	Nil
9% - 10%	50 - 100%
At or above 10%	100%

Details of Performance Rights movements in the FY17 Long-Term Incentive Plan during the year are set out below:

Grant date	Balance at 1 July Number	Performance hurdle	Granted during the year Number	Fair value per SPR at grant date $	Vested during the year Number	Forfeited during the year Number	Balance at 30 June Number
2017							
1-Sep-2016	-	**Relative TSR**	**174,587**	**$7.96**	**-**	**-**	**174,587**
1-Sep-2016	-	**ROE**	**174,563**	**$16.72**	**-**	**-**	**174,563**
29-Sep-2016	-	**Relative TSR**	**84,565**	**$9.10**	**-**	**-**	**84,565**
29-Sep-2016	-	**ROE**	**84,563**	**$17.11**	**-**	**-**	**84,563**
	-		**518,278**		**-**	**-**	**518,278**

Note 34 - Share-based payment plans (cont'd)

AGL Long-Term Incentive Plan (cont'd)

FY16 Long-Term Incentive Plan

On 30 September 2015, eligible participants received an initial notional grant of Performance Rights in respect of the year ended 30 June 2016. The number of Performance Rights granted was determined by taking the participant's fixed remuneration as at 1 September 2015 multiplied by their pre-agreed percentage LTI opportunity, and divided by $15.94 (being the VWAP for June 2015).

The Performance Rights are subject to two performance hurdles, weighted equally, based on:

- Relative TSR; and
- ROE.

Relative TSR is calculated by ranking AGL's TSR on a relative basis against AGL's peer group of companies (as detailed in the Remuneration Report attached to and forming part of the Directors' Report).

ROE measures the amount of net income returned as a percentage of shareholders equity.

The performance period for the FY16 LTI is three years from 1 July 2015 to 30 June 2018. The number of shares vested are determined by a multiplier applied to the grant according to the performance hurdle outcomes in the table below.

Relative TSR vesting schedule

AGL's TSR ranking against comparator group	Percentage of Performance Rights which vest
Below 50th percentile	Nil
50th - 75th percentile	50 - 100%
At or above 75th percentile	100%

ROE vesting schedule

AGL's average ROE	Percentage of Performance Rights which vest
Below 10%	Nil
10% - 12%	50 - 75%
12% - 15%	75 - 100%
At or above 15%	100%

Details of Performance Rights movements in the FY16 AGL Long-Term Incentive Plan during the year are set out below:

Grant date	Balance at 1 July Number	Performance hurdle	Granted during the year Number	Fair value per SPR at grant date $	Vested during the year Number	Forfeited during the year Number	Balance at 30 June Number
2017							
30-Sep-2015	**137,001**	**Relative TSR**	**-**	**$9.00**	**-**	**-**	**137,001**
30-Sep-2015	**136,998**	**ROE**	**-**	**$14.12**	**-**	**-**	**136,998**
	273,999		**-**		**-**	**-**	**273,999**
2016							
30-Sep-2015	-	Relative TSR	150,960	$9.00	-	(13,959)	137,001
30-Sep-2015	-	ROE	150,957	$14.12	-	(13,959)	136,998
	-		301,917		-	(27,918)	273,999

Note 34 - Share-based payment plans (cont'd)

AGL Long-Term Incentive Plan (cont'd)

Pre-FY16 Long-Term Incentive Plan

On 25 September 2014, eligible participants received a notional grant of Performance Rights in respect of the year ended 30 June 2015. The number of Performance Rights notionally granted was determined by taking the participant's fixed remuneration as at 1 September 2014 multiplied by their pre-agreed percentage LTI opportunity, and divided by $15.30 (being the VWAP for 30 June 2014). The weighted average fair value of Performance Rights granted was $5.92.

The Performance Rights notionally granted are subject to two performance hurdles based on:

• Annual TSR; and
• Relative TSR.

Annual 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.

Relative TSR is calculated by ranking AGL's TSR on a relative basis against the peer group, being S&P/ASX100 companies.

The number of Performance Rights to be deposited or deducted from a participant's bank account is determined by a multiplier to be applied to the number of Performance Rights notionally granted according to the vesting schedules in the tables below.

Annual TSR	Number of SPRs awarded
14% or greater	200%
Between 4% and 14%	Between Nil and 200%
Between -4% and 4%	Nil
Between -4% and -14%	Between Nil and -200%
-14% or less	-200%

AGL's TSR ranking against comparator group	Number of SPRs awarded
90th percentile or greater	200%
Between 65th percentile and 90th percentile	Between 100% and 200%
65th percentile	100%
Between 50th percentile and 65th percentile	Between 50% and 100%
50th percentile	50%
Between 40th percentile and 50th percentile	Between 40% and 50%
40th percentile	40%
Between 25th percentile and 40th percentile	Nil
Between zero and 25th percentile	Between -100% to zero
Zero	-100%

The Board resolved to close the FY15 and prior LTI plans, and FY17 is the final year in which the annual banking plan will operate. As a result, any Performance Rights held in the bank accounts as at 30 June 2017 will be subject to final testing and vesting, and will close accordingly.

Details of Performance Rights movements in the pre-FY16 Long-Term Incentive Plan during the year are set out below:

Performance Rights bank account	Balance at 1 July Number	Deposited during the year (a) Number	Vested during the year Number	Forfeited during the year Number	Balance at 30 June Number
2017					
TSR share bank account	**142,242**	**142,242**	**(151,548)**	**-**	**132,936**
Relative TSR share bank account	**24,794**	**8,918**	**(17,724)**	**-**	**15,988**
	167,036	**151,160**	**(169,272)**	**-**	**148,924**

(a) After testing the Performance Rights held in the bank accounts as at 30 June 2016 against the relevant performance hurdle for the 2016 financial year, Performance Rights were deposited into the relevant share bank account for each participant.

Note 34 - Share-based payment plans (cont'd)

AGL Long-Term Incentive Plan (cont'd)

Performance Rights bank account	Balance at 1 July Number	Deposited (deducted) during the year (a) Number	Vested during the year Number	Forfeited during the year Number	Balance at 30 June Number
2016					
TSR share bank account	132,881	284,983	(262,465)	(13,157)	142,242
RTSR share bank account	-	66,971	(40,057)	(2,120)	24,794
EBIT/Funds Employed share bank account (b)	13,232	(3,174)	(10,058)	-	-
Notional grant 25-Sep-14	203,937	(203,937)	-	-	-
Notional grant 12-Jan-15	81,048	(81,048)	-	-	-
	431,098	63,795	(312,580)	(15,277)	167,036

(a) After testing the Performance Rights notionally granted on 25 September 2014 and 12 January 2015 against the relevant performance hurdle for the 2015 financial year, SPRs were deposited into (or deducted from) the relevant share bank account for

(b) The EBIT/Funds Employed bank account had been closed effective from 30 June 2013. The last portion of the bank balance vested in September 2015.

LTI Transitional Arrangements

Following changes to the operation of the LTI plan, each executive was given an additional transitional grant in relation to FY16 and FY17 performance years to compensate for the forgone annual vesting opportunity under the previous plan. The transitional grant was determined with reference to the past five-year average annual LTI payout, and the individual executives' fixed remuneration.

The transitional grant will be settled in shares and the number of shares will be calculated as the transitional grant amount divided by the Volume Weighted Average Price (VWAP) at which AGL's shares traded during June of the performance year.

Vesting of the transition grant is dependent on the executives continued employment with AGL. Once vested the executive must hold the shares for a minimum of 12 months. No other performance hurdles have been set.

The total transitional grant in respect of the FY17 performance year was $1.1 million (2016: $1.1 million), which will be allocated in September 2017.

Performance Rights grant

The fair value of Performance Rights granted are measured by reference to the fair value. The estimate of the fair value is measured based on the Monte Carlo simulation method. The contractual life of the Performance Rights is used as an input into this model. Expected volatility is based on the historical share price volatility over the past three years.

	2017		2016	
Grant date	1-Sep-16	29-Sep-16	30-Sep-15	
	FY17 LTI		FY16 LTI	Transitional arrangements
Weighted average fair value at grant date	**$12.34**	**$13.11**	$11.56	97% - 98%
Share price at grant date	**$18.62**	**$18.99**	$15.97	$15.97
Expected volatility	**18.0%**	**18.0%**	18.0%	18.0%
Expected dividend yield	**3.8%**	**3.8%**	4.2%	4.2%
Risk free interest rate (based on government bonds)	**1.4%**	**1.6%**	1.8%	1.8%

The expense recognised in profit or loss as part of employee benefits expense during the year in relation to Performance Rights granted to executives under the AGL Long-Term Incentive Plan was $4 million (2016: $3 million).

Shares purchased on-market

During the financial year ended 30 June 2017, 557,216 AGL shares were purchased on-market at an average price of $18.66 per share, for a total consideration of $10,395,709, to satisfy employee entitlements under the AGL Share Reward Plan, AGL Share Purchase Plan, AGL Restricted Equity Plan and the AGL Long-Term Incentive Plan.

Note 35 - Related party disclosures

Key management personnel remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of AGL, directly or indirectly, including the Directors of the Parent Entity.

The aggregate remuneration made to key management personnel is set out below:

	2017 $000	2016 $000
Short-term employee benefits	**10,827**	12,200
Post-employment benefits	**208**	214
Termination benefits	**-**	730
Share-based payments	**4,316**	4,136
	15,351	17,280

Further details are contained in the Remuneration Report attached to and forming part of the Directors' Report.

Amounts owing by joint ventures		
ActewAGL Retail Partnership	**83,026**	42,396

The amount owing is unsecured, interest free and will be settled in cash. No expense has been recognised in the current or the prior period for bad or doubtful debts in respect of the amounts owed by joint ventures.

Amounts owing to joint ventures		
ActewAGL Retail Partnership	**9,359**	4,411

Trading transactions with joint ventures and associates

ActewAGL Retail Partnership

AGL provided management and retail services to the ActewAGL Retail Partnership on normal commercial terms and conditions.	**3,981**	6,925
AGL sold gas and electricity to the ActewAGL Retail Partnership on normal commercial terms and conditions.	**305,601**	230,221

Sunverge Energy Inc

On 4 February 2016, AGL entered into a supply agreement with Sunverge Energy Inc to supply AGL with battery storage units, energy software and support services on normal commercial terms and conditions.	**6,007**	500

Powering Australian Renewables Fund

On 10 November 2016, AGL entered into an electricity and environmental products supply contract with Powering Australian Renewables Fund (PARF) on normal commercial terms and conditions.	**5,906**	-

During the year AGL also sold the Nyngan and Broken Hill solar plants into PARF, and acquired a 20% interest in PARF. Refer to notes 17 and 14 for further details of these transactions.

Diamantina Power Station Pty Limited

On 6 October 2011, AGL entered into a gas supply agreement with Diamantina Power Station Pty Limited (DPS), a wholly-owned subsidiary of Diamantina Holding Company Pty Limited, to supply DPS with 138 petajoules of natural gas from May 2013 through to 2023 on normal commercial terms and conditions.

On 31 March 2016, AGL disposed of its 50% interest in Diamantina Holding Company Pty Limited. Up until the date of disposal, gas sales to DPS were:	**-**	94,211

Note 36 - Cash and cash equivalents

(a) Reconciliation to cash flow statement

Cash and cash equivalents at the end of the reporting period as shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated statement of financial position as follows:

	2017 $m	2016 $m
Cash at bank and on hand	**154**	132
Short-term deposits	**-**	120
	154	252

	2017 $m	2016 $m
(b) Reconciliation of profit for the year to net cash flows from operating activities		
Profit/(loss) for the year	**539**	(407)
Share of profits of associates and joint ventures	**(19)**	(26)
Dividends received from joint ventures	**22**	19
Depreciation and amortisation	**484**	478
Impairment loss on exploration and evaluation, oil and gas and property, plant and equipment assets	**-**	779
Share-based payments expense	**7**	6
Loss in fair value of financial instruments	**376**	595
Cumulative loss reclassified from equity on disposal of investment in a joint venture	**-**	15
Gain on disposal of subsidiaries and businesses	**-**	(25)
Net loss on disposal of property, plant and equipment	**199**	3
Non-cash finance costs	**59**	59
Capitalised finance costs	**(5)**	(6)
Deferred borrowing costs	**(5)**	(1)
Other non-cash expenses	**-**	32
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	**31**	(86)
(Increase)/decrease in inventories	**73**	(11)
(Increase)/decrease in derivative financial instruments	**12**	(11)
(Increase)/decrease in other financial assets	**(431)**	(52)
(Increase)/decrease in other assets	**5**	30
Increase/(decrease) in trade and other payables	**(31)**	122
Increase/(decrease) in provisions	**(82)**	(21)
Increase/(decrease) in other financial liabilities	**(71)**	(71)
Increase/(decrease) in other liabilities	**(205)**	(2)
Increase/(decrease) in tax assets and liabilities	**(67)**	(233)
Net cash provided by operating activities	**891**	1,186

(c) Non-cash financing and investing activities

	2017 $m	2016 $m
Dividends satisfied by the issue of shares under the AGL Dividend Reinvestment Plan	**-**	-

Note 37 - Financial instruments

(a) Capital risk management

AGL's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an appropriate capital structure of debt and equity.

In order to maintain or adjust the capital structure, AGL may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. AGL's overall capital management strategy remains unchanged from 2016.

The capital structure of AGL consists of net debt (borrowings offset by cash and cash equivalents) and total equity (comprising issued capital, reserves and retained earnings).

AGL monitors capital on the basis of the gearing ratio and funds from operations (FFO) to interest expense cover.

The gearing ratio is calculated as net debt divided by adjusted total capital. Net debt is calculated as total borrowings, adjusted for cross currency swap hedges and deferred borrowing costs, less cash and cash equivalents. Adjusted total capital is calculated as total equity less the hedging reserve plus net debt. The gearing ratio at the end of the reporting period was as follows:

	2017 $m	2016 $m
Current borrowings	**173**	22
Non-current borrowings	**3,173**	3,086
Total borrowings	**3,346**	3,108
Adjustment for cross currency swap hedges and deferred borrowing costs	**(14)**	(110)
Adjusted total borrowings	**3,332**	2,998
Cash and cash equivalents	**(154)**	(252)
Net debt	**3,178**	2,746
Total equity	**7,574**	7,926
Hedging reserve	**(15)**	25
Adjusted equity	**7,559**	7,951
Net debt	**3,178**	2,746
Adjusted total capital	**10,737**	10,697
Gearing ratio	**29.6%**	25.7%

(b) Financial risk management

AGL's activities expose it to a variety of financial risks, including market risk (interest rate risk, foreign currency risk and energy price risk), credit risk and liquidity risk. AGL's overall risk management program focuses on the unpredictability of markets and seeks to manage the impact of these risks on its financial performance. AGL uses a range of derivative financial instruments to hedge these risk exposures.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management policy and framework. The Board has established the Audit & Risk Management Committee (the Committee), which is responsible for approving AGL's risk management policy and framework for identifying, assessing and managing risk. The Committee is also responsible for reviewing and updating the risk profile, monitoring the effectiveness of the risk management framework and reviewing at least annually the implementation of the risk management policy and framework. The Committee reports regularly to the Board of Directors on its activities.

AGL has written policies covering specific areas, such as interest rate risk, foreign currency risk, energy price risk, credit risk, liquidity risk, and the use of derivative and non-derivative financial instruments. Compliance with policies and exposure limits is reviewed on a continuous basis.

(c) Interest rate risk management

AGL is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swap contracts or other hedging instruments.

AGL regularly analyses its interest rate exposure, by taking into consideration forecast debt positions, refinancing, renewals of existing positions, alternative financing, hedging positions and the mix of fixed and floating interest rates.

Note 37 - Financial instruments (cont'd)

(c) Interest rate risk management (cont'd)

At the end of the reporting period, AGL had the following financial assets and liabilities exposed to floating interest rate risk:

Floating rate instruments	2017 $m	2016 $m
Financial assets		
Cash and cash equivalents	**154**	252
	154	252
Financial liabilities		
USD senior notes (after effect of cross currency swaps)	**860**	338
Subordinated notes	**650**	650
Bank loans	**830**	1,060
Other loans	**155**	167
Interest rate swap contracts	**(1,395)**	(1,435)
	1,100	780

Interest rate swap contracts - cash flow hedges

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding at the end of the reporting period:

Outstanding receive floating pay fixed contracts	Average contracted fixed interest rate 2017 %	2016 %	Notional principal amount 2017 $m	2016 $m	Fair value 2017 $m	2016 $m
Less than 1 year	**3.92**	3.85	**400**	440	**(7)**	(5)
1 to 2 years	**2.57**	3.92	**510**	400	**(6)**	(15)
2 to 3 years	**3.13**	4.00	**340**	150	**(10)**	(9)
3 to 4 years	**4.29**	4.05	**245**	190	**(17)**	(15)
4 to 5 years	**3.41**	4.29	**305**	245	**(5)**	(23)
5 years or more	**3.35**	3.61	**370**	525	**(13)**	(31)
			2,170	1,950	**(58)**	(98)

The aggregate notional principal amount of the outstanding interest rate swap contracts at 30 June 2017 was $2,170 million (2016: $1,950 million). Included in this amount are $775 million (2016: $515 million) of forward interest rate swap contracts, of which $210 million commences in the 2018 financial year, $150 million commences in the 2019 financial year, $225 million commences in the 2020 financial year, $40 million commences in the 2021 financial year and $150 million commences in the 2022 financial year.

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is the Australian BBSW. AGL will settle the difference between the fixed and floating interest rate on a net basis. During the year, no hedges were de-designated and all underlying forecast transactions remain highly probable to occur as per original forecast.

Interest rate sensitivity

The following sensitivity analysis has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the end of the reporting period and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period.

At the end of the reporting period, if interest rates had been 50 basis points higher or lower and all other variables were held constant, AGL's profit after tax and other comprehensive income would have been affected as follows:

	Profit/(loss) after tax Increase/(decrease) 2017 $m	2016 $m	Other comprehensive income Increase/(decrease) 2017 $m	2016 $m
Interest rates +0.5 percentage points (50 basis points)	**(2)**	(1)	**(11)**	5
Interest rates -0.5 percentage points (50 basis points)	**2**	1	**12**	(5)

Note 37 - Financial instruments (cont'd)

(d) Foreign currency risk management

AGL undertakes certain transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Foreign currency risk arises primarily from overseas term borrowings and firm commitments for the purchase of plant and equipment which are denominated in foreign currencies. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts and cross currency swap contracts.

Forward foreign exchange contracts - cash flow hedges

AGL's Corporate Treasury policy requires the hedging of foreign currency risk using forward foreign exchange contracts. The Corporate Treasury's policy is to hedge currency exposures of anticipated cash flows in excess of $0.5 million and to not enter into forward foreign exchange contracts until a firm commitment is in place.

AGL enters into contracts to purchase plant and equipment denominated in foreign currencies. AGL enters into forward foreign exchange contracts to hedge the exchange rate risk arising from these anticipated future purchases, which are designated as cash flow hedges. During the year, no hedges were de-designated and all underlying forecast transactions remain highly probable to occur as per original forecast.

There was $2 million of forward foreign exchange contracts outstanding at the end of the reporting period (2016: nil).

Cross currency swap contracts

Under cross currency swap contracts, AGL has agreed to exchange specified foreign currency loan principal and interest amounts at agreed future dates at fixed exchange rates. Such contracts enable AGL to eliminate the risk of movements in foreign exchange rates related to foreign currency denominated borrowings.

The fair value of cross currency swaps at 30 June 2017 was an asset of $20 million (2016: asset of $117 million), of which $32 million (2016: $57 million) is in a cash flow hedge relationship and ($12 million) (2016: gain of $60 million) is in a fair value hedge relationship.

The following table details the cross currency swap contracts outstanding at the end of the reporting period:

	Average interest rate		Average exchange rate		Contract value		Fair value	
	2017	2016	2017	2016	2017	2016	2017	2016
Outstanding contracts	%	%			$m	$m	$m	$m
Buy US dollars								
5 years or more	**4.43**	4.87	**0.808**	0.888	**860**	338	**20**	117

Note 37 - Financial instruments (cont'd)

(e) Energy price risk management

AGL is exposed to energy price risk associated with the purchase and/or sale of electricity, gas and environmental products. AGL manages energy risk through an established risk management framework consisting of policies to place appropriate risk limits on overall energy market exposures and transaction limits for approved energy commodities, requirements for delegations of authority on trading, regular reporting of exposures and segregation of duties.

It is AGL's policy to actively manage the energy price exposure arising from both forecast energy supply and customer energy load. AGL's risk management policy for energy price risk is to hedge forecast future positions for up to five years into the future.

Exposures to fluctuations in the wholesale market energy prices are managed through the use of various types of hedge contracts including derivative financial instruments.

The following table details the fair value of energy derivatives outstanding at the end of the reporting period:

	2017 $m	2016 $m
Energy derivative financial assets - current		
Energy derivatives - cash flow hedges	**80**	49
Energy derivatives - economic hedges	**156**	141
	236	190
Energy derivative financial assets - non-current		
Energy derivatives - cash flow hedges	**4**	17
Energy derivatives - economic hedges	**30**	11
	34	28
Energy derivative financial liabilities - current		
Energy derivatives - cash flow hedges	**2**	-
Energy derivatives - economic hedges	**737**	328
	739	328
Energy derivative financial liabilities - non-current		
Energy derivatives - cash flow hedges	**5**	1
Energy derivatives - economic hedges	**12**	4
	17	5

Energy derivatives - cash flow hedges

Derivative financial instruments are used by AGL in the normal course of business in order to hedge exposure to fluctuations in energy prices. The aggregate notional volumes of the outstanding energy derivatives at 30 June 2017 were 3 million MWh (2016: 6 million MWh). Energy derivatives are either designated in cash flow hedge relationships or remain non-designated.

Energy derivatives - economic hedges

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

Note 37 - Financial instruments (cont'd)

(e) Energy price risk management (cont'd)

Energy price sensitivity

The following table details the sensitivity to a 10 percent increase or decrease in the energy contract market forward prices. A sensitivity of 10 percent has been used as this is considered reasonably possible, based on historical data relating to the level of volatility in market prices.

At the end of the reporting period, if the forward prices had been 10% higher or lower and all other variables were held constant, AGL's profit after tax and other comprehensive income would have been affected as follows:

	Profit/(loss) after tax Increase/(decrease)		Other comprehensive income Increase/(decrease)	
	2017 $m	2016 $m	2017 $m	2016 $m
Energy forward price +10%	**(242)**	(77)	**14**	25
Energy forward price -10%	**250**	75	**(23)**	(25)

The movement in profit after tax is mainly attributable to an increase/decrease in the fair value of certain energy derivative instruments which are economic hedges but do not satisfy the requirements for hedge accounting. The movement in other comprehensive income is due to an increase/decrease in the fair value of energy hedging instruments designated as cash flow hedges.

(f) Hedging

Cash flow hedges

The following table details the movements in the hedging reserve from cash flow hedges:

Hedging reserve	2017 $m	2016 $m
Balance at beginning of financial year	**(25)**	(68)
Gain in fair value of cash flow hedges	**72**	12
Reclassified to cost of sales	**(48)**	(3)
Reclassified to finance costs	**33**	32
Share of loss in reserve attributable to a joint venture	**-**	(1)
Cumulative loss reclassified to profit or loss on disposal of investment in a joint venture	**-**	15
Income tax on items taken directly to or transferred from equity	**(17)**	(12)
Balance at end of financial year	**15**	(25)

(g) Credit risk management

AGL manages its exposure to credit risk using credit risk management policies which provide credit exposure limits and contract maturity limits based on the credit worthiness of counterparties. AGL's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread among approved counterparties.

Trade and other receivables consist of approximately 3.6 million residential, small business and large commercial and industrial customers, in New South Wales, Victoria, South Australia and Queensland. Ongoing credit evaluation is performed on the financial condition of customers and, where appropriate, an allowance for doubtful debts is raised. AGL does not have any significant credit risk exposure to any single customer or any group of customers.

AGL limits its exposure to credit risk by investing surplus funds and entering into derivative financial instruments only with approved financial institutions that have a credit rating of at least A from Standard & Poor's and within credit limits assigned to each financial institution. Derivative counterparties are limited to high creditworthy financial institutions and other organisations in the energy industry. AGL also utilises International Swaps and Derivative Association (ISDA) agreements with derivative counterparties in order to limit exposure to credit risk through the netting of amounts receivable from and amounts payable to individual counterparties.

At the end of the reporting period, there was a significant concentration of credit risk with certain counterparties in relation to energy derivatives undertaken in accordance with the AGL's hedging and risk management activities. The carrying amount of the financial assets recognised in the financial statements, which is net of impairment losses, represents the maximum exposure to credit risk.

AGL does not hold any collateral or other credit enhancements to cover this credit risk.

Note 37 - Financial instruments (cont'd)

(h) Liquidity risk management

Liquidity risk is the risk that AGL will not be able to meet its financial obligations as they fall due. Ultimate responsibility for liquidity risk management rests with the Board of Directors, who have established an appropriate liquidity risk management framework for the management of AGL's short, medium and long term funding and liquidity management requirements.

AGL manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following table details AGL's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The amounts are based on the undiscounted cash flows of financial liabilities on the earliest date on which AGL can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are at floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.

	Less than 6 months $m	6 - 12 months $m	1 - 2 years $m	2 - 5 years $m	More than 5 years $m	Total $m
2017						
Non-derivative financial liabilities						
Trade and other payables	**1,507**	**-**	**-**	**-**	**-**	**1,507**
USD senior notes	**21**	**21**	**42**	**128**	**1,255**	**1,467**
Subordinated notes	**18**	**18**	**38**	**125**	**1,456**	**1,655**
Medium term notes	**15**	**15**	**30**	**675**	**-**	**735**
Bank loans	**280**	**158**	**15**	**443**	**-**	**896**
CPI bonds	**10**	**10**	**20**	**63**	**116**	**219**
Other loans	**9**	**8**	**17**	**50**	**125**	**209**
Finance lease liabilities	**-**	**-**	**-**	**1**	**196**	**197**
Deferred consideration	**-**	**34**	**34**	**110**	**202**	**380**
Other contractual liabilities	**26**	**-**	**-**	**-**	**-**	**26**
	1,886	**264**	**196**	**1,595**	**3,350**	**7,291**
2016						
Non-derivative financial liabilities						
Trade and other payables	1,519	-	-	-	-	1,519
USD senior notes	10	10	21	65	496	602
Subordinated notes	19	18	36	110	1,400	1,583
Medium term notes	15	15	30	90	615	765
Bank loans	18	17	678	453	-	1,166
CPI bonds	10	10	20	62	139	241
Other loans	9	9	17	49	137	221
Finance lease liabilities	-	-	-	-	178	178
Deferred consideration	-	33	34	107	239	413
Other contractual liabilities	36	35	26	-	-	97
	1,636	147	862	936	3,204	6,785

Note 37 - Financial instruments (cont'd)

(h) Liquidity risk management (cont'd)

The following table details AGL's liquidity analysis for its derivative financial instruments. The amounts are based on the undiscounted net cash inflows and outflows on those derivatives instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. For interest rate swaps, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves at the end of the reporting period.

	Less than 6 months $m	6 - 12 months $m	1 - 2 years $m	2 - 5 years $m	More than 5 years $m	Total $m
2017						
Derivative financial instruments						
Gross settled						
- Cross currency swap contracts - pay leg	**(19)**	**(19)**	**(41)**	**(136)**	**(1,146)**	**(1,361)**
- Cross currency swap contracts - receive leg	**20**	**20**	**41**	**123**	**1,196**	**1,400**
Net pay	**1**	**1**	**-**	**(13)**	**50**	**39**
Net settled						
- Interest rate swap contracts	**(13)**	**(12)**	**(15)**	**(22)**	**-**	**(62)**
- Energy derivatives	**(411)**	**(295)**	**(189)**	**(4)**	**(6)**	**(905)**
	(423)	**(306)**	**(204)**	**(39)**	**44**	**(928)**
2016						
Derivative financial instruments						
Gross settled						
- Cross currency swap contracts - pay leg	(8)	(7)	(15)	(46)	(381)	(457)
- Cross currency swap contracts - receive leg	10	10	21	65	496	602
Net pay	2	3	6	19	115	145
Net settled						
- Interest rate swap contracts	(15)	(13)	(24)	(44)	(9)	(105)
- Energy derivatives	(153)	(119)	(63)	4	-	(331)
	(166)	(129)	(81)	(21)	106	(291)

Note 37 - Financial instruments (cont'd)

(i) Fair value measurements

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

• Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

• Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

• Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no material transfers between Level 1 and Level 2 during the year.

	Carrying Amount $m	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
2017					
Financial assets					
Available-for-sale financial assets					
- Unlisted equity securities	**15**	**-**	**-**	**15**	**15**
- Unlisted investment funds	**16**	**-**	**-**	**16**	**16**
Derivative financial instruments					
- Cross currency swap contracts - cash flow and fair value hedges	**75**	**-**	**75**	**-**	**75**
- Interest rate swap contracts - cash flow hedges	**4**	**-**	**4**	**-**	**4**
- Energy derivatives - cash flow hedges	**84**	**-**	**84**	**-**	**84**
- Energy derivatives - economic hedges	**186**	**57**	**92**	**37**	**186**
	380	**57**	**255**	**68**	**380**
Financial liabilities					
Derivative financial instruments					
- Cross currency swap contracts - cash flow and fair value hedges	**(55)**	**-**	**(55)**	**-**	**(55)**
- Interest rate swap contracts - cash flow hedges	**(62)**	**-**	**(62)**	**-**	**(62)**
- Energy derivatives - cash flow hedges	**(7)**	**-**	**(7)**	**-**	**(7)**
- Energy derivatives - economic hedges	**(749)**	**(383)**	**(201)**	**(165)**	**(749)**
	(873)	**(383)**	**(325)**	**(165)**	**(873)**
2016					
Financial assets					
Derivative financial instruments					
- Cross currency swap contracts - cash flow and fair value hedges	117	-	117	-	117
- Interest rate swap contracts - cash flow hedges	4	-	4	-	4
- Energy derivatives - cash flow hedges	66	-	66	-	66
- Energy derivatives - economic hedges	152	32	72	48	152
	339	32	259	48	339
Financial liabilities					
Derivative financial instruments					
- Interest rate swap contracts - cash flow hedges	(102)	-	(102)	-	(102)
- Energy derivatives - cash flow hedges	(1)	-	(1)	-	(1)
- Energy derivatives - economic hedges	(332)	(80)	(192)	(60)	(332)
	(435)	(80)	(295)	(60)	(435)

Management have assessed that the carrying value of financial assets (excluding derivative financial assets) and financial liabilities (excluding derivative financial liabilities) to be comparable to fair value.

Note 37 - Financial instruments (cont'd)

(i) Fair value measurements (cont'd)

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments:

(a) Receivables / payables with a remaining life of less than 6 months, the notional amount is deemed to reflect the fair value. All other receivables / payables are discounted to determine the fair value if the effect of discounting is material.

(b) The fair value of forward foreign exchange contracts and energy derivatives is calculated as the present value of expected future cash flows relating to the difference between the contracted rates and the market forward rates at the end of the reporting period. Interest rate and cross currency swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates that reflect the credit risk of various counterparties.

(c) The fair value of borrowings is determined as the present value of future contracted cash flows and credit adjustments. Cash flows are discounted using standard valuation techniques at applicable market yield having regard to timing of cash flows.

(d) The fair value of energy derivatives is determined as the present value of future contracted cash flows and credit adjustments. Cash flows are discounted using standard valuation techniques at applicable market yield having regard to timing of cash flows.

(e) The fair value of lease liabilities is estimated as the present value of future cash flows discounted where the effect of discounting is material.

(f) The fair value of deferred consideration is determined as the present value of future contracted cash flows and credit adjustments. Cash flows are discounted using standard valuation techniques at applicable market yield having regard to timing of cash flows.

The following table provides a reconciliation of fair value movements in Level 3 financial instruments.

	2017 $m	2016 $m
Opening balance	**(12)**	357
Total gains or losses recognised in profit or loss		
- Settlements during the year	**27**	32
- Changes in fair value	**(128)**	(407)
Premiums	**(15)**	6
Purchases	**31**	-
Closing balance	**(97)**	(12)

The total gains or losses for the year included a loss of $116 million relating to energy derivative Level 3 contracts held at the end of the reporting period (2016: a loss of $381 million). Fair value gains or losses on energy derivatives are included in other expenses in the line item “loss on fair value of financial instruments” in Note 6.

The sensitivity of level 3 contracts with significant unobservable inputs, where the inputs are higher by 10 percent is ($188) million and lower by 10 percent is $187 million (profit after tax increase/(decrease)). Input changes were applied to forward prices, cost-based indexes, contract volumes and management assumption of long-term curve used.

Note 38 - Parent Entity information

The accounting policies of the Parent Entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements. Refer to Note 1 for a summary of the significant accounting policies.

	2017 $m	2016 $m
Financial position		
Assets		
Current assets	**287**	405
Non-current assets	**13,726**	13,343
Total assets	**14,013**	13,748
Liabilities		
Current liabilities	**547**	471
Non-current liabilities	**7,147**	6,651
Total liabilities	**7,694**	7,122
Equity		
Issued capital	**6,223**	6,696
Reserves		
Employee equity benefits	**1**	1
Hedging	**(44)**	(70)
Retained earnings	**139**	(1)
Total equity	**6,319**	6,626
Financial performance		
Profit for the year	**654**	610
Other comprehensive income	**(23)**	(19)
Total comprehensive income for the year	**631**	591

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The Parent Entity has entered into a Deed of Cross Guarantee with the effect that it guarantees the debts in respect of its wholly-owned Australian subsidiaries. Further details of the Deed of Cross Guarantee and the subsidiaries subject to the deed, are disclosed in Notes 28 and 32 respectively.

Contingent liabilities

The Parent Entity is a party to various legal actions and claims which have arisen in the ordinary course of business. The Parent Entity has provided warranties and indemnities to certain third parties in relation to the performance of contracts by various wholly-owned subsidiaries.

The Directors are of the opinion that provisions are not required in respect of these matters, as it is either not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

Capital expenditure commitments

As at 30 June 2017, the Parent Entity had commitments for the acquisition of property, plant and equipment of $nil (2016: $nil) and its share of joint operations capital commitments was $nil (2016: $nil).

Note 39 - 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:

Advanced Microgrid Solutions

On 5 July 2017, AGL invested US$2.2 million in Advanced Microgrid Solutions which sells a distributed energy response management solution.

Final dividend

On 10 August 2017, the Directors of AGL resolved to pay a final dividend of 50.0 cents per share, franked to 80% (the unfranked portion will be paid from conduit foreign income). The record date for the final dividend is 24 August 2017 with payment to be made on 22 September 2017. Shares will commence trading ex-dividend on 23 August 2017.

The AGL Dividend Reinvestment Plan (DRP) will operate in respect of the 2017 final dividend. AGL will acquire shares on market and allot them to DRP participants at no discount to the simple average of the daily weighted average price at which AGL's ordinary shares trade during each of the 10 trading days commencing 28 August 2017. The last date for shareholders to elect to participate in the DRP for the 2017 final dividend is 25 August 2017.

Directors' Declaration

For the year ended 30 June 2017

The Directors of AGL Energy Limited declare that:

(a) in their opinion, there are reasonable grounds to believe that the Parent Entity will be able to pay its debts as and when they become due and payable;

(b) in their opinion, the financial statements and notes thereto are in compliance with International Financial Reporting Standards, as stated in Note 1(a) to the financial statements;

(c) in their opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001,* including compliance with accounting standards and giving a true and fair view of the financial position and performance of AGL;

(d) in their opinion, there are reasonable grounds to believe that the Parent Entity and the subsidiaries identified in Note 28 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee between the Parent Entity and those subsidiaries pursuant to ASIC Corporations Instrument 2016/785; and

(e) the Directors have been given the declarations required by s.295A of the *Corporations Act 2001.*

Signed in accordance with a resolution of the Directors

Jeremy Maycock
Chairman

Sydney, 10 August 2017

Deloitte.

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The Board of Directors
AGL Energy Limited
Level 24, 200 George Street
Sydney NSW 2000

10 August 2017

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 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Jason Thorne
Partner
Chartered Accountants

Deloitte.

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of AGL Energy Limited ("AGL" or the "Company") and its subsidiaries (the "Group"), which comprises the Consolidated Statement of Financial Position as at 30 June 2017, the Consolidated Statement of Profit or Loss, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows for the year then ended, notes to the financial statements including a summary of significant accounting policies and the directors' declaration of the Company.

In our opinion the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's consolidated financial position as at 30 June 2017 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of this report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the "Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th>Key Audit Matter</th><th>How the scope of our audit responded to the Key Audit Matter</th></tr>
<tr><td>

Unbilled revenue

Unbilled revenue of $889 million disclosed in Note 10 represents the value of electricity and gas supplied to customers between the date of the last meter reading and the reporting date where no bill has been issued by AGL to the customer at the end of the reporting period. Detailed financial models utilising estimates of the electricity and gas consumption of AGL's customers and applicable pricing are used to determine the estimate of unbilled revenue.

We focused on this area as it involves significant management judgment to estimate customer consumption between the last invoice date and the end of the reporting period to determine the gas and electricity unbilled revenue at the reporting date.

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Our procedures included but were not limited to:

- obtaining an understanding of the key controls management has in place to determine the estimate of unbilled revenue;
- understanding and challenging management's assumptions relating to volume and pricing used in determining the level of estimated revenue by:
  - on a sample basis agreeing volume data underlying the calculation of the estimated volumes into purchases, sales and other systems having performed sample testing of the key controls in those systems; and
  - comparing the prices applied with historical and current data; and
- in conjunction with our data analytics experts we calculated an independent estimate of the expected unbilled revenue on an individual meter basis using AGL's purchase volumes and pricing data and compared our independent estimate to AGL's reported unbilled revenue.

We also assessed the adequacy of the Group's disclosures in respect of unbilled revenue.

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Unbilled distribution costs

AGL recognises distribution costs as gas and electricity is delivered to the customer. Management estimates energy consumption between the date of the last invoice from the distributor to AGL and the end of the reporting period when determining distribution costs for the financial year. Detailed financial models utilising estimates of the electricity and gas consumption of AGL's customers and applicable distribution tariff rates are used to determine the estimated unbilled distribution costs accrual of $368 million as disclosed in Note 18.

We focused on this area as it involves significant management judgement to estimate consumption between the last invoice date from the individual distributors and the end of the reporting period to determine distribution costs payable at the reporting date.

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Our procedures included but were not limited to:

- obtaining an understanding of the key controls management has in place to determine the estimate of the unbilled distribution costs accrual;
- understanding and challenging management's assumptions relating to volume and tariffs used in determining the distribution costs accrual by:
  - on a sample basis agreeing volume data underlying the calculation of the estimated volumes into purchases, sales and other systems having performed sample testing of the key controls in those systems; and
  - comparing the prices applied by individual distributors with current tariff tables; and
- in conjunction with our data analytics experts we assessed the appropriateness of AGL's unbilled distribution costs accrual at 30 June 2017 by calculating an

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Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
	independent expectation of the accrual on an individual meter basis utilising information supplied to AGL by individual distributors and compared our independent estimate to AGL's reported distribution costs payable. We also assessed the adequacy of the Group's disclosures in respect of unbilled distribution costs.

Carrying value of property, plant and equipment and intangible assets, including goodwill
 	
Property, plant and equipment totaling $6,447 million as disclosed in Note 15 and intangible assets totaling $3,286 million which includes goodwill of $2,881 million as disclosed in Note 16 represent significant balances recorded in the consolidated statement of financial position.
 	
The evaluation of the recoverable amount of these assets requires significant judgement in determining the key assumptions supporting the expected future cash flows of the business and the utilisation of the relevant assets.
	Our procedures included but were not limited to:
	• obtaining an understanding of the key controls associated with the preparation of the valuation models used to assess the recoverable amount of AGL's cash generating units;
	• critically evaluating management's methodologies and their documented basis for key assumptions utilised in the valuation models which are described in Note 16;
	• in conjunction with our valuation experts we assessed and challenged:
	    ○ the identification of cash generating units, including the allocation of goodwill and property, plant and equipment and the associated identification and allocation of cash flows for the purposes of assessing the recoverable amount of the cash generating units;
	    ○ the key assumptions for long-term growth rates in the forecast cash flows by comparing them to historical results, economic and industry forecasts; and
	    ○ the discount rate applied;
	• we checked on a sample basis the mathematical accuracy of the cash flow models,
	• we agreed forecast cash flows to the latest Board approved forecasts and
	• we assessed the historical accuracy of forecasting by AGL;
	• we performed sensitivity analyses around the key drivers of growth rates used in the cash flow forecasts and the discount rate used; and
	• we assessed management's consideration of the sensitivity to a change in key

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Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
	assumptions that either individually or collectively would be required for assets to be impaired and considered the likelihood of such a movement in those key assumptions arising. We have also assessed the appropriateness of the disclosures included in Notes 1, 15 and 16 to the financial report.
Financial instruments AGL enters into various financial instruments including derivative financial instruments to hedge the company's exposure to variability in interest rates, foreign exchange movements and energy prices. As at 30 June 2017, derivative financial assets totaled $349 million (current assets of $238 million and non-current assets of $111 million as disclosed in Note 12) and derivative financial liabilities totaled $873 million (current liabilities of $767 million and non-current liabilities of $106 million as disclosed in Note 21). These financial instruments are recorded at fair value as required by the relevant accounting standard. We have focused on this area due to the complexities associated with the valuation and accounting for these financial instruments.	Our procedures included but were not limited to: • obtaining an understanding of the internal risk management procedures and the systems and controls associated with the origination and maintenance of complete and accurate information relating to derivative contracts; • utilising our treasury experts we also tested on a sample basis the existence and valuation of derivative contracts as at 30 June 2017. Our audit procedures focused on the integrity of the derivative valuation models and the incorporation of the contract terms and the key assumptions, including future price assumptions and discount rates; and • obtaining an understanding of key financial instrument contract terms to assess the appropriateness of the accounting reflected in the financial report. We have also assessed the adequacy of the disclosures included in Note 37 to the financial report.
Deferred tax asset relating to tax losses As disclosed in Note 8, at 30 June 2017 the Group has recorded a deferred tax asset of $778 million relating to tax losses incurred by the subsidiary AGL Loy Yang. The recoverability of this deferred tax asset is dependent on the generation of sufficient future taxable profit to utilise these tax losses. Significant judgement is required in forecasting future taxable profit.	We have assessed and challenged management's judgements relating to the forecasts of future taxable profit and evaluated the reasonableness of the assumptions underlying the preparation of these forecasts including the consistency of the assumptions used with those used to evaluate the recoverable amount of AGL's cash generating units where relevant. We have also assessed the appropriateness of the disclosures included in Note 8 in respect of current and deferred tax balances.

Other Information

The directors are responsible for the other information. The other information comprises the directors' report and the Rehabilitation- AGL's approach to rehabilitation of power generation infrastructure report which we obtained prior to the date of this auditor's report; and the other documents comprising the annual report (excluding the concise financial report included therein and our auditor's report thereon) which is expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and accordingly we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate that matter to the directors and use our professional judgement to determine the appropriate action.

Directors' Responsibilities for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty

exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 29 to 46 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of AGL Energy Limited, for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001.*

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Deloitte Touche Tohmatsu

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Jason Thorne
Partner
Chartered Accountants

Sydney, 10 August 2017