AGL Energy Limited
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ASX Release

AGL FY 16 Financial Reports

10 August 2016

Attached are the following documents relating to AGL Energy Limited's results for the year ended 30 June 2016:

- ASX Appendix 4E
- Directors' Report
- Financial Report

John Fitzgerald
Company Secretary

Further inquiries

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About AGL
AGL is one of Australia's leading integrated energy companies. It is taking action to responsibly reduce its greenhouse gas emissions while providing secure and affordable energy to its customers. Drawing on over 175 years of experience, AGL serves its customers throughout eastern Australia with meeting their energy requirements, including gas, electricity, solar PV and related products and services. AGL has a diverse power generation portfolio including base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources including hydro, wind, solar, landfill gas and biomass.

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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 2016

				2016 $A million	2015 $A million
Revenue	**Up**	**4.4%**	to	**11,150**	10,678
Statutory (Loss)/Profit after tax attributable to shareholders	**Down**	**287.2%**	to	**(408)**	218
Underlying Profit after tax attributable to shareholders	**Up**	**11.3%**	to	**701**	630
				cents	cents
Statutory Earnings per share	**Down**	**281.7%**	to	**(60.5)**	33.3
Underlying Earnings per share	**Up**	**7.8%**	to	**103.9**	96.4
				$	$
Net tangible asset backing per share	**Down**	**15.3%**	to	**6.96**	8.22

Dividends	Amount cents	Franked amount cents
Final dividend per ordinary share	36.0	36.0
Interim dividend per ordinary share	32.0	32.0

Record date for determining entitlements to the final dividend:
25 August 2016 and payable 22 September 2016

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

Statutory Loss after tax of $408 million included a loss of $692 million after tax treated as significant items and a loss of $417 million after tax from the changes in the fair value of financial instruments. Excluding these items, the Underlying Profit was $701 million, 11.3% up on the prior corresponding period.

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

This report should be read in conjunction with the AGL Directors' Report, incorporating the Operating and Financial Review, and AGL Financial Report for the year ended 30 June 2016 released to the market on 10 August 2016.

Directors' Report 2016

The Directors present their Report, set out on pages 1 to 60, including the Operating and Financial Review (pages 4 to 33), the Remuneration Report (pages 34 to 56) and Other Required Disclosures (pages 57 to 60); together with the annual Financial Report of AGL Energy Limited (AGL) and its consolidated entities, being AGL and its controlled entities, for the year ended 30 June 2016 and the Independent Auditor's Report thereon.

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

The names of the persons who have been Directors, or appointed as Directors, during the period since 1 July 2015 and up to the date of this report are Andy Vesey (Managing Director & CEO), Jeremy Maycock (Chairman), Les Hosking, Graeme Hunt, Belinda Hutchinson, Jacqueline Hey (from 21 March 2016), Bruce Phillips, John Stanhope and Sandra McPhee (retired with effect from 30 June 2016).

Jeremy Maycock

BEng (Mech) (Hons), FAICD, FIPENZ

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

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

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

Andy Vesey

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

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

Directorships: Nil

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

Jacqueline Hey

BCom, Grad Cert (Mgmt), GAICD

Non-executive Director since March 2016.
Age 50.

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

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

Les Hosking

Non-executive Director since November 2008.
Age 71.

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

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

Composition of Board Committees as at 30 June 2016

Director	Status	Audit and Risk Management Committee	People and Performance Committee	Safety, Sustainability and Corporate Responsibility Committee	Nominations Committee
Jeremy Maycock	Independent				Chair
Andy Vesey	Managing Director and Chief Executive Officer				
Jacqueline Hey	Independent	•		•	•
Les Hosking	Independent	•	Chair		•

Graeme Hunt
MBA, BMET

Non-executive Director since September 2012.
Age 59.

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

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

Belinda Hutchinson
AM, BEc, FCA, FAICD

Non-executive Director since December 2010.
Age 63.

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

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

Bruce Phillips
BSc (Hons) PESA, ASEG

Non-executive Director since August 2007.
Age 61.

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

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

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

Non-executive Director since March 2009.
Age 65.

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

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

Composition of Board Committees as at 30 June 2016

Director	Status	Audit and Risk Management Committee	People and Performance Committee	Safety, Sustainability and Corporate Responsibility Committee	Nominations Committee
Graeme Hunt	Independent		•	Chair (from 1 July 2016)	•
Belinda Hutchinson	Independent	•	•		•
Bruce Phillips	Independent	•		•	•
John Stanhope	Independent	Chair	•		•
Sandra McPhee	Independent	•		Chair (up to 30 June 2016)	•

Directors' Interests

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

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

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

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

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

Company Secretaries

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

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

Dividends

The annual dividend for the year ended 30 June 2016 was 68.0 cents per share compared with 64.0 cents per share for the prior year. This includes an interim dividend of 32 cents per share paid on 16 March 2016 and a final dividend of 36 cents per share payable on 22 September 2016.

For more information on dividends, refer to the Other Required Disclosures on page 58.

Directors' Meetings

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

	Regular Board Meetings		Special Board Meetings		Audit and Risk Management Committee		People and Performance Committee		Safety, Sustainability and Corporate Responsibility Committee		Nominations Committee	
Directors' Name	A	B	A	B	A	B	A	B	A	B	A	B
Jeremy Maycock	11	11	3	4							4	4
Andy Vesey	10	11	4	4								
Jacqueline Hey	4	4	1	1	2	2			1	1	3	3
Les Hosking	11	11	4	4	6	6	4	4			4	4
Graeme Hunt	11	11	3	4			4	4	4	4	4	4
Belinda Hutchinson	11	11	3	4	6	6	4	4			4	4
Sandra McPhee	11	11	2	4	6	6			4	4	3	4
Bruce Phillips	10	11	3	4	6	6			4	4	3	4
John Stanhope	10	11	4	4	6	6	4	4			4	4

A – number of meetings attended as a member

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

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

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

Operating and Financial Review

For the year ended 30 June 2016

This Operating and Financial Review (pages 4 to 33) is attached to and forms part of, the Directors' Report.

Contents

1. AGL's Operations and Strategy

1.1. About AGL

AGL is one of Australia's leading integrated energy companies. It is taking action to gradually reduce its greenhouse gas emissions while providing secure and affordable energy to its customers. Drawing on over 175 years of experience, AGL serves its customers throughout eastern Australia with their energy requirements, including gas, electricity, solar PV and related products and services. AGL has a diverse power generation portfolio including base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources including hydro, wind, solar, landfill gas and biomass.

1.1.1. Principal Activities

> Buying and selling of gas and electricity and related products and services;

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

> Operation of natural gas storage facilities;

> Extraction, production and sale of natural gas; and

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

1.1.2. Operating segments

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

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

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

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

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

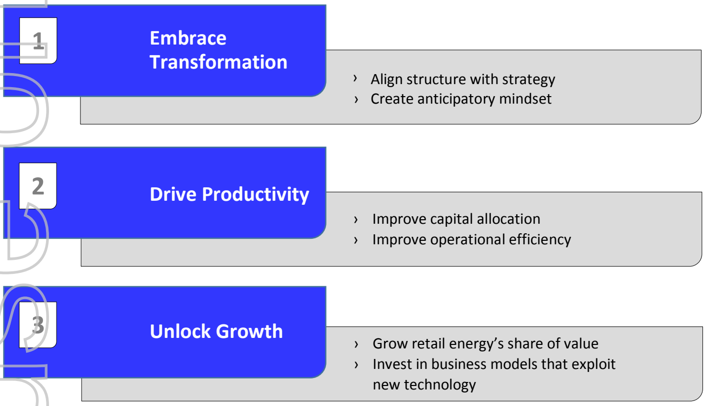
1.2. Strategy and Prospects

1.2.1. Overview

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

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

AGL's strategic roadmap consists of three key components.



1.2.2. Embrace Transformation

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

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

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

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

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

Key focus areas for FY17 will include:

- Commencing a three year program to transform the customer's digital experience with AGL. This will include investment in core technologies, processes and people to enable transformation;
- Modernisation of EBAs at AGL Macquarie and AGL Loy Yang; and
- Embedding lean and agile processes throughout the organisation.

1.2.3. Drive Productivity

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

1.2.3.1. Improve capital allocation

AGL is conducting a thorough review of its asset portfolio and targeting around $1 billion in non-strategic and under-performing asset divestments by the end of FY17. To date $691 million of assets have been divested including a 50% share in the Macarthur Wind Farm and the Diamantina Power Station. Further asset divestments are planned for FY17.

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

1.2.3.2. Improve operational efficiency

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

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

1.2.4. Unlock Growth

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

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

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

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

1.2.5. Financial Year 2017 Outlook

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

2. AGL's FY16 Results Overview

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

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

	Year ended 30 June 2016 $m	Year ended 30 June 2015 $m
Statutory (Loss)/Profit[1]	**(408)**	218
Adjust for the following after tax items:		
Significant items[2]	**692**	578
Changes in fair value of financial instruments[3]	**417**	(166)
Underlying Profit[1]	**701**	630
	cents	cents
EPS on Statutory (Loss)/Profit[4]	**(60.5)**	33.3
EPS on Underlying Profit[4]	**103.9**	96.4

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

The terms 'Underlying Profit' and 'Operating EBIT' are the Statutory (Loss)/Profit and Statutory EBIT respectively adjusted for significant items and changes in the fair value of financial instruments. AGL believes that Underlying Profit and Operating EBIT provide a better understanding of its financial performance and allows for a more relevant comparison of financial performance between financial periods. Underlying Profit and Operating EBIT are useful as they remove:

- Significant items, that are material items of revenue or expense which are unrelated to the underlying performance of the business, thereby facilitating a more representative comparison of financial performance between financial periods.
- Changes in the fair value of financial instruments recognised in the statement of profit or loss thereby removing volatility caused by differences between amounts recognised for derivatives and the related underlying asset.

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

2.1. Underlying Profit summary

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

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

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

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

2.2. Significant Items

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

2.2.1. Natural Gas impairment and exit charges

Current Year

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

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

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

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

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

Prior Year

AGL recorded an impairment for three projects as follows:

- Due to delays in the production of first gas by the Gloucester project, coupled with revised estimates of gas volumes and development costs, AGL recognised an impairment of $275 million before tax ($193 million after tax) on this project;
- As a suitable buyer had not been identified for the Moranbah assets, they were de-designated from the accounting classification of 'held for sale' and a review of individual assets was undertaken. This led to an impairment of the Northern Queensland Energy business along with the recognition of onerous contract provisions (the Yabulu power purchase agreement and associated gas transportation agreement), a total cost of $321 million before tax ($237 million after tax); and
- An impairment of $7 million before tax ($5 million after tax) was recorded for the Cooper Oil assets representing the expected loss on sale.

2.2.2. Organisational restructuring costs

Current Year

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

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

- Cost reductions to better position AGL for the future. This included redundancy and other labour related restructuring costs totalling $43 million (after tax) incurred across all Business Units, which will result in benefits to future years through lower labour and related costs. FTE reductions totalled approximately 280.
- Strategic exiting and downsizing non-core businesses to focus on growth areas that deliver greater value totalling $17 million (after tax). This included the exit from the following non-core businesses: Matter Technology (formerly Greenbox), Business Energy Services technical, boilers, and bespoke thermal and electrical projects.

Prior Year

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

2.2.3. Asset disposals and acquisitions

Current Year

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

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

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

Prior Year

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

- Stamp duty included in the purchase price of $93 million.
- Elimination of derivative contracts between Macquarie Generation and AGL of $37 million.
- Acquisition and integration costs of $22 million including adviser fees, redundancies and other transaction costs.

2.2.4. Other

Current Year

Nil.

Prior Year

On 17 July 2014, the Federal Government passed legislation to repeal the carbon tax. AGL incurred costs in removing the calculation of the carbon tax from customer statements and also wrote off previously capitalised costs associated with the original implementation of the carbon tax, totalling $12 million before tax ($8 million after tax).

3. Review of Operations

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

The following table reconciles Statutory EBIT to Operating EBIT.

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

3.1. Operating EBIT by segment

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

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

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

3.2. Energy Markets Operating EBIT:

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

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

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

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

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

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

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

3.2.1. Wholesale Markets Operating EBIT:

Increased 9.1% to $1,828 million from $1,675 million

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

Wholesale Markets is responsible for managing the price risk associated with procuring electricity and gas and for managing AGL's green product obligations. It also controls the dispatch of owned and contracted generation assets, which are complemented by a portfolio of electricity hedge products.

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

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

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

3.2.1.1. Wholesale Electricity Gross Margin:

Increased 6.4% to $1,383 million from $1,300 million

Wholesale Electricity is responsible for managing the procurement and hedging of AGL's wholesale electricity requirements, for commercial management of the generation portfolio and for wholesale pricing to support AGL's Consumer Market and Business Customers.

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

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

3.2.1.2. Wholesale Gas Gross Margin:

Increased 6.1% to $403 million from $380 million

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

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

3.2.1.3. Eco-Markets Gross Margin:

Increased 135.5% to $73 million from $31 million

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

The increase in gross margin, particularly in the second half, was driven by higher hydro generation and solar assets commissioning, combined with Large-scale Generation Certificate (LGC) revenue reflecting the higher market prices.

3.2.2. Consumer Market Operating EBIT:

Increased 24.3% to $399 million from $321 million

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

3.2.2.1. Consumer Market Electricity Gross Margin:

Increased 8.7% to $463 million from $426 million

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

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

3.2.2.2. Consumer Market Gas Gross Margin:

Increased 7.4% to $334 million from $311 million

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

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

3.2.2.3. Consumer Market Net Operating Costs:

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

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

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

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

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

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

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

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

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

3.2.2.4. Consumer Customer Profitability and Operating Efficiency

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

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

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

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

3.2.2.4.1. Cost to Serve Analysis

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

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

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

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

3.2.3. Business Customers Operating EBIT:

Decreased 11.9% to $59 million from $67 million

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

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

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

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

3.2.4. Customer Numbers

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

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

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

3.3. Group Operations Operating EBIT:

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

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

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

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

Group Operations Business Units

Thermal	**Renewables**	**Natural Gas**	**Other**
• AGL Macquarie • Loy Yang • AGL Torrens	• Wind farms • Hydro • Solar plants	• Camden • Moranbah • Silver Springs • Newcastle gas storage facility	• Property & facilities • Technical functions • Safety & environment

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

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

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

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

3.3.1. Thermal Operating EBIT:

Decreased 17.6% to ($675 million) from ($574 million)

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

AGL Macquarie produces approximately 13% of the electricity needed by consumers in eastern Australia. AGL Macquarie's assets include the 2,640 MW Bayswater power station, the 2,000 MW Liddell power station, the 50 MW Hunter Valley gas turbines and the Liddell solar thermal project. AGL Macquarie is the former NSW Government power producer, Macquarie Generation, which AGL acquired the assets of in September 2014.

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

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

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

3.3.2. Renewables Operating EBIT:

Increased 16.9% to ($64 million) from ($77 million)

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

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

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

AGL has completed the development of two large scale solar photovoltaic (PV) power plants with a total capacity of 155 MW (AC) at Nyngan (102 MW) and Broken Hill (53 MW) in regional NSW. Total capital expenditure for the two projects is approximately $447 million, with $167 million provided by the Federal Government's Australian Renewable Energy Agency (ARENA) and $65 million from the NSW Government.

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

3.3.3. Natural Gas Operating EBIT:

Decreased 95.7% to ($45 million) from ($23 million)

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

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

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

3.3.4. Gas Sales

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

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

3.3.5. Other Operations EBIT:

Decreased 27.3% to ($70 million) from ($55 million)

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

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

3.4. New Energy Operating EBIT:

Decreased to ($21 million) from $2 million

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

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

3.4.1 Gross Margin:

Increased 5.2% to $61 million from $58 million

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

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

3.4.2 Operating Costs:

Increased 46.4% to ($82 million) from ($56 million)

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

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

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

3.5 Investments Operating EBIT:

Decreased 3.8% to $25 million from $26 million

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

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

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

3.5.1 ActewAGL (50% AGL Ownership) Operating EBIT:

Decreased 3.2% to $30 million from $31 million

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

ActewAGL Retail partnership contributed an equity share of profits of $30 million for the year compared with $31 million for the prior corresponding period. The decrease is due to lower consumption experienced specifically across the gas market segment.

3.5.2 Diamantina Power Station Joint Venture Operating EBIT:

Increased 60.0% to ($2 million) from ($5 million)

On 6 October 2011, AGL entered into a 50:50 joint venture with the APA Group to construct the Diamantina Power Station in Mt Isa. The power station was commissioned in November 2014.

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

3.5.3 Sunverge Energy Inc Operating EBIT:

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

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

3.6 Centrally Managed Expenses Operating EBIT:

Increased 4.7% to ($225 million) from ($236 million)

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

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

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

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

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

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

3.7 Net Finance Costs:

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

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

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

3.8 Income Tax Expense:

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

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

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

3.9 Portfolio Market Reporting

3.9.1 Electricity portfolio

The gross margin for AGL's electricity portfolio is set out in the following table. This analysis combines the Wholesale Markets, Consumer Market, Business Customers and Generation businesses (described in section 3.2 and 3.3) to reflect the procurement and hedging of AGL's electricity requirements, the costs of managing and maintaining AGL's owned and contracted generation assets and the margin from external customers.

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

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

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

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

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

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

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

	Year ended 30 June 2016 $m	Year ended 30 June 2015 $m	Movement %
Consumer Market	**463**	426	8.7
Business Customers	**35**	42	(16.7)
Wholesale Electricity	**1,383**	1,300	6.4
Eco Markets	**69**	27	155.6
Group Operations (Thermal & Renewables)	**(739)**	(651)	13.5
Portfolio margin	**1,211**	1,144	5.9

Revenue			
Consumer Market	**3,813**	4,023	(5.2)
Business Customers, Wholesale Electricity & Eco Markets	**2,055**	2,208	(6.9)
Group Operations (Thermal & Renewables)	**89**	90	(1.1)
Total revenue	**5,957**	6,321	(5.8)
Consumer Market network costs	**(1,893)**	(2,091)	(9.5)
Consumer Market other cost of sales	**(450)**	(439)	2.5
Business Customers network costs	**(751)**	(937)	(19.9)
Business Customers other cost of sales	**(198)**	(201)	(1.5)
Fuel	**(731)**	(560)	30.5
Generation costs	**(543)**	(536)	1.3
Depreciation & Amortisation (Group Operations)	**(280)**	(238)	17.6
Costs of generation	**(1,554)**	(1,334)	16.5
Pool generation revenue	**2,312**	1,301	77.7
Pool purchase costs	**(2,211)**	(1,549)	42.7
Net derivative (cost)/revenue	**(1)**	73	(101.4)
Net Portfolio Management	**100**	(175)	(157.1)
Wholesale markets cost of sales	**(1,454)**	(1,509)	(3.6)
Total cost of sales	**(4,746)**	(5,177)	(8.3)
Portfolio margin	**1,211**	1,144	5.9

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

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

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

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

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

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

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

3.9.2 Gas portfolio

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

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

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

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

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

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

	Year ended 30 June 2016 $m	Year ended 30 June 2015 $m	Movement %
Consumer Market	**334**	311	7.4
Business Customers	**61**	60	1.7
Wholesale Markets	**403**	380	6.1
Eco Markets	**4**	4	-
Portfolio margin	**802**	755	6.2

Revenue			
Consumer Market	**1,417**	1,495	(5.2)
Business Customers & Wholesale Gas and Eco Markets	**1,418**	1,359	4.3
Total revenue	**2,835**	2,854	(0.7)
Consumer Market network costs	**(520)**	(646)	(19.5)
Consumer Market other cost of sales	**(37)**	(28)	32.1
Business Customers network costs	**(68)**	(75)	(9.3)
Business Customers other cost of sales	**(14)**	(14)	-
Gas purchases	**(1,069)**	(1,041)	2.7
Haulage & storage	**(325)**	(295)	10.2
Average Wholesale cost of sales	**(1,394)**	(1,336)	4.3
Total cost of sales	**(2,033)**	(2,099)	(3.1)
Portfolio margin	**802**	755	6.2

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

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

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

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

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

4. Operating Cash Flow

4.1. Reconciliation of Operating EBITDA to Statutory Cash Flow

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

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

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

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

4.2 Underlying Operating Cash Flow before Interest and Tax

Increase 4.0% to $1,588 million from $1,527 million

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

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

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

5. Changes in Fair Value of Derivative Financial Instruments

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

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

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

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

A reconciliation of the statement of financial position movement in derivative balances to the amount included in the statement of profit or loss for the year ended 30 June 2016 is presented in the following table.

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

6. Funding and Capital Expenditure

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

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

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

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

7. Business Acquisitions and Disposals

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

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

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

8. Business Risks and Mitigations

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

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

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

Risk	Description and Mitigation
7. Valued and valuable human capital	The ability of AGL to attract, recruit and retain the right talent, have the right people in the right roles and to continually develop the skill sets of AGL's people and quality of performance via targeted investment. > AGL has a number of programs and focus areas aimed at attracting, retaining and developing AGL people, including leadership development programs, succession planning and skill sets around flexibility and adaptability.
8. Proactive stakeholder management	The ability to identify and engage all stakeholders in an appropriate, targeted and consistent manner in order to achieve operational objectives, drive growth, develop trust and manage reputational risk. > AGL communicates frequently with all key stakeholder groups. To ensure AGL communications are effective AGL will look to develop honest and consistent messages to both internal (employee) and external stakeholder groups.
9. Financial management and innovation	The ability to maintain financial performance underpinning balance sheet strength and develop financing innovation for continued growth. > AGL continues to review opportunities to improve financial performance, through growth, revenue opportunities and cost efficiencies. AGL's organisational transformation program is geared to developing a structure that provides AGL the best chance of meeting the challenges AGL face and allows AGL to exploit opportunities as they arise. In parallel AGL has also announced a significant cost reduction program that is currently in progress and on track.
10. Data and IT security management	The ability to effectively, efficiently and appropriately create, collect, manage, store, retrieve, dispose of, secure and protect the integrity of data. > AGL leverage industry best practices in determining AGL cyber security policies, processes and technologies. AGL continues to educate its people on cyber threats and required protections.
11. High performing retailer	The ability to position AGL to a 'personalised' retailer of energy and energy services with a continual focus on the customer experience. > A significant amount of work is underway to better, and continually, understand and focus on the customer, including work around brand and customer proposition, technology and the customer experience, and new products and services.
12. Policy and regulation outcomes	The ability to effectively influence and drive policy and regulation outcomes aligned to strategic direction, future growth and commercial outcomes. > AGL engages with governments and regulators to promote responsible policies in the areas of tariff reform, retail price deregulation, and carbon reduction. AGL works with customer representative bodies and charitable organisations to promote industry policies and practices to assist energy consumers struggling with the affordability of energy costs.

Remuneration Report

For the year ended 30 June 2016

This Remuneration Report (pages 34 to 56) is attached to and forms part of, the Directors' Report.

Contents

Message from the Chair of the People and Performance Committee

Dear Shareholders,

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

AGL's approach to remuneration is intended to attract and retain the best talent to deliver our strategic objectives and align executive rewards with the creation and delivery of shareholder value. This Report intends to highlight this link, and provide information on the remuneration framework and outcomes for the financial year ended 30 June 2016 (FY16).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Yours sincerely,

Les Hosking
People and Performance Committee Chair

Introduction

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

Organisation and KMP

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

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

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

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

- As disclosed in the FY15 Remuneration Report, the role of Group General Manager Merchant Energy, was made redundant and as a result, Mr Fowler ceased employment with AGL on 1 July 2015. Mr Fowler's remuneration disclosed in this Report includes all termination benefits.
- Ms Hey joined the Board as a non-executive director on 21 March 2016.
- Mr England, EGM New Energy, ceased employment with AGL on 29 April 2016. Mr England's role is being filled in a temporary acting capacity by Mr Preston from 1 January 2016 while a permanent solution is found. Mr England's remuneration is disclosed in this Report for the duration he was a KMP, and includes all termination benefits. Mr Preston is considered a KMP from the date he began acting in this role.
- Ms McPhee, non-executive director, retired and ceased to be a member of the Board on 30 June 2016.

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

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

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

Section 1: Alignment of performance, strategy and reward

FY16 AGL performance and alignment to business strategy and remuneration outcomes

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

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

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

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

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

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

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

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

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

FY12-FY16 AGL performance and alignment to remuneration outcomes

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

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

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

Variable reward outcomes

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

STI outcomes

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

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

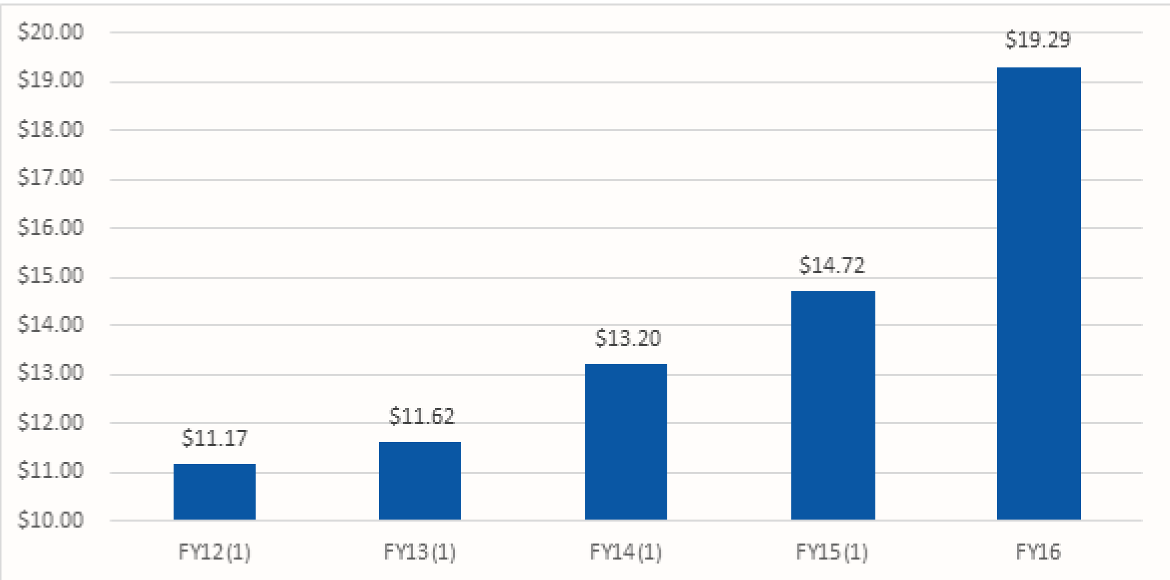
Table 1.1: FY12-FY16 STI payment outcomes

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

LTI outcomes

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

AGL Share Price at 30 June



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

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

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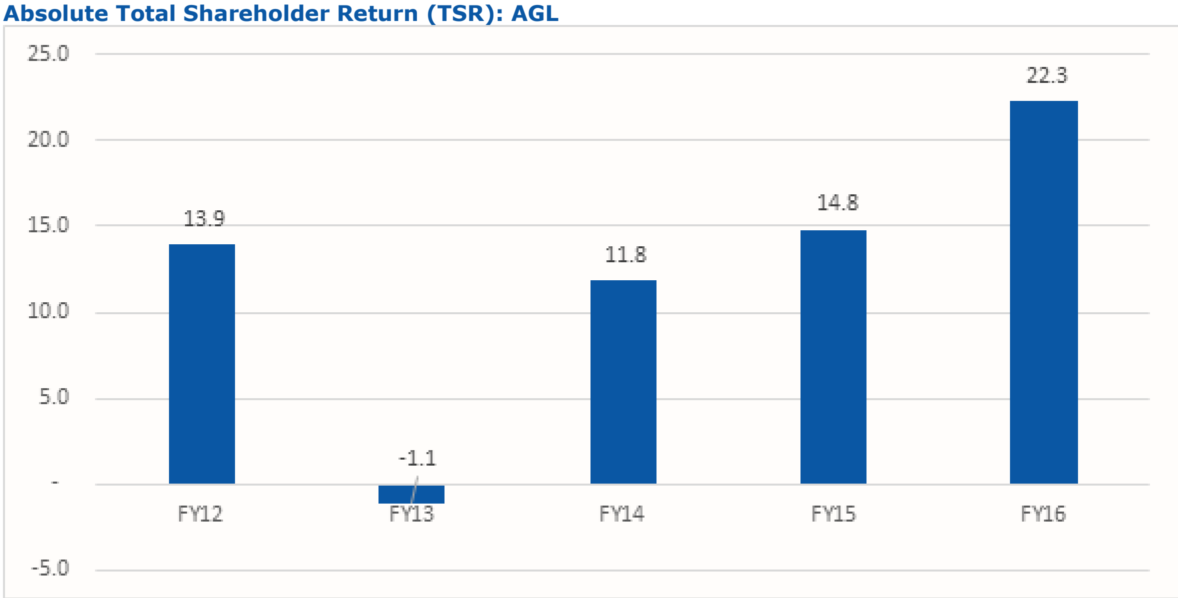
Absolute Total Shareholder Return (TSR): AGL



FY12 Actual Growth: 13.9% Deposit: 1.98x	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

Relative TSR (RTSR): AGL and ASX100

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

Section 2: Remuneration highlights

FY16 Remuneration highlights/snapshot

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

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

Looking ahead to FY17

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

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

Section 3: Remuneration framework

Remuneration policy and strategy

AGL's remuneration policy is designed to:

- be set at comparative levels to attract, retain and motivate key talent;
- drive performance and behaviour to achieve AGL's short and long-term objectives;
- support executive accountability for delivering agreed levels of performance; and
- align executive reward with the creation of long-term sustainable value for shareholders.

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

Remuneration structure

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

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

The executives' remuneration mix in FY16 is summarised as:

		At risk component	
MD/CEO	FR (30%)	STI (35%)	LTI (35%)
Other KMP (average)	FR (46%)	STI (31%)	LTI (23%)

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

Table 3.1: FY16 Remuneration structure

Element	Purpose and link to strategy	Summary	Discussion in Remuneration Report
Fixed Remuneration (FR)	• To attract (including internationally), retain and motivate executives required to deliver AGL's strategy and drive business performance. • To provide market competitive fixed reward which drives employee engagement and commitment to AGL.	• Reviewed annually by the Board considering a number of factors including, but not limited to, external benchmarks (and relevant market analysis), scope and nature of the role and responsibilities, individual expertise, skills and experience, responsibility, contribution and performance. • All employees, including executives, are able to choose the method in which they receive FR, being a mix of cash salary, compulsory superannuation and any other salary sacrificed items. • AGL's approach is to initially set pay at a level that allows progressive increases to apply as the individual becomes more capable and competent in their role.	Section 3.A
Short-term Incentive (STI)	• To drive annual profitability, strategic priorities and individual performance in line with the strategic roadmap. • Financial objectives remain a key measure under the plan. This ensures strong discipline is maintained. Underlying profit is aligned with budget and should drive dividends and share price growth for shareholders. • Performance against objectives under the plan is intended to translate to improved shareholder	• An at-risk component, where awards are made as a combination of cash and deferred equity subject to the achievement of pre-determined targets, as approved by the Board. • The MD/CEO's STI is awarded as 50% Restricted Shares, with the remainder payable in cash. • Other executives are awarded 10% of the STI in Restricted Shares, with the remainder payable in cash. • Restricted shares vest after a	Section 3.B

Table 3.1: FY16 Remuneration structure

Element	Purpose and link to strategy	Summary	Discussion in Remuneration Report
	return. • To recognise and reward individual contributions in line with the achievement against the strategic roadmap. • The deferral into shares provides alignment with shareholders' interest following the successful delivery of annual targets.	period of twelve months, subject to continued service and forfeiture conditions, but no further performance conditions apply.	
Long-term Incentive (LTI)	• To reward executives for long-term performance, encourage long-term shareholding and deliver long-term value creation for shareholders. • The LTI is continuing to evolve in line with the evolution of AGL's strategy.	• An at-risk component, where executives receive an annual grant of Share Performance Rights, subject to a three-year performance period and two pre-determined performance conditions. • The FY16 performance conditions with equal 50% weighting are: ○ relative TSR, compared to AGL's peer group; and ○ return on equity (ROE).	Section 3.C
AGL Share Purchase Plan	• To encourage employee shareholdings and link the interests of employees with those of shareholders.	• An employee share purchase plan, whereby employees are given the opportunity to salary sacrifice their pre-tax pay towards the acquisition of AGL shares. • Annual limit of $5,000 applies.	Section 3.D

3.A Fixed remuneration (FR)

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

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

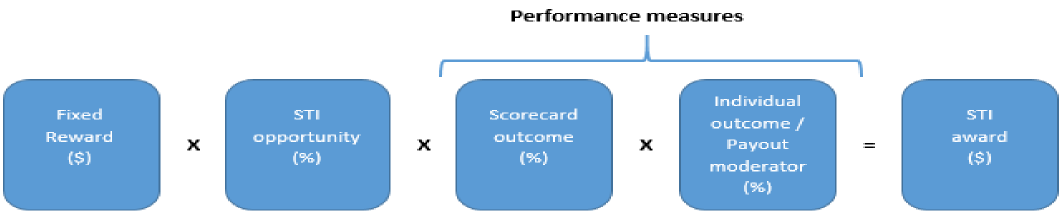
Market data provides a starting point against which to assess the external competitiveness of remuneration levels. AGL does not advocate a pay policy where it benchmarks all roles to a reference point, for instance, to the market median. Rather, regard is given to each role (e.g. job size, complexity,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

3.B Short-term incentive (STI) plan

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

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

The FY16 STI methodology for executives was:



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

Table 3.2: Terms of the FY16 STI

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

FY16 STI awards

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

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

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

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

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

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

Table 3.3: FY16 STI outcomes

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

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

FY17 STI targets

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

3.C Long-term incentive (LTI) plan

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

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

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

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

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

Table 3.4: Terms of the FY16 LTI

<table>
<tr><th>Element</th><th colspan="2">Details</th></tr>
<tr><td>MD/CEO offer</td><td colspan="2">Following approval at the 2015 AGM on 30 September 2015, the MD/CEO's FY16 LTI offer was granted on the same day.</td></tr>
<tr><td>Performance Period</td><td colspan="2">The performance period for the LTI is three years from 1 July 2015 to 30 June 2018.

The Board considers three years to be an appropriate performance period as it is sufficiently long-term to influence the desired outcomes, and is generally aligned to market practice.</td></tr>
<tr><td>LTI opportunity</td><td colspan="2">The value of the LTI for each executive is determined at the beginning of the performance period, based on a percentage of FR.

The number of Share Performance Rights granted in association with the offer is based on the 30-day volume-weighted average AGL share price up to and including 30 June 2015.</td></tr>
<tr><td>Performance Measures</td><td colspan="2">The FY16 LTI is subject to two performance measures, weighted equally at 50% and assessed at the end of the three-year performance period.

The Board determined the measures as follows:

1. Relative TSR (RTSR):
RTSR is a common LTI measure across ASX-listed companies and is strongly aligned with shareholder returns. It is also well understood by executives and shareholders in the market. TSR provides shareholder alignment by taking into consideration the increase in share price as well as dividends paid. The relative measure supports competitive returns against other comparable organisations. AGL's peer group is based on a select group of ASX-listed companies with similar qualities to AGL based on market beta, market capitalisation and qualitative factors.

2. Return on Equity (ROE):
ROE measures the amount of net income earned as a percentage of shareholders' equity. It measures a company's profitability by revealing how much profit a company generates with the money shareholders have invested. It is calculated as underlying NPAT divided by rolling twelve-month average equity.</td></tr>
<tr><td rowspan="4">RTSR vesting schedule</td><td>AGL's TSR ranking relative to comparator group</td><td>% Share Performance Rights which vest</td></tr>
<tr><td>Below 50th percentile</td><td>Nil</td></tr>
<tr><td>50th – 75th percentile</td><td>50-100%</td></tr>
<tr><td>At or above 75th percentile</td><td>100%</td></tr>
<tr><td rowspan="5">ROE vesting schedule</td><td>AGL's average ROE</td><td>% Share Performance Rights which vest</td></tr>
<tr><td>Below 10%</td><td>Nil</td></tr>
<tr><td>10%-12%</td><td>50%-75%</td></tr>
<tr><td>12%-15%</td><td>75%-100%</td></tr>
<tr><td>At or above 15%</td><td>100%</td></tr>
<tr><td>Cessation of employment</td><td colspan="2">Under the policy, generally if an executive ceases employment prior to the vesting date, they will forfeit all awards under the LTI. Exceptional circumstances may be approved by the Board in the event of redundancy, retirement, or incapacity, and may result in a pro-rata number of awards being retained, subject to post-employment vesting.</td></tr>
</table>

FY16 LTI awards

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

Table 3.5: FY16 LTI Share Performance Rights

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

1. The value at grant date is calculated based on the fair values shown in note 38, being $9.00 for RTSR and $14.12 for ROE.

2. The maximum value is calculated based on the fair values shown in note 38, being $9.00 for RTSR and $14.12 for ROE. The minimum total value of the grant is zero.

3. The number of awards shown for Mr England represent the full FY16 LTI grant. However, upon ceasing employment, Mr England forfeited his awards under the Plan due to resignation.

FY17 LTI awards

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

3.D AGL Share Purchase Plan

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

3.E Prior year equity arrangements

FY15 STI deferral

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

Table 3.6: FY15 STI Restricted Share awards

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

1. Table 3.6 reports only executives who were KMP at 30 June 2016. As Mr Preston joined AGL on 1 June 2015, there was no FY15 STI award made.

2. The value at allocation date is calculated based on the allocation price, being $17.01 (based on the actual weighted average price paid for AGL shares for all participants participating in the STI deferral), rounded down to approximately the nearest $10, aligned with values reported in Table 4.1.

FY14 STI deferral

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

Table 3.7: FY14 STI Restricted Share awards

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

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

FY15 LTI awards

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

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

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

- in August 2016, testing was conducted against the relevant performance hurdles. If performance had not been achieved at the required levels, clawback would have applied. Following any adjustment required, if the performance hurdles had been met, 50% of each remaining bank balance vested. The outcome of this testing for FY16 is detailed in Table 3.8; and
- in August/September 2017, testing will be conducted against the relevant performance hurdles. If performance has not been achieved at the required levels, clawback will apply. Following any adjustment required, if the performance hurdles have been met, the remaining bank balances will vest. The detail of this testing will be disclosed in the FY17 Remuneration Report.

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

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

- that the MD/CEO be granted 74,509 awards under the FY15 LTI on a pro-rata basis from his effective date;
- the outcomes of the FY15 annual test (that is, the performance testing which was conducted for other executives in August 2015) would be applied and vest 40% of the notional bank account, consistent with other participants under the plan. The result of this was an upwards adjustment of the LTI bank account to 92,017, with 40% (36,806 awards) vesting effective 30 June 2016;
- to carry forward the remaining 60% of Share Performance Rights (55,211) in the notional bank account for testing and vesting in FY16 and FY17; and
- that a transitional grant would be provided to make up for the forgone annual vesting opportunity, consistent with other participants under the plan.

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

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

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

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

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Section 4: Executive remuneration

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

Table 4.1: Remuneration of executives

Executive	Year	Short-Term Benefits				Post-Employment Benefits	Share-Based Payments			Total ($)	Performance Related (%)[8]	Termination Benefits ($)
		Cash Salary / Fees ($)[1]	Total Cash Incentive ($)[2]	Non-Monetary Benefits ($)[3]	Other Short-Term Benefits ($)[4]	Super-annuation / Pension ($)	STI Restricted Shares ($)[5]	Share Performance Rights ($)[6]	Other Equity ($)[7]			
Current												
Andy Vesey	**FY16**	**2,066,667**	**1,723,680**	**120,515**	**-**	**-**	**1,723,680**	**1,307,477**	**-**	**6,942,019**	**68.5%**	**-**
	FY15 From 12 Jan 2015	1,909,621	570,000	115,036	-	-	570,000	134,663	1,103,760	4,403,080	54.0%	-
Doug Jackson	**FY16**	**654,093**	**476,280**	**-**	**-**	**19,308**	**52,920**	**111,922**	**-**	**1,314,523**	**48.8%**	**-**
	FY15 From 4 May 2015	97,964	349,560	-	-	2,985	38,840	29,210	-	518,559	80.5%	-
Stephen Mikkelsen	**FY16**	**938,022**	**718,200**	**-**	**20,447**	**19,308**	**79,800**	**326,126**	**-**	**2,101,903**	**53.5%**	**-**
	FY15	882,467	456,390	-	118,053	18,783	50,710	327,751	-	1,854,154	45.0%	-
Alistair Preston	**FY16 From 1 Jan 2016**	**400,000**	**570,240**	**-**	**-**	**-**	**63,360**	**106,043**	**-**	**1,139,643**	**64.9%**	**-**
Brett Redman	**FY16**	**897,359**	**782,460**	**-**	**-**	**19,308**	**86,940**	**277,426**	**-**	**2,063,493**	**55.6%**	**-**
	FY15	756,217	403,200	-	-	18,783	44,800	187,624	-	1,410,624	45.1%	-
Former												
Mark England[9]	**FY16 Until 29 Apr 2016**	**615,844**	**-**	**-**	**-**	**16,090**	**-**	**-**	**-**	**631,934**	**0.0%**	**-**
	FY15 From 1 May 2015	91,370	232,875	-	-	2,985	25,875	103,376	-	456,481	79.3%	-
Anthony Fowler[10]	**FY16 Until 1 Jul 2015**	**359,743**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**359,743**	**0.0%**	**730,052**
	FY15	828,477	551,250	-	-	18,783	-	451,910	-	1,850,420	54.2%	-
Michael Fraser	FY15 Until 11 Feb 2015	2,816,557	2,203,443	-	-	302,378	-	1,521,589	-	6,843,967	54.4%	836,324
Michael Moraza	FY15 Until 18 Feb 2015	1,355,090	-	-	-	105,688	-	-	-	1,460,778	0.0%	-

Table 4.1: Remuneration of executives

Executive	Year	Short-Term Benefits				Post-Employment Benefits	Share-Based Payments			Total ($)	Performance Related (%)[8]	Termination Benefits ($)
		Cash Salary / Fees ($)[1]	Total Cash Incentive ($)[2]	Non-Monetary Benefits ($)[3]	Other Short-Term Benefits ($)[4]	Super-annuation / Pension ($)	STI Restricted Shares ($)[5]	Share Performance Rights ($)[6]	Other Equity ($)[7]			
TOTAL	**FY16**	**5,931,728**	**4,270,860**	**120,515**	**20,447**	**74,014**	**2,006,700**	**2,128,994**	**-**	**14,553,258**		**730,052**
	FY15	8,737,763	4,766,718	115,036	118,053	470,385	730,225	2,756,123	1,103,760	18,798,063		836,324

1. Represents cash salary including any salary sacrificed items (such as additional superannuation contributions and novated motor vehicles) and accrued annual and long service leave paid out on termination of employment. FY15 numbers for Mr Fowler have been reclassified to include salary sacrificed superannuation previously reported under Superannuation/Pension.

2. Represents cash payments under the STI achieved in the year, excluding the Restricted Share portion which is allocated in August/September following the relevant financial year-end. FY15 amounts have been reclassified to exclude the Restricted Share portion. The Restricted Share portion is disclosed under the 'STI Restricted Shares' column.

3. Includes the provision of expatriate costs and fringe benefits tax on all benefits, where applicable. The FY15 value for Mr Mikkelsen has been removed and now shows under Other Short-Term Benefits to be consistent with the methodology for FY16. Benefits included are in respect of the FBT year ended 31 March 2016.

4. Includes -allowances such as, but not limited to, living away from home allowances. The FY15 value for Mr Mikkelsen has been reclassified to be consistent with the methodology for FY16.

5. Includes the value of all STI Restricted Shares which are expected to be granted in relation to the performance year. FY15 amounts have been reclassified to include the value of FY15 STI Restricted Shares.

6. Includes a proportion of the fair value of all outstanding LTI offers (including the FY15 LTI transitional grant) at the start of the year, or which were offered during the year. Under Australian Accounting Standards, the fair value is determined as at the offer date and is apportioned on a straight-line basis across the expected vesting period after adjusting at each reporting date for an estimation of the number of shares that will ultimately vest. FY15 amounts for Mr Vesey have been disclosed to take into consideration the allocation of awards under the FY15 LTI during the year.

7. Includes a proportion of the fair value of all Restricted Shares held at the start of the year, or which were granted during the year, generally for retention or sign-on purposes.

8. Represents the sum of cash STIs and Share Performance Rights/Restricted Shares/Other Equity as a percentage of total remuneration, excluding termination payments. FY15 numbers have been reclassified to be consistent with the methodology used for FY16.

9. Mr England exited the business on 29 April 2016, and forfeited all of his outstanding LTI awards and his FY15 STI Restricted Shares.

10. Mr Fowler exited the business on 1 July 2015, and as such, there are no share-based payments.

Section 5: Remuneration governance

Role of People and Performance (P&P) Committee

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

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

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

Engagement of remuneration advisers

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

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

Minimum shareholding policy

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

The minimum shareholding policy for executives stipulates that:

- The MD/CEO should accumulate, and thereafter maintain, an interest in AGL securities which is equal to 100 per cent of FR.
- The CFO should accumulate, and thereafter maintain, an interest in AGL securities which is equal to 75 per cent of FR.
- Remaining executives should accumulate, and thereafter maintain, an interest in AGL securities which is equal to 50 per cent of FR.
- The target minimum shareholding should be accumulated within five years from the end of FY16 for existing executives, or up to five years from the date of appointment in respect of new executives.

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

Hedging policy

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

Executive contract terms

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

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

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

1. Table reports only executives who were KMP at 30 June 2016.
2. AGL can, at its election, make a payment in lieu of part or all of the notice period.
3. Maximum termination payment (exclusive of any payment in lieu of notice) payable if AGL terminates the executive's employment other than for cause.
4. Mr Vesey may also terminate his agreement with three months' notice in the event of a 'fundamental change', which includes circumstances where he ceases to hold the most senior management role within AGL, or ceases to report directly to the Chairman, or if the scope of his responsibilities is materially diminished. In this case he will be entitled to a payment equivalent to twelve months' FR.
5. Executives may also terminate their agreement with three months' notice in the event of a 'fundamental change', which includes circumstances where there has been a substantial diminution of role and responsibility of the executive, in which event they will be entitled to a payment equivalent to nine months' FR.
6. AGL will provide six months' notice in circumstances of unsatisfactory performance.

Section 6: Non-Executive Directors

Fee pool

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

Fee policy

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

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

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

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

Minimum shareholding policy

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

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

- Each current director should accumulate over a four-year period, and thereafter maintain, an interest in AGL securities which is equal to 100 per cent of the base annual director's fees.
- Half of the above requirement should be accumulated within two years from the adoption of the policy (being 4 December 2015), or within two years from the date of appointment in respect of new non-executive directors.
- Each newly appointed director is encouraged to acquire an interest in AGL securities which is equal to at least 10 per cent of the base annual director's fees by the end of the financial year in which they are appointed.

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

Current fee structure

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

Table 6.1: FY16 Non-executive director fees

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

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

Remuneration paid to non-executive directors

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

Table 6.2: Non-executive director remuneration

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

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

Section 7: Equity disclosures for KMP

Movement in AGL shares

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

Table 7.1: KMP shareholdings

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

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

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

Movement in Share Performance Rights

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

Table 7.2: Executive Share Performance Right holdings

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

1. Starting balances have been disclosed to align with the information reported in Section 3, specifically Table 3.8 (i.e. FY15 LTI annual testing has already been adjusted from the starting balance).

2. Includes Share Performance Rights which have vested under the LTI, however will not be allocated as shares to executives until August/September 2016.

3. Represents increase/decrease from annual LTI performance testing before any vesting, balance adjustments for executives joining or leaving KMP and any units forfeited during FY16.

4. As disclosed in section 3.E, Mr Vesey received an LTI allocation relating to the FY15 grant during FY16. Therefore, starting balance as at 1 July 2015 has been disclosed as if the grant had occurred and FY15 testing had been conducted at the same time as the other participants.

5. Mr Fowler ceased employment on 1 July 2015. His full holding under the FY15 LTI vested as part of the FY15 annual testing due to his termination, and as such, the opening balance of Share Performance Rights for FY16 is nil.

Other Required Disclosures

These Other Required Disclosures (pages 57 to 60) are attached to and form part of the Directors' report.

Changes in State of Affairs

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

Proceedings on Behalf of the Company

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

Commercial in Confidence Information

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

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

Non-Audit Services

Non-audit services have been provided during the year by the external auditor, Deloitte Touche Tohmatsu. Disclosure of the details of these services can be found in Note 31 of the Financial Report 2016.

The Board has a formal policy on the provision of auditing and related services. Specifically, the external auditor is precluded from providing any services that might threaten its independence or conflict with its assurance and compliance role. Semi-annual reports on the provision of auditing and related services are provided to the Board through the Audit and Risk Management Committee. Directors are satisfied that the provision of $91,000 of non-audit or assurance services by the external auditor is compatible with the general standard of independence for auditors.

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

Auditor's Independence Declaration

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

Indemnification and Insurance of Officers and Auditors

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

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

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

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

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

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

Rounding

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

Information on Audits

This report has been derived from the AGL Financial Report 2016 which has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and interpretations or other standards acceptable to ASX.

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

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

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

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

The audit report, which is unqualified, is attached to the AGL Financial Report 2016 also released to the market on 10 August 2016.

Dividends

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

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

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

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

Before declaring the dividend the Directors satisfied themselves that:

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

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

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

The final dividend will be fully franked.

The AGL Dividend Reinvestment Plan (DRP) will be in operation. No discount will apply to shares allocated under the DRP. Shares will be allocated to plan participants at the arithmetic average of the daily volume-weighted average price at which AGL shares trade during each of the 10 days commencing on 29 August 2016. AGL will buy shares on market to satisfy the DRP. The last date for shareholders to elect to participate in the DRP for the FY16 final dividend is 5pm on 26 August 2016.

Subsequent Events

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

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

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

The Directors are not aware of any other matters or circumstances which has arisen since 30 June 2016 that has significantly affected or may significantly affect the operations of AGL, the results of those operations, or the state of affairs of AGL in the future.

Corporate Governance

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

www.agl.com.au/about-agl/who-we-are/our-company/corporate-governance

Environmental Regulation

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

Table 1 sets out non-compliances that became subject of environmental and planning regulation under relevant legislation during the financial year (that is, those which resulted in regulatory action such as a penalty infringement notice and/or official caution). Improvement actions have been implemented to address each of the issues listed.

AGL businesses also had other non-compliances which did not result in regulatory action. These have been notified to the relevant regulator, and reported under the AGL site licence conditions, as required under relevant legislation.

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

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

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

Definitions and Abbreviations

The key terms used in this Report are detailed below.

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

Approval of Directors Report

This Directors' Report is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Board this 10th day of August 2016.

Jeremy Maycock
Chairman

AGL Financial Report 2016

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 2016

	Note	2016 $m	2015 $m
Continuing operations			
Revenue	4	**11,150**	10,678
Other income	5	**25**	-
Expenses	6	**(10,979)**	(9,759)
Share of profits of associates and joint ventures	15	**26**	27
Profit before net financing costs, depreciation and amortisation		**222**	946
Depreciation and amortisation		**(478)**	(379)
(Loss)/profit before net financing costs		**(256)**	567
Finance income		**18**	20
Finance costs		**(236)**	(250)
Net financing costs	7	**(218)**	(230)
(Loss)/profit before tax		**(474)**	337
Income tax benefit/(expense)	9	**67**	(119)
(Loss)/profit for the year		**(407)**	218
(Loss)/profit attributable to:			
Owners of AGL Energy Limited		**(408)**	218
Non-controlling interests		**1**	-
		(407)	218
Earnings per share			
Basic earnings per share	28	**(60.5 cents)**	33.3 cents
Diluted earnings per share	28	**(60.4 cents)**	33.3 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 2016

	Note	2016 $m	2015 $m
(Loss)/profit for the year		**(407)**	218
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement (loss)/gain on defined benefit plans	37	**(111)**	135
Income tax relating to items that will not be reclassified subsequently	9	**33**	(40)
		(78)	95
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges			
Gain/(loss) in fair value of cash flow hedges	27	**12**	(22)
Reclassification adjustments transferred to profit or loss	27	**29**	94
Share of other comprehensive income of a joint venture	27	**(1)**	(14)
Reclassification of joint venture losses transferred to profit or loss on disposal of investment	27	**15**	-
Income tax relating to items that may be reclassified subsequently	9	**(12)**	(22)
		43	36
Other comprehensive income for the year, net of income tax		**(35)**	131
Total comprehensive income for the year		**(442)**	349
Total comprehensive income attributable to:			
Owners of AGL Energy Limited		**(443)**	349
Non-controlling interests		**1**	-
		(442)	349

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 2016

	Note	**2016 $m**	2015 $m
Current assets			
Cash and cash equivalents	40	**252**	259
Trade and other receivables	11	**1,975**	1,894
Inventories	12	**414**	396
Other financial assets	13	**267**	156
Other assets	14	**232**	262
		3,140	2,967
Assets classified as held for sale	20	**447**	492
Total current assets		**3,587**	3,459
Non-current assets			
Trade and other receivables	11	**44**	44
Inventories	12	**30**	32
Other financial assets	13	**147**	596
Investments in associates and joint ventures	15	**70**	91
Exploration and evaluation assets	16	**-**	130
Oil and gas assets	17	**47**	544
Property, plant and equipment	18	**6,482**	6,958
Intangible assets	19	**3,232**	3,266
Deferred tax assets	9	**953**	682
Other assets	14	**12**	31
Total non-current assets		**11,017**	12,374
Total assets		**14,604**	15,833
Current liabilities			
Trade and other payables	21	**1,519**	1,377
Borrowings	22	**22**	443
Provisions	23	**226**	191
Current tax liabilities	9	**102**	86
Other financial liabilities	24	**460**	269
Other liabilities	25	**-**	7
		2,329	2,373
Liabilities directly associated with assets classified as held for sale	20	**224**	-
Total current liabilities		**2,553**	2,373
Non-current liabilities			
Borrowings	22	**3,086**	3,439
Provisions	23	**487**	456
Other financial liabilities	24	**301**	387
Other liabilities	25	**251**	363
Total non-current liabilities		**4,125**	4,645
Total liabilities		**6,678**	7,018
Net assets		**7,926**	8,815
Equity			
Issued capital	26	**6,696**	6,696
Reserves	27	**(24)**	(65)
Retained earnings		**1,243**	2,175
Total equity attributable to owners of AGL Energy Limited		**7,915**	8,806
Non-controlling interests		**11**	9
Total equity		**7,926**	8,815

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 2016

	Attributable to owners of AGL Energy Limited						
	Issued capital $m	Employee equity benefits reserve $m	Hedging reserve $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
Balance at 1 July 2015	**6,696**	**3**	**(68)**	**2,175**	**8,806**	**9**	**8,815**
Loss for the year	**-**	**-**	**-**	**(408)**	**(408)**	**1**	**(407)**
Other comprehensive income for the year, net of income tax	**-**	**-**	**43**	**(78)**	**(35)**	**-**	**(35)**
Total comprehensive income for the year	**-**	**-**	**43**	**(486)**	**(443)**	**1**	**(442)**
Transactions with owners in their capacity as owners:							
Issue of ordinary shares	**-**	**-**	**-**	**-**	**-**	**1**	**1**
Payment of dividends	**-**	**-**	**-**	**(446)**	**(446)**	**-**	**(446)**
Share-based payments	**-**	**(2)**	**-**	**-**	**(2)**	**-**	**(2)**
Balance at 30 June 2016	**6,696**	**1**	**(25)**	**1,243**	**7,915**	**11**	**7,926**
Balance at 1 July 2014	5,437	5	(104)	2,249	7,587	1	7,588
Profit for the year	-	-	-	218	218	-	218
Other comprehensive income for the year, net of income tax	-	-	36	95	131	-	131
Total comprehensive income for the year	-	-	36	313	349	-	349
Transactions with owners in their capacity as owners:							
Issue of ordinary shares	1,275	-	-	-	1,275	8	1,283
Transaction costs relating to the issue of ordinary shares	(22)	-	-	-	(22)	-	(22)
Payment of dividends	-	-	-	(387)	(387)	-	(387)
Share-based payments	-	(2)	-	-	(2)	-	(2)
Income tax relating to transactions with owners	6	-	-	-	6	-	6
Balance at 30 June 2015	6,696	3	(68)	2,175	8,806	9	8,815

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

AGL Energy Limited and controlled entities
Consolidated Statement of Cash Flows
For the year ended 30 June 2016

	Note	2016 $m	2015 $m
Cash flows from operating activities			
Receipts from customers		**11,903**	11,587
Payments to suppliers and employees		**(10,397)**	(10,236)
Dividends received		**19**	32
Finance income received		**13**	24
Finance costs paid		**(186)**	(216)
Income taxes paid		**(166)**	(147)
Net cash provided by operating activities	40(b)	**1,186**	1,044
Cash flows from investing activities			
Payments for property, plant and equipment		**(533)**	(744)
Payments for exploration and evaluation assets		**(7)**	(34)
Payments for oil and gas assets		**(6)**	(28)
Payments for investments in associates and joint ventures		**(30)**	(80)
Payments for businesses and subsidiaries, net of cash acquired			
acquisitions in current period	33	**-**	(1,348)
acquisitions in prior periods		**(33)**	(32)
Government grants received		**8**	32
Proceeds from sale of property, plant and equipment		**8**	6
Proceeds from sale of exploration and evaluation assets		**1**	-
Proceeds from sale of businesses and subsidiaries, net of cash disposed	34	**673**	-
Loans advanced to related parties		**-**	(3)
Proceeds from repayment of related party loans		**-**	56
Net cash provided by/(used in) investing activities		**81**	(2,175)
Cash flows from financing activities			
Proceeds from issue of shares, net of transaction costs		**-**	1,210
Proceeds from issue of shares to non-controlling interests		**1**	8
Purchase of shares on-market for equity based remuneration		**(8)**	(7)
Proceeds from borrowings		**550**	2,647
Repayment of borrowings		**(1,371)**	(2,580)
Payments for settlement of derivative financial instruments		**-**	(10)
Dividends paid	10	**(446)**	(344)
Net cash (used in)/provided by financing activities		**(1,274)**	924
Net decrease in cash and cash equivalents		**(7)**	(207)
Cash and cash equivalents at the beginning of the financial year		**259**	466
Cash and cash equivalents at the end of the financial year	40(a)	**252**	259

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

Note 1 - Summary of significant accounting policies

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

The consolidated financial statements comprise the Parent Entity and its 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 2016.

(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, effective 1 April 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

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.

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

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

(e) Business combinations

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

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

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

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

(f) Segment reporting

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

(g) Investments in equity accounted investees

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

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

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 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.

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

(l) Inventories

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

(m) Financial assets

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

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

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

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) Exploration and evaluation assets

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

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

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

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

(q) Oil and gas assets

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

(r) Property, plant and equipment

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

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

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

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

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

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

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

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

(s) Leases

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

AGL as lessor

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

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

(s) Leases (cont'd)

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.

(t) Intangible assets

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

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

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.

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

(t) Intangible assets (cont'd)

Customer relationships and contracts

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

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

(u) Impairment of non-financial assets excluding goodwill

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

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

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

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

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

(v) Trade and other payables

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

(w) Borrowings

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

(x) Employee benefits

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

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

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

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

(x) Employee benefits (cont'd)

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.

(y) Share-based payments

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

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

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

(z) Provisions

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)

(aa) Derivative financial instruments and hedging

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

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

Fair value hedges

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

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

Cash flow hedges

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

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

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

Derivatives that do not qualify for hedge accounting - economic hedges

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

(ab) 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.

(ac) 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.

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

(ad) Revenue recognition

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

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

Revenue from the provision of services 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.

(ae) 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.

(af) Income tax

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

Current tax

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

Deferred tax

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

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

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

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

Current and deferred tax for the period

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

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

(af) Income tax (cont'd)

Tax consolidation

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

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

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

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

(ag) 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 2016. AGL's assessment of the expected impact of these Standards is set out below.

AASB 9 *Financial Instruments* and the relevant amending standards are effective for annual reporting periods beginning on or after 1 January 2018. AASB 9 will be mandatory for AGL's 30 June 2019 financial statements.

AASB 9 is a new Standard which will replace AASB 139 *Financial Instruments: Recognition and Measurement.* AASB 9 includes revised guidance on the classification and measurement of financial instruments, however it carries over the existing derecognition requirements from AASB 139.

A new impairment model requires the recognition of impairment provisions based on an expected credit loss methodology rather the existing incurred loss methodology, as is the case under AASB 139. This may result in an earlier recognition of credit losses.

New hedging accounting rules have been designed to be more aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.

AGL is currently assessing the potential impact of this Standard.

AASB 15 *Revenue from Contracts with Customers* and the relevant amending standards are effective for annual reporting periods beginning on or after 1 January 2018. AASB 15 will be mandatory for AGL's 30 June 2019 financial statements.

AASB 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. AASB 15 will replace AASB 118 *Revenue,* AASB 111 *Construction Contracts* and the related Interpretations when it becomes effective. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

AGL is currently assessing the potential impact of this Standard.

AASB 16 *Leases* is effective for annual reporting periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, AASB 15, has been applied, or is applied at the same date as AASB 16.

AASB 16 introduces fundamental changes to the accounting for leases. AASB 16 will replace AASB 117 *Leases*, Interpretation 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions involving the Legal Form of a Lease.*

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

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

AASB 16 will be mandatory for AGL's 30 June 2020 financial statements. AGL is currently assessing the potential impact of this Standard.

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.

Business combinations

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

Exploration and evaluation expenditure

AGL's policy for exploration and evaluation expenditure is stated in Note 1(p). The application of this policy requires management to make certain estimates and assumptions as to future events and circumstances, particularly in relation to the assessment of whether economic quantities of reserves have been found. Management are also required to make judgements relating to the identification of any impairment indicator which could impact the carrying value of the assets.

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

Fair value of financial instruments

Management uses their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices and rates. Refer to Note 41 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 9. 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. These assumptions and the related carrying amounts are discussed in Note 37.

Note 3 - Segment information

Operating segments

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

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

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

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

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

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

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

Segment financial results

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

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

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

Note 3 - Segment information (cont'd)

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

Note 3 - Segment information (cont'd)

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

Note 3 - Segment information (cont'd)

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

(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)

	2016 $m	2015 $m
Segment assets reconciliation to the statement of financial position		
Reconciliation of segment assets to total assets is as follows:		
Segment assets for reportable segments	**12,968**	14,119
Other	**92**	117
	13,060	14,236
Cash and cash equivalents	**252**	259
Deferred tax assets	**953**	682
Derivative financial instruments	**339**	656
Total assets	**14,604**	15,833

	2016 $m	2015 $m
Segment liabilities reconciliation to the statement of financial position		
Reconciliation of segment liabilities to total liabilities is as follows:		
Segment liabilities for reportable segments	**2,545**	2,276
Other	**162**	118
	2,707	2,394
Borrowings	**3,108**	3,882
Current tax liabilities	**102**	86
Derivative financial instruments	**435**	252
Deferred consideration and other contractual liabilities	**326**	404
Total liabilities	**6,678**	7,018

Geographical information

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

Information about major customers

No single customer amounts to 10 percent or more of AGL's total external revenue (2015: none).

	Note	**2016 $m**	2015 $m
Note 4 - Revenue			
Revenue from sale of goods		**10,971**	10,533
Revenue from rendering of services		**179**	145
		11,150	10,678
Note 5 - Other income			
Gain on disposal of subsidiaries and businesses	34	**25**	-
		25	-
Note 6 - Expenses			
Cost of sales		**8,110**	7,856
Administrative expenses		**226**	241
Employee benefits expense		**576**	546
Other expenses			
Loss/(gain) in fair value of financial instruments		**595**	(237)
Impairment loss on trade receivables (net of bad debts recovered)		**73**	83
Impairment loss on exploration and evaluation assets	16	**171**	275
Impairment loss on oil and gas assets	17	**496**	18
Impairment loss on property, plant and equipment	18	**112**	-
Impairment loss on intangible assets	19	**1**	40
Impairment loss on investment in an associate		**5**	2
Impairment loss on remeasurement of disposal group		**-**	7
Diminution in value of inventory		**6**	-
Onerous contracts expense		**7**	262
Cumulative loss reclassified from equity on disposal of investment in a joint venture	34	**15**	-
Cumulative loss reclassified from equity on acquisition of a business		**-**	37
Acquisition and integration costs		**-**	115
Restructuring and related costs		**77**	25
Net loss on disposal of property, plant and equipment		**3**	20
Operating lease rental expenses		**27**	21
Other		**479**	448
		10,979	9,759
Note 7 - Net financing costs			
Finance income			
Interest income			
Joint ventures		**7**	5
Other entities		**11**	15
		18	20
Finance costs			
Interest expense			
Other entities		**179**	223
Finance costs capitalised		**(6)**	(24)
Unwinding of discounts on provisions and other liabilities		**28**	17
Unwinding of discount on deferred consideration		**26**	26
Other finance costs		**9**	8
		236	250
Net financing costs		**218**	230

The weighted average capitalisation rate on funds borrowed for finance costs capitalised is 5.72% (2015: 5.65%).

Note 8 - Impairment loss and exit charges for natural gas assets

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

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

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

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

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

Note 9 - Income tax

	2016 $m	2015 $m
Income tax recognised in the statement of profit or loss		
The major components of income tax (benefit)/expense are:		
Current tax		
Current tax expense in respect of the current year	**224**	115
Adjustments in relation to current tax of prior years	**(7)**	(12)
Deferred tax		
Relating to the origination and reversal of temporary differences	**(284)**	16
Total income tax (benefit)/expense	**(67)**	119
Numerical reconciliation between tax (benefit)/expense and pre-tax accounting profit		
The prima facie income tax (benefit)/expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:		
(Loss)/profit before tax	**(474)**	337
Income tax (benefit)/expense calculated at the Australian tax rate of 30% (2015: 30%)	**(142)**	101
Impairment loss on non-current assets	**81**	12
Non-deductible expenses	**8**	16
Non-assessable income	**(8)**	-
Share of profits of associates and joint ventures	**1**	2
Adjustments in relation to current tax of prior years	**(7)**	(12)
	(67)	119
Income tax recognised directly in equity		
Deferred tax		
Share issue transaction costs	**-**	(6)
	-	(6)
Income tax recognised in other comprehensive income		
Deferred tax		
Cash flow hedges	**12**	22
Remeasurement (loss)/gain on defined benefit plans	**(33)**	40
	(21)	62

Note 9 - Income tax (cont'd)

	2016 $m	2015 $m
Current tax liabilities		
Income tax payable	**102**	86
Deferred income tax recognised in the statement of profit or loss		
Temporary differences		
Allowance for doubtful debts	**-**	(4)
Exploration and evaluation assets	**(48)**	(72)
Oil and gas assets	**(138)**	6
Property, plant and equipment	**(1)**	54
Payables and accruals	**4**	43
Provisions	**64**	(83)
Derivative financial instruments	**(157)**	77
Other	**(8)**	(5)
	(284)	16
Deferred tax balances		
Deferred tax assets/(liabilities) arise from the following:		
Allowance for doubtful debts	**28**	28
Other receivables	**(15)**	(2)
Exploration and evaluation assets	**-**	(38)
Oil and gas assets	**118**	(22)
Property, plant and equipment	**(486)**	(464)
Intangible assets	**(8)**	(13)
Defined benefit superannuation plans	**46**	11
Payables and accruals	**14**	19
Provisions	**158**	209
Derivative financial instruments	**212**	74
Tax losses	**861**	858
Other	**25**	22
Net deferred tax assets	**953**	682
Recognised in the statement of financial position as follows:		
Deferred tax assets	**953**	682
Deferred tax liabilities	**-**	-
Net deferred tax assets	**953**	682
Unrecognised deferred tax assets		
Deductible temporary differences	**90**	91

	2016 $m	2015 $m
Note 10 - Dividends		
Recognised amounts		
Final dividend		
Final dividend for 2015 of 34.0 cents per share, fully franked at 30%, paid 24 September 2015 (2015: Final dividend for 2014 of 33.0 cents per share, fully franked at 30%, paid 30 September 2014)	**230**	185
Interim dividend		
Interim dividend for 2016 of 32.0 cents per share, fully franked at 30%, paid 16 March 2016 (2015: Interim dividend for 2015 of 30.0 cents per share, fully franked, paid 25 March 2015)	**216**	202
Total dividends	**446**	387
Dividends satisfied by the issue of shares under the AGL Dividend Reinvestment Plan	**-**	(43)
Dividends paid as per the statement of cash flows	**446**	344
Unrecognised amounts		
Since the end of the financial year, the Directors have declared a final dividend for 2016 of 36.0 cents per share, fully franked at 30%, (2015: 34.0 cents fully franked), payable 22 September 2016.	**243**	230

The financial effect of this dividend has not been recognised as a liability in these financial statements but will be brought to account in the 2017 financial year.

Dividend reinvestment plan

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

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

Note 11 - Trade and other receivables

	2016 $m	2015 $m
Current		
Trade receivables	**990**	816
Allowance for doubtful debts	**(95)**	(95)
	895	721
Unbilled revenue	**1,032**	1,118
Other receivables	**48**	55
	1,975	1,894

Allowance for doubtful debts

Movements in the allowance for doubtful debts are detailed below:

	2016 $m	2015 $m
Balance at beginning of financial year	**95**	82
Impairment losses recognised on receivables	**93**	99
Amounts written off as uncollectible	**(93)**	(86)
Balance at end of financial year	**95**	95

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

	2016		2015	
	Total $m	**Allowance $m**	Total $m	Allowance $m
Not past due	**665**	**(19)**	498	(8)
Past due 31 - 60 days	**66**	**(10)**	63	(9)
Past due 61 - 90 days	**38**	**(10)**	57	(8)
Past 90 days	**221**	**(56)**	198	(70)
	990	**(95)**	816	(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 $249 million (2015: $231 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.

	2016 $m	2015 $m

Note 11 - Trade and other receivables (cont'd)

	2016 $m	2015 $m
Non-current		
Finance lease receivables	**44**	44

AGL enters into finance lease arrangements with customers in respect of generation facilities. The average term of finance leases is 12 years, with options to extend. The finance lease receivables at the end of the reporting period are neither past due nor impaired. The carrying amount of the finance lease receivables approximates to their fair value.

	Minimum lease payments		Present value of minimum lease payments	
Finance lease receivables	**2016 $m**	2015 $m	**2016 $m**	2015 $m
Not later than one year	**5**	5	**2**	2
Later than one year and not later than five years	**21**	20	**9**	8
Later than five years	**48**	52	**35**	36
	74	77	**46**	46
Less unearned finance income	**(28)**	(31)	**-**	-
Present value of minimum lease payments receivable	**46**	46	**46**	46
Included in the financial statements as:				
Current finance lease receivables			**2**	2
Non-current finance lease receivables			**44**	44
			46	46

Note 12 - Inventories

	2016 $m	2015 $m
Current		
Raw materials and stores - at cost	**198**	167
Finished goods - at cost	**216**	229
	414	396
Non-current		
Raw materials and stores - at cost	**-**	32
Finished goods - at cost	**30**	-
	30	32

	2016 $m	2015 $m
Note 13 - Other financial assets		
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	**2**	2
- Energy derivatives - cash flow hedges	**49**	9
- Energy derivatives - economic hedges	**141**	119
	192	133
Futures deposits and margin calls	**75**	23
	267	156
Non-current		
Derivative financial instruments - at fair value		
- Cross currency swap contracts - cash flow and fair value hedges	**117**	71
- Interest rate swap contracts - cash flow hedges	**2**	5
- Energy derivatives - cash flow hedges	**17**	2
- Energy derivatives - economic hedges	**11**	445
	147	523
Loans to joint ventures - at amortised cost	**-**	73
	147	596

For terms and conditions relating to loans to joint ventures, refer to Note 39.

Note 14 - Other assets

	2016 $m	2015 $m
Current		
Green commodities scheme certificates and instruments	**193**	222
Prepayments	**39**	40
	232	262
Non-current		
Prepayments	**7**	11
Defined benefit superannuation plan asset	**5**	20
	12	31

Note 15 - Investments in associates and joint ventures

	2016 $m	2015 $m
Investments in joint ventures - unlisted	**42**	85
Investments in associates - unlisted	**28**	6
	70	91
Reconciliation of movements in investments in associates and joint ventures		
Balance at beginning of financial year	**91**	32
Additions	**30**	80
Disposals	**(52)**	-
Impairment loss recognised in profit or loss	**(5)**	(2)
Share of profits after income tax	**26**	27
Share of other comprehensive income	**(1)**	(14)
Dividends received	**(19)**	(32)
Balance at end of financial year	**70**	91

Name of entity	Principal activities	Ownership interest 2016 %	Ownership interest 2015 %	Carrying value 2016 $m	Carrying value 2015 $m
Associates					
CSM Energy Limited	Coal mine methane gas extraction	**35**	35	**-**	-
Matter Technology Ltd (formerly Greenbox Group Ltd)	Energy management services	**19.9**	19.9	**-**	5
Solar Analytics Pty Ltd	Solar PV monitoring	**37.2**	40	**2**	1
Sunverge Energy Inc (a)	Energy storage and management services	**22**	-	**26**	-
Joint ventures					
ActewAGL Retail Partnership	Energy and water services	**50**	50	**40**	28
Diamantina Holding Company Pty Limited (b)	Electricity generation	**-**	50	**-**	55
Energy Infrastructure Management Pty Ltd	Pipeline management services	**50**	50	**2**	2
Central Queensland Pipeline Pty Ltd	Gas pipeline development	**50**	50	**-**	-
				70	91

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

(a) On 4 February 2016, AGL acquired a 22% interest in Sunverge Energy Inc.

(b) On 31 March 2016, AGL completed the disposal of its 50% interest in Diamantina Holding Company Pty Limited to APA Group.

Note 15 - Investments in associates and joint ventures (cont'd)

	2016 **$m**	2015 $m
Aggregate information of joint ventures that are not individually material		
Current assets	**200**	245
Non-current assets	**45**	764
Total assets	**245**	1,009
Current liabilities	**150**	213
Non-current liabilities	**6**	623
Total liabilities	**156**	836
Net assets	**89**	173
Revenue	**686**	894
Expenses	**(626)**	(839)
AGL's share of joint ventures' profit	**31**	27

Dividends received from joint ventures
During the year, AGL received dividends of $19 million (2015: $32 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 29 and 30 respectively.

	2016 $m	2015 $m
Note 16 - Exploration and evaluation assets		
Balance at beginning of financial year	**130**	372
Additions	**41**	34
Reclassified as held for sale	**-**	(1)
Reclassified from oil and gas assets	**4**	-
Impairment loss recognised in profit or loss	**(171)**	(275)
Exploration expenditure derecognised	**(4)**	-
Balance at end of financial year	**-**	130
Cost (gross carrying amount)	**553**	703
Accumulated impairment	**(553)**	(573)
Net carrying amount	**-**	130

Impairment loss

AGL conducted a detailed review of the carrying amount of natural gas assets. As a result of the review, AGL recognised an impairment loss of $171 million (2015: $275 million) before tax.

Further details of the impairment loss are disclosed in Note 8.

Note 17 - Oil and gas assets

	2016 $m	2015 $m
Producing assets		
Balance at beginning of financial year	**544**	170
Additions	**16**	33
Reclassified to exploration and evaluation assets	**(4)**	-
Reclassified from held for sale	**-**	365
Depreciation and amortisation expense	**(13)**	(6)
Impairment loss recognised in profit or loss	**(496)**	(18)
Balance at end of financial year	**47**	544
Cost (gross carrying amount)	**733**	721
Accumulated depreciation, amortisation and impairment	**(686)**	(177)
Net carrying amount	**47**	544

Impairment loss

AGL conducted a detailed review of the carrying amount of natural gas assets. As a result of the review, AGL recognised an impairment loss of $496 million (2015: $18 million) before tax.

Further details of the impairment loss are disclosed in Note 8.

Note 18 - Property, plant and equipment

	Freehold land and buildings $m	Leasehold improvements $m	Plant and equipment $m	Total $m
Year ended 30 June 2016				
Balance at 1 July 2015, net of accumulated depreciation and impairment	**104**	**5**	**6,849**	**6,958**
Additions	**1**	**-**	**530**	**531**
Reclassified from/(to)	**28**	**-**	**(28)**	**-**
Reclassified to inventories	**-**	**-**	**(12)**	**(12)**
Disposals	**(9)**	**-**	**(3)**	**(12)**
Reclassified as held for sale	**(15)**	**-**	**(432)**	**(447)**
Depreciation expense	**(1)**	**(2)**	**(421)**	**(424)**
Impairment loss recognised in profit or loss	**(12)**	**-**	**(100)**	**(112)**
Balance at 30 June 2016, net of accumulated depreciation and impairment	**96**	**3**	**6,383**	**6,482**
Balance at 1 July 2015				
Cost (gross carrying amount)	**121**	**32**	**8,285**	**8,438**
Accumulated depreciation and impairment	**(17)**	**(27)**	**(1,436)**	**(1,480)**
Net carrying amount	**104**	**5**	**6,849**	**6,958**
Balance at 30 June 2016				
Cost (gross carrying amount)	**115**	**32**	**8,277**	**8,424**
Accumulated depreciation and impairment	**(19)**	**(29)**	**(1,894)**	**(1,942)**
Net carrying amount	**96**	**3**	**6,383**	**6,482**
Year ended 30 June 2015				
Balance at 1 July 2014, net of accumulated depreciation and impairment	75	8	5,611	5,694
Additions	-	-	766	766
Acquisitions through business combinations	30	-	1,325	1,355
Disposals	(1)	-	(25)	(26)
Reclassified as held for sale	-	-	(491)	(491)
Depreciation expense	-	(3)	(337)	(340)
Balance at 30 June 2015, net of accumulated depreciation and impairment	104	5	6,849	6,958
Balance at 1 July 2014				
Cost (gross carrying amount)	93	32	6,795	6,920
Accumulated depreciation and impairment	(18)	(24)	(1,184)	(1,226)
Net carrying amount	75	8	5,611	5,694
Balance at 30 June 2015				
Cost (gross carrying amount)	121	32	8,285	8,438
Accumulated depreciation and impairment	(17)	(27)	(1,436)	(1,480)
Net carrying amount	104	5	6,849	6,958

Note 18 - Property, plant and equipment (cont'd)

Leased plant and equipment

The net carrying amount of plant and equipment disclosed above includes plant and equipment held under finance leases of $125 million (2015: $128 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 $286 million (2015: $1,292 million).

Software

The net carrying amount of plant and equipment disclosed above includes software of $100 million (2015: $130 million).

Impairment loss

AGL conducted a detailed review of the carrying amount of natural gas assets. As a result of the review, AGL recognised an impairment loss of $112 million (2015: $nil) before tax.

Further details of the impairment loss are disclosed in Note 8.

Note 19 - Intangible assets

	Goodwill $m	Licences $m	Customer relationships and contracts $m	Other $m	Total $m
Year ended 30 June 2016					
Balance at 1 July 2015, net of accumulated amortisation and impairments	**2,792**	**311**	**136**	**27**	**3,266**
Amortisation expense	**-**	**-**	**(29)**	**(4)**	**(33)**
Impairment loss recognised in profit or loss	**(1)**	**-**	**-**	**-**	**(1)**
Balance at 30 June 2016, net of accumulated amortisation and impairment	**2,791**	**311**	**107**	**23**	**3,232**
Balance at 1 July 2015					
Cost (gross carrying amount)	**2,792**	**311**	**426**	**46**	**3,575**
Accumulated amortisation and impairment	**-**	**-**	**(290)**	**(19)**	**(309)**
Net carrying amount	**2,792**	**311**	**136**	**27**	**3,266**
Balance at 30 June 2016					
Cost (gross carrying amount)	**2,792**	**311**	**426**	**46**	**3,575**
Accumulated amortisation and impairment	**(1)**	**-**	**(319)**	**(23)**	**(343)**
Net carrying amount	**2,791**	**311**	**107**	**23**	**3,232**
Year ended 30 June 2015					
Balance at 1 July 2014, net of accumulated amortisation and impairments	2,758	301	162	27	3,248
Acquisitions through business combinations	34	10	3	-	47
Reclassified from held for sale	-	-	40	-	40
Amortisation expense	-	-	(29)	-	(29)
Impairment loss recognised in profit or loss	-	-	(40)	-	(40)
Balance at 30 June 2015, net of accumulated amortisation and impairment	2,792	311	136	27	3,266
Balance at 1 July 2014					
Cost (gross carrying amount)	2,758	301	359	46	3,464
Accumulated amortisation and impairment	-	-	(197)	(19)	(216)
Net carrying amount	2,758	301	162	27	3,248
Balance at 30 June 2015					
Cost (gross carrying amount)	2,792	311	426	46	3,575
Accumulated amortisation and impairment	-	-	(290)	(19)	(309)
Net carrying amount	2,792	311	136	27	3,266

Note 19 - Intangible assets (cont'd)

Impairment loss

As at 30 June 2015, the recoverable amounts of AGL's upstream gas assets were reassessed as part of the Upstream Gas Review. The review led to the recognition of an impairment loss of $40 million in respect of the North Queensland Energy business intangible assets. The impairment loss has been recorded against customer relationships and contracts intangible assets. The carrying amount of these intangible assets has been impaired to $nil.

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 2016			
Cash-generating unit			
Energy Markets	**2,239**	**-**	**2,239**
Group Operations	**536**	**311**	**847**
New Energy	**16**	**-**	**16**
	2,791	**311**	**3,102**
Year ended 30 June 2015			
Cash-generating unit			
Energy Markets	2,239	-	2,239
Group Operations	536	311	847
New Energy	17	-	17
	2,792	311	3,103

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.

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% (2015: 2.5% - 3.86%). Discount rates used are the pre-tax weighted average cost of capital of 13.4% (2015: 13.4%).

No impairment loss has been recognised for the Energy Markets or the Group Operations CGUs for the year ended 30 June 2016 (2015: $nil).

	2016 $m	2015 $m
Note 20 - Assets and liabilities classified as held for sale		
Assets of disposal groups held for sale	**447**	492
Liabilities directly associated with assets classified as held for sale	**224**	-

Disposal groups held for sale

Solar plants

A sale process is currently underway to sell AGL's interests in the Nyngan and Broken Hill solar plants. The assets are expected to be sold within one year and as such have been classified as held for sale with effect from 1 January 2016. As discussed in Note 43, subsequent to year end AGL established the Powering Australian Renewables Fund (PARF). It is expected that PARF will acquire these assets.

AGL received funding from the Australian Renewable Energy Agency and the New South Wales Government to support the construction of the solar projects. This was recorded as deferred revenue when received in accordance with Note 1 (ab). As the solar plants are expected to be sold within one year, the deferred revenue has now been classified as liabilities directly associated with assets classified as held for sale.

Macarthur Wind Farm joint venture

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 major classes of assets and liabilities of the disposal groups held for sale at the end of the reporting period are as follows:

	Solar plants $m	Other $m	2016 $m
Assets of disposal groups held for sale			
Property, plant and equipment	**447**	**-**	**447**
	447	**-**	**447**
Liabilities directly associated with assets classified as held for sale			
Deferred revenue - government grants	**224**	-	**224**
	224	-	**224**
Net assets classified as held for sale	**223**	-	**223**

	MWF $m	Other $m	2015 $m
Assets of disposal groups held for sale			
Exploration and evaluation assets	-	1	1
Property, plant and equipment	491	-	491
	491	1	492

	2016	2015
	$m	$m

Note 21 - Trade and other payables

	2016 $m	2015 $m
Current		
Trade payables and accrued expenses	**903**	669
Unbilled distribution costs	**453**	536
Green commodity scheme obligations	**145**	150
Other	**18**	22
	1,519	1,377

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

Note 22 - Borrowings

	2016 $m	2015 $m
Current - at amortised cost		
Bank loans - secured	**-**	331
Bank loans - unsecured	**11**	100
Other loans - unsecured	**11**	11
Finance lease liabilities - secured	**-**	1
	22	443
Non-current - at amortised cost		
USD senior notes - unsecured	**463**	421
Subordinated notes - unsecured	**650**	650
Medium term notes - unsecured	**597**	597
Bank loans - secured	**-**	167
Bank loans - unsecured	**1,217**	1,440
Other loans - unsecured	**156**	167
Finance lease liabilities - secured	**19**	17
Deferred borrowing costs	**(16)**	(20)
	3,086	3,439

Financing facilities

AGL has access to the following committed bank facilities:

	Total facilities		**Amounts used**	
	2016	2015	**2016**	2015
	$m	$m	**$m**	$m
USD senior notes - unsecured (after effect of cross currency swaps)	**338**	338	**338**	338
Subordinated notes - unsecured	**650**	650	**650**	650
Medium term notes - unsecured	**597**	597	**597**	597
Bank loans - secured	**-**	498	**-**	498
Bank loans - unsecured	**1,778**	1,760	**1,228**	1,540
Other loans - unsecured	**167**	178	**167**	178
Bank guarantees - unsecured	**330**	395	**225**	244
	3,860	4,416	**3,205**	4,045

Note 22 - Borrowings (cont'd)

USD senior notes

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

Subordinated notes

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

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 - unsecured

On 16 September 2015, AGL repaid the balance of the Loy Yang senior debt facility of $315 million. On 13 November 2015, AGL restructured the remaining CPI bonds which allowed for the removal of the Security Trust Deed (STD) and for the security provisions over specific Loy Yang assets to be replaced with AGL's other senior unsecured lenders.

On 14 February 2014, AGL executed an amendment to its syndicated loan facility to add a $650 million four year term facility. As at 30 June 2016, the facility was fully utilised.

During the year, AGL executed amendments to the syndicated loan facility to decrease the revolving facility to $400 million with maturity date of June 2017. As at 30 June 2016, the facility had not been utilised.

On 8 October 2015, AGL extended a $150 million revolving facility for a further year until December 2019. As at 30 June 2016, the facility had not been utilised.

On 4 February 2015, AGL executed a $410 million 6.5 year debt facility with a group of Asian banks. As at 30 June 2016, the facility was fully utilised.

Other loans

On 5 July 2011, AGL entered into a $200 million loan facility with EKF, the Danish export credit agency. Amortising over 18 years, the loan matures in 2031. As at 30 June 2016, the facility was fully utilised.

	2016	2015
	$m	$m

Note 23 - Provisions

	2016 $m	2015 $m
Current		
Employee benefits	**183**	154
Environmental restoration	**4**	3
Restructuring	**8**	-
Onerous contracts	**31**	34
	226	191
Non-current		
Employee benefits	**36**	32
Environmental restoration	**234**	184
Onerous contracts	**217**	240
	487	456

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 2016				
Balance at beginning of financial year	**187**	**-**	**274**	**461**
Additional provisions recognised	**-**	**10**	**7**	**17**
Provisions utilised	**(12)**	**(2)**	**(42)**	**(56)**
Remeasurement debited to non-current assets	**47**	**-**	**-**	**47**
Unwinding of discount	**16**	**-**	**9**	**25**
Balance at end of financial year	**238**	**8**	**248**	**494**

	2016 **$m**	2015 $m
Note 24 - Other financial liabilities		
Current		
Derivative financial instruments - at fair value		
- Interest rate swap contracts - cash flow hedges	**28**	27
- Energy derivatives - cash flow hedges	**-**	6
- Energy derivatives - economic hedges	**328**	158
	356	191
Deferred consideration	**33**	33
Other contractual liabilities	**71**	45
	460	269
Non-current		
Derivative financial instruments - at fair value		
- Interest rate swap contracts - cash flow hedges	**74**	52
- Energy derivatives - cash flow hedges	**1**	2
- Energy derivatives - economic hedges	**4**	7
	79	61
Deferred consideration	**196**	203
Other contractual liabilities	**26**	123
	301	387

Note 25 - Other liabilities

	2016 **$m**	2015 $m
Current		
Deferred revenue - government grants	**-**	7
Non-current		
Deferred revenue - government grants	**-**	215
Deferred revenue - other	**50**	47
Defined benefit superannuation plan liability	**160**	56
Other	**41**	45
	251	363

	2016 $m	2015 $m
Note 26 - Issued capital		
674,712,378 fully-paid ordinary shares (2015: 674,712,378)	**6,696**	6,696

	2016 Number	2016 $m	2015 Number	2015 $m
Movement in fully-paid ordinary shares				
Balance at beginning of financial year	**674,712,378**	**6,696**	559,719,746	5,437
Shares issued under the institutional and retail rights offers	**-**	**-**	111,981,107	1,232
Shares issued under AGL Dividend Reinvestment Plan	**-**	**-**	2,998,085	43
Shares issued to shareholders with unpresented or unclaimed dividend payments	**-**	**-**	13,440	-
Transaction costs relating to the institutional and retail rights offers	**-**	**-**	-	(22)
Income tax relating to transactions with owners	**-**	**-**	-	6
Balance at end of financial year	**674,712,378**	**6,696**	674,712,378	6,696

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.

	2016 **$m**	2015 $m
Note 27 - Reserves		
Employee equity benefits	**1**	3
Hedging	**(25)**	(68)
	(24)	(65)

Movement in reserves

Employee equity benefits reserve

	2016	2015
Balance at beginning of financial year	**3**	5
Share-based payment plans expense	**6**	5
Purchase of shares on-market under AGL Share Reward Plan	**(3)**	(2)
Purchase of shares on-market under AGL Long-Term Incentive Plan	**(5)**	(5)
Balance at end of financial year	**1**	3

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

Hedging reserve

	2016	2015
Balance at beginning of financial year	**(68)**	(104)
Gain/(loss) arising on changes in fair value of cash flow hedges	**12**	(22)
Income tax related to gains/losses recognised in other comprehensive income	**(3)**	6
Cumulative loss arising on changes in fair value of cash flow hedges reclassified to profit or loss	**29**	94
Income tax related to amounts reclassified to profit or loss	**(9)**	(28)
Share of loss in reserve attributable to a joint venture	**(1)**	(14)
Cumulative loss reclassified to profit or loss on disposal of investment in a joint venture	**15**	-
Balance at end of financial year	**(25)**	(68)

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

Note 28 - Earnings per share (EPS)

	2016	2015
Statutory earnings per share		
Basic earnings per share	**(60.5 cents)**	33.3 cents
Diluted earnings per share	**(60.4 cents)**	33.3 cents
Underlying earnings per share		
Basic earnings per share	**103.9 cents**	96.4 cents
Diluted earnings per share	**103.8 cents**	96.3 cents

	2016 $m	2015 $m
Earnings used in calculating basic and diluted earnings per share		
(Loss)/profit for the year attributable to owners of AGL Energy Limited	**(408)**	218
Statutory earnings used to calculate basic and diluted EPS	**(408)**	218
Significant expense items after income tax	**692**	578
Loss/(gain) in fair value of financial instruments after income tax	**417**	(166)
Underlying earnings used to calculate basic and diluted EPS	**701**	630

	2016 Number	2015 Number
Weighted average number of ordinary shares		
Number of ordinary shares used in the calculation of basic EPS pre adjusting for bonus element of the rights issue	**674,712,378**	649,815,015
Bonus element of the rights issue	**-**	3,910,739
Number of ordinary shares used in the calculation of basic EPS	**674,712,378**	653,725,754
Effect of dilution - LTIP share performance rights	**494,516**	282,774
Number of ordinary shares used in the calculation of diluted EPS	**675,206,894**	654,008,528

	2016 $m	2015 $m
Note 29 - Commitments		
(a) Capital expenditure commitments		
Property, plant and equipment		
Not later than one year	**81**	78
Later than one year and not later than five years	**9**	6
Later than five years	**-**	-
	90	84
AGL's share of joint operations capital commitments		
Not later than one year	**-**	8
Later than one year and not later than five years	**-**	-
Later than five years	**-**	-
	-	8
AGL's share of associates' and joint ventures' capital commitments		
Not later than one year	**5**	-
Later than one year and not later than five years	**-**	-
Later than five years	**-**	-
	5	-

(b) Lease commitments

	Minimum lease payments		Present value of minimum lease payments	
Finance lease liabilities	**2016 $m**	2015 $m	**2016 $m**	2015 $m
Not later than one year	**-**	1	**-**	1
Later than one year and not later than five years	**-**	-	**-**	-
Later than five years	**178**	178	**19**	17
Minimum future lease payments *	**178**	179	**19**	18
Less future finance charges	**(159)**	(161)	**-**	-
Present value of minimum lease payments	**19**	18	**19**	18
Included in the financial statements as:				
Current borrowings (Note 22)			**-**	1
Non-current borrowings (Note 22)			**19**	17
			19	18

* 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.

Note 29 - Commitments (cont'd)

Operating leases	**2016 $m**	2015 $m
Non-cancellable operating lease rentals are payable as follows:		
Not later than one year	**20**	19
Later than one year and not later than five years	**70**	73
Later than five years	**81**	90
	171	182

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

Note 30 - 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 31 - Remuneration of auditors

	2016 $000	2015 $000
Auditor of the Parent Entity		
Audit and review of financial reports	**1,315**	1,510
Other regulatory audit services	**174**	284
Other assurance services	**277**	268
Other services	**91**	339
	1,857	2,401

The auditor of AGL Energy Limited is Deloitte Touche Tohmatsu.

Note 32 - Subsidiaries

Name of subsidiary	Note	Country of incorporation	Ownership interest and voting power held 2016 %	2015 %
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	(c)	Australia	**100**	-
AGL Corporate Services Pty Limited	(a)	Australia	**100**	100
AGL DPS Pty Limited	(d)	Australia	**-**	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 32 - Subsidiaries (cont'd)

Name of subsidiary	Note	Country of incorporation	Ownership interest and voting power held 2016 %	2015 %
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 Power Generation Pty Limited	(a)	Australia	**100**	100
AGL Power Generation (Wind) Pty Limited	(a)	Australia	**100**	100
Australia Plains Wind Farm Pty Ltd	(a)	Australia	**100**	100
Barn Hill Wind Farm Pty Ltd	(a)	Australia	**100**	100
Ben Lomond Wind Farm Pty Ltd	(a)	Australia	**100**	100
Box Hill Wind Farm Pty Limited	(a)	Australia	**100**	100
Crows Nest Wind Farm Pty Ltd	(a)	Australia	**100**	100
Highfields Wind Farm Pty Limited	(a)	Australia	**100**	100
Worlds End Wind Farm Pty Ltd	(a)	Australia	**100**	100
AGL PV Solar Holdings Pty Limited		Australia	**95**	95
AGL PV Solar Developments Pty Limited		Australia	**100**	100
AGL Retail Energy Limited	(a)	Australia	**100**	100
AGL Share Plan Pty Limited		Australia	**100**	100
AGL (SG) (Camden) Operations Pty Limited	(a)	Australia	**100**	100
AGL (SG) (Hunter) Operations Pty Limited	(a)	Australia	**100**	100
AGL (SG) Operations Pty Limited	(a)	Australia	**100**	100
AGL Upstream Gas (Mos) Pty Limited	(a)	Australia	**100**	100
AGL Cooper Basin Pty Ltd	(a)	Australia	**100**	100
AGL Gas Storage Pty Ltd	(a)	Australia	**100**	100
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
Connect Now Pty Ltd		Australia	**100**	100
Coopers Gap Wind Farm Pty Ltd	(a)	Australia	**100**	100
Geogen Victoria Pty Ltd	(a)	Australia	**100**	100
H C Extractions Pty Limited	(a)	Australia	**100**	100
Macarthur Wind Farm Pty Ltd	(d)	Australia	**-**	100
MWF Finance Pty Limited	(d)	Australia	**-**	100
NGSF Asset Pty Limited	(c)	Australia	**100**	-
NGSF Finance Pty Limited	(c)	Australia	**100**	-
NGSF Operations Pty Limited	(c)	Australia	**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 36.
(b) Parties to a Deed of Cross Guarantee with AGL Generation Proprietary Limited as detailed in Note 36.
(c) Incorporated during the financial year.
(d) Disposed during the financial year.

Note 33 - Acquisition of subsidiaries and businesses

2016

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

2015

Acquisition of Macquarie Generation

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

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

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

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

Acquisition-related costs of $105 million including stamp duty were excluded from the consideration paid and were recognised as an expense in profit or loss in the year, within the 'other expenses' line item.

Note 33 - Acquisition of subsidiaries and businesses (cont'd)

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

Assets acquired and liabilities assumed	2016 $m	Macquarie Generation 2015 $m	Other acquisitions 2015 $m	Total 2015 $m
Current assets				
Trade and other receivables (a)	-	79	1	80
Inventories	-	148	-	148
Other financial assets	-	86	-	86
Other assets	-	11	-	11
Total current assets	-	324	1	325
Non-current assets				
Other financial assets	-	64	-	64
Property, plant and equipment	-	1,352	3	1,355
Intangible assets	-	10	3	13
Deferred tax assets	-	92	-	92
Total non-current assets	-	1,518	6	1,524
Total assets	-	1,842	7	1,849
Current liabilities				
Trade and other payables	-	54	-	54
Provisions	-	47	1	48
Other financial liabilities	-	27	-	27
Total current liabilities	-	128	1	129
Non-current liabilities				
Provisions	-	72	-	72
Other financial liabilities	-	212	-	212
Other liabilities	-	122	-	122
Total non-current liabilities	-	406	-	406
Total liabilities	-	534	1	535
Net assets	-	1,308	6	1,314
Goodwill arising on acquisition	-	-	34	34
Fair value of net assets acquired	-	1,308	40	1,348
Purchase consideration	-	1,505	40	1,545
Less: working capital and other adjustments	-	(104)	-	(104)
Less: stamp duty	-	(93)	-	(93)
Net consideration	-	1,308	40	1,348
Cash paid	-	1,308	40	1,348
Consideration payable	-	-	-	-
Net consideration	-	1,308	40	1,348

(a) Trade and other receivables acquired with a fair value of $nil (2015: $80 million) had gross contractual amounts of $nil (2015: $80 million). The best estimate at acquisition date of the contractual cash flows not expected to be collected is $nil (2015: $nil).

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

Note 33 - Acquisition of subsidiaries and businesses (cont'd)

	2016 $m	2015 $m
Net cash outflow on acquisitions		
Cash paid	**-**	1,348
Less: cash and cash equivalent balances acquired	**-**	-
	-	1,348

Note 34 - Disposal of subsidiaries and businesses

2016

Disposal of Macarthur Wind Farm Pty Ltd

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

Disposal of AGL DPS Pty Limited

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

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

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

2015

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

Note 35 - Joint operations

Joint operation	Principal activities	Interest 2016 %	2015 %
Bowen Basin - Queensland			
Moranbah Gas Project - PL 191, PL 196, PL 222, PL 223, PL 224 & ATP 1103	Gas production and exploration	**50**	50
Spring Gully Project - ATP 592P, PL 195, PL 203 & PL 417	Gas production and exploration	**0.75**	0.75
Spring Gully Project - PL 204	Gas production	**0.0375**	0.0375
Galilee Basin - Queensland			
Galilee Gas Project - ATP 529P (a)	Gas exploration	**-**	50
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 (under application)	Oil and gas exploration	**20**	20
ATP 1056P (b)	Oil exploration	**-**	40
Others			
North Queensland Energy Joint Venture	Sale of gas and electricity	**50**	50
Macarthur Wind Farm Joint Venture (c)	Wind farm owner	**-**	50
Lytton Joint Venture	Crude oil storage terminal	**33.333**	33.333

(a) On 27 August 2015, AGL completed the disposal of its 50% interest in ATP 529P to Galilee Energy Limited.

(b) On 3 March 2016, AGL completed the disposal of its 40% interest in ATP 1056P to Texas-Tickalara Energy Partners and Matariki Petroleum Partnership.

(c) On 7 September 2015, AGL completed the disposal of its 50% interest in the Macarthur Wind Farm Joint Venture to H.R.L. Morrison & Co managed funds.

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.

	2016 $m	2015 $m
Current assets		
Cash and cash equivalents	**6**	2
Trade and other receivables	**6**	6
Inventories	**1**	1
Assets classified as held for sale	**-**	491
Total current assets	**13**	500
Non-current assets		
Exploration and evaluation assets	**-**	9
Oil and gas assets	**-**	369
Total non-current assets	**-**	378
Total assets	**13**	878

AGL's share of capital expenditure commitments and contingent liabilities of joint operations are disclosed in Notes 29 and 30 respectively.

Note 36 - Deeds of cross guarantee

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. Refer to Note 32 for further details.

	AGL Energy Limited		AGL Generation Pty Ltd	
	2016	2015	**2016**	2015
	$m	$m	**$m**	$m
Statement of profit or loss				
Revenue	**9,697**	9,646	**4**	4
Other income	**25**	-	**-**	-
Expenses	**(9,469)**	(8,912)	**(4)**	(4)
Share of profits/(losses) of associates and joint ventures	**26**	27	**(175)**	66
Profit/(loss) before net financing costs, depreciation and amortisation	**279**	761	**(175)**	66
Depreciation and amortisation	**(334)**	(260)	**-**	-
(Loss)/profit before net financing costs	**(55)**	501	**(175)**	66
Finance income	**112**	139	**-**	5
Finance costs	**(168)**	(176)	**(12)**	(11)
Net financing costs	**(56)**	(37)	**(12)**	(6)
(Loss)/profit before tax	**(111)**	464	**(187)**	60
Income tax (expense)/benefit	**(22)**	(121)	**52**	(16)
(Loss)/profit for the year	**(133)**	343	**(135)**	44
Statement of comprehensive income				
(Loss)/profit for the year	**(133)**	343	**(135)**	44
Other comprehensive income				
Items that will not be reclassified subsequently to profit or loss				
Remeasurement (loss)/gain on defined benefit plans	**(78)**	88	**(24)**	35
Income tax relating to items that will not be reclassified subsequently	**23**	(26)	**7**	(11)
	(55)	62	**(17)**	24
Items that may be reclassified subsequently to profit or loss				
Cash flow hedges	**40**	67	**1**	15
Share of other comprehensive income of a joint venture	**(1)**	(14)	**-**	-
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	**(12)**	(21)	**-**	(4)
	42	32	**1**	11
Other comprehensive income for the year, net of income tax	**(13)**	94	**(16)**	35
Total comprehensive income for the year	**(146)**	437	**(151)**	79

Note 36 - Deed of cross guarantee (cont'd)

	AGL Energy Limited		AGL Generation Pty Ltd	
	2016	2015	**2016**	2015
	$m	$m	**$m**	$m
Statement of financial position				
Current assets				
Cash and cash equivalents	**219**	123	**2**	1
Trade and other receivables	**1,814**	1,832	**1**	2
Inventories	**350**	375	**-**	-
Other financial assets	**177**	144	**-**	-
Other assets	**41**	35	**4**	3
Assets classified as held for sale	**-**	492	**-**	-
Total current assets	**2,601**	3,001	**7**	6
Non-current assets				
Trade and other receivables	**44**	44	**643**	672
Inventories	**30**	-	**-**	-
Other financial assets	**5,003**	4,824	**2,750**	2,626
Investments in associates and joint ventures	**70**	91	**-**	-
Exploration and evaluation assets	**-**	130	**-**	-
Oil and gas assets	**47**	544	**-**	-
Property, plant and equipment	**3,142**	3,233	**-**	-
Intangible assets	**2,363**	2,397	**-**	-
Deferred tax assets	**230**	64	**-**	-
Other assets	**5**	21	**7**	10
Total non-current assets	**10,934**	11,348	**3,400**	3,308
Total assets	**13,535**	14,349	**3,407**	3,314
Current liabilities				
Trade and other payables	**1,386**	1,242	**10**	9
Borrowings	**11**	111	**-**	-
Provisions	**176**	141	**-**	-
Current tax liabilities	**95**	86	**-**	-
Other financial liabilities	**557**	556	**-**	-
Other liabilities	**-**	7	**-**	-
Total current liabilities	**2,225**	2,143	**10**	9
Non-current liabilities				
Borrowings	**2,910**	3,255	**-**	-
Provisions	**437**	406	**-**	-
Deferred tax liabilities	**-**	-	**104**	192
Other financial liabilities	**317**	387	**124**	112
Other liabilities	**199**	117	**-**	-
Total non-current liabilities	**3,863**	4,165	**228**	304
Total liabilities	**6,088**	6,308	**238**	313
Net assets	**7,447**	8,041	**3,169**	3,001
Equity				
Issued capital	**6,696**	6,696	**2,878**	2,559
Reserves	**(24)**	(64)	**25**	24
Retained earnings	**775**	1,409	**266**	418
Total equity	**7,447**	8,041	**3,169**	3,001
Summary of movements in retained earnings				
Retained earnings at beginning of financial year	**1,409**	1,391	**418**	350
(Loss)/profit for the year	**(133)**	343	**(135)**	44
Dividends paid or provided	**(446)**	(387)	**-**	-
Remeasurement (loss)/gain on defined benefit plans, net of tax	**(55)**	62	**(17)**	24
Retained earnings at end of financial year	**775**	1,409	**266**	418

Note 37 - 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 exposes 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.

	2016	2015
	$m	$m
Amounts recognised in profit or loss		
Current service cost	**23**	26
Net interest expense	**2**	4
Expense recognised in profit or loss as part of employee benefits expense	**25**	30
Amounts recognised in other comprehensive income		
Remeasurements		
Return on plan assets (excluding amounts included in net interest expense)	**14**	(47)
Actuarial (gain)/loss arising from changes in demographic assumptions	**6**	-
Actuarial (gain)/loss arising from changes in financial assumptions	**99**	(87)
Actuarial (gain)/loss arising from experience	**(8)**	(1)
Remeasurement loss/(gain) on defined benefit plans recognised in other comprehensive income	**111**	(135)
Amounts included in the statement of financial position		
Present value of funded defined benefit obligations	**856**	752
Fair value of plan assets	**(701)**	(716)
Net defined benefit liability	**155**	36
Defined benefit superannuation plan asset (Note 14)	**(5)**	(20)
Defined benefit superannuation plan liability (Note 25)	**160**	56
Net defined benefit liability	**155**	36
Net liability at beginning of financial year	**36**	67
Net liabilities assumed in a business combination	**-**	93
Expense recognised in profit or loss	**25**	30
Amounts recognised in other comprehensive income	**111**	(135)
Employer contributions	**(17)**	(19)
Net liability at end of financial year	**155**	36

	2016 $m	2015 $m

Note 37 - Defined benefit superannuation plans (cont'd)

Movements in the present value of defined benefit obligations

	2016 $m	2015 $m
Opening defined benefit obligations	**752**	593
Liabilities assumed in a business combination	**-**	249
Current service cost	**23**	26
Interest expense	**32**	28
Contributions by plan participants	**9**	9
Actuarial (gain)/loss arising from changes in demographic assumptions	**6**	-
Actuarial (gain)/loss arising from changes in financial assumptions	**99**	(87)
Actuarial (gain)/loss arising from experience	**(8)**	(1)
Benefits paid	**(52)**	(61)
Taxes, premiums and expenses paid	**(5)**	(5)
Transfers in	**-**	1
Closing defined benefit obligations	**856**	752

Movements in the fair value of plan assets

	2016 $m	2015 $m
Opening fair value of plan assets	**716**	526
Assets acquired in a business combination	**-**	156
Interest income	**30**	24
Return on plan assets (excluding amounts included in net interest expense)	**(14)**	47
Employer contributions	**17**	19
Contributions by plan participants	**9**	9
Benefits paid	**(52)**	(61)
Taxes, premiums and expenses paid	**(5)**	(5)
Transfers in	**-**	1
Closing fair value of plan assets	**701**	716

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 %
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**
2015				
Australian equities	28	29	27	26
International equities	31	25	22	32
Fixed interest securities	10	11	10	7
Property	4	9	12	9
Cash	7	8	6	6
Alternatives/other	20	18	23	20

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

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

Note 37 - 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
	%	%	%	%
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**	**-**
2015				
Discount rate active members	4.1	4.1	4.7	4.7
Discount rate pensioners	-	4.1	4.7	-
Expected salary increase rate	3.5	4.0	4.0	2.5 - 3.5
Expected pension increase rate	-	2.5	2.8	-

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 2016 $m	**Decrease 2016 $m**	Increase 2015 $m	Decrease 2015 $m
Discount rate (0.5 percentage point movement)	**(50)**	**58**	(42)	47
Expected salary increase rate (0.5 percentage point movement)	**24**	**(23)**	23	(22)
Expected pension increase rate (0.5 percentage point movement)	**12**	**(11)**	10	(9)

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 $15 million to the defined benefit plans during the year ended 30 June 2017.

The weighted average duration of the defined benefit obligation as at 30 June 2016 was SSMT 8 years; EF 8 years; EISS 14 years; and SSS, SASS and SANCS 17 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 2016 was $28 million (2015: $24 million).

Note 38 - Share-based payment plans

AGL has the following share-based payment plans:

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

AGL Share Reward Plan

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

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

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

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

Grant date	Balance at 1 July Number	Granted during the year Number	Fair value per share $	Distributed during the year Number	Balance at 30 June Number
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**
2015					
30 September 2014	-	109,886	$13.65	(9,353)	100,533
27 September 2013	130,176	-	-	(13,696)	116,480
28 September 2012	81,600	-	-	(11,520)	70,080
30 September 2011	51,695	-	-	(51,695)	-
	263,471	109,886		(86,264)	287,093

During the year, there were 2,932 eligible employees (2015: 2,338) who were each granted 61 ordinary shares in AGL (2015: 47). 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 $3 million (2015: $2 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. For FY16, the Directors of AGL may also participate in the SPP. The total amount that can be allocated to the purchase of shares under the SPP in any financial year is $5,000.

Under the FY16 SPP, shares may not be disposed before the earlier of seven years after the date of acquisition (or, in the case of SPP shares acquired on or before 31 May 2010, 10 years), the date on which the participating employee ceases to be employed by AGL, 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 38 - 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	Purchased/ granted during the year	Fair value per share	Distributed during the year	Balance at 30 June
	Number	Number	$	Number	Number
2016					
Non-executive Directors	**19,848**	**288**	**$17.39**	**-**	**20,136**
Managing Director and Chief Executive Officer (a)	**73,000**	**33,510**	**$17.01**	**-**	**106,510**
Employees	**242,475**	**127,722**	**$17.01**	**(195,135)**	**175,062**
	335,323	**161,520**		**(195,135)**	**301,708**
2015					
Non-executive Directors	19,491	357	$13.98	-	19,848
Managing Director and Chief Executive Officer (b)	-	73,000	$15.12	-	73,000
Managing Director and Chief Executive Officer (c)	169,300	-	-	(169,300)	-
Employees	172,649	179,062	$14.05	(109,236)	242,475
	361,440	252,419		(278,536)	335,323

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

(b) Mr Vesey commenced employment with AGL on 12 January 2015 as Managing Director and Chief Executive Officer designate and was officially appointed MD and CEO from 12 February 2015. Under Mr Vesey's service agreement, he received an allocation of 73,000 AGL shares in partial recognition of incentives foregone from his previous employment.

(c) Mr Fraser retired on 11 February 2015 as Managing Director and Chief Executive Officer and the 169,300 AGL shares that had been allocated to him in prior years were released.

At the end of the reporting period, there was one Non-executive Director (2015: one) and 231 employees including the Managing Director (2015: 306) participating in the SPP. All shares were purchased on-market and the fair value per share is market value.

No expense is recognised in profit or loss in relation to shares purchased under the SPP as they are acquired out of salary sacrificed remuneration.

AGL Long-Term Incentive Plan

The AGL Energy Limited Board of Directors approved the AGL Long-Term Incentive Plan (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.

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

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

A review of the LTI Plan was undertaken to ensure that the plan for the FY16 performance year aligns with market practice and the Company’s strategy, whilst providing an incentive that appropriately rewards executives and delivers value to shareholders.

As a result the Board resolved to change the operation of the LTI plan.

Note 38 - Share-based payment plans (cont'd)

AGL Long-Term Incentive Plan (cont'd)

Transitional Arrangements

Following changes to the operation of the LTI plan, each executive was given an additional transitional grant in relation to the 2016 and 2017 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 LTIP 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 2016 performance year was $1.1 million, which will be allocated in September 2016.

2016 Long-Term Incentive Plan

On 30 September 2015, 8 executives received an initial notional grant of 301,917 SPRs in respect of the year ended 30 June 2016. The number of SPRs notionally granted was determined by taking the participant's fixed remuneration as at 1 September 2015 multiplied by their pre-agreed percentage LTI component, and divided by $15.94 (being the VWAP for June 2015). The weighted average fair value of the SPRs granted was $11.56.

The SPRs notionally granted are subject to two performance hurdles, weighted equally, based on:

- Relative Total Shareholder Return (RTSR); and
- Return on Equity.

RTSR is calculated by ranking AGL's TSR on a relative basis against TSR performance of constituent companies in AGL's peer group.

Return on Equity measures the amount of net income returned as a percentage of shareholders equity.

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

RTSR vesting schedule

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

ROE vesting schedule

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

Details of SPR's movements in the 2016 AGL Long-Term Incentive Plan during the year are set out below:

SPRs grant	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
2016							
30-Sep-2015	**-**	**RTSR**	**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 38 - Share-based payment plans (cont'd)

AGL Long-Term Incentive Plan (cont'd)

2015 Long-Term Incentive Plan

On 25 September 2014, 21 executives received an initial notional grant of 223,636 SPRs in respect of the year ended 30 June 2015. The number of SPRs notionally granted was determined by taking the participant's fixed remuneration as at 1 September 2014 multiplied by their pre-agreed percentage LTI component, and divided by $15.30 (being the VWAP for 30 June 2014). The weighted average fair value of the SPRs granted was $5.92.

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

- Annual Total Shareholder Return (TSR); and
- Relative Total Shareholder Return measured against the ASX 100 (RTSR).

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

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

The number of SPRs to be deposited or deducted from a participant's TSR bank account and Relative TSR bank account is determined by a multiplier to be applied to the number of SPRs notionally granted according to the TSR and Relative TSR outcomes as indicated in the tables below.

Annual TSR	Number of SPRs awarded
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%

In the event the TSR outcome is greater than 14%, the opening share price for measuring the following year's TSR is set at a level that would have achieved 14%. In the event the TSR outcome is less than minus 14%, the opening share price for measuring the following year's TSR is set at a level that would have achieved minus 14%.

TSR ranking relative to ASX100	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 2015 and prior LTI plans. As a result, any SPRs held in an executives TSR or Relative TSR bank account as at 30 September 2015 will, subject to performance testing, vest over the course of two years in September 2016 and 2017.

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.

Note 38 - Share-based payment plans (cont'd)

AGL Long-Term Incentive Plan (cont'd)

The EBIT/Funds Employed, TSR and RTSR bank account movements during the year are set out below:

SPRs grant	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	**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 SPRs 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 each participant.

The EBIT/Funds Employed, TSR and Relative TSR bank account movements during the year ended 30 June 2015 are set out below:

SPRs grant	Balance at 1 July Number	Adjustment to SPR balance at 1 July (a) Number	Deposited (deducted) during the year (b) Number	Notionally granted during the year Number	Vested during the year Number	Forfeited during the year Number	Balance at 30 June Number
2015							
TSR share bank account	142,771	7,116	321,100	-	(304,050)	(34,056)	132,881
EBIT/Funds Employed share bank account	257,764	12,843	(211,072)	-	(42,504)	(3,799)	13,232
Notional grant 12-Jan-15	-	-	-	81,048	-	-	81,048
Notional grant 25-Sep-14	-	-	-	223,636	-	(19,699)	203,937
Notional grant 9-Oct-13	392,137	-	(392,137)	-	-	-	-
	792,672	19,959	(282,109)	304,684	(346,554)	(57,554)	431,098

(a) Adjustment to the share bank balances for the dilution to unvested SPRs as at 1 July 2014 as a result of the one-for-five share rights issue in September 2014.

(b) After testing the SPRs notionally granted on 9 October 2013 against the relevant performance hurdle for the 2014 financial year, SPRs were deposited into (or deducted from) the relevant share bank account for each participant.

SPRs grant

The fair value of services received in return for SPRs granted are measured by reference to the fair value of SPRs granted. The estimate of the fair value of services received is measured based on the Monte Carlo simulation method. The contractual life of the SPRs is used as an input into this model. Expected volatility is based on the historical share price volatility over the past two years.

	2016 30-Sep-15 **2016 LTIP**	**2016** 30-Sep-15 **Transitional arrangements**	2015 25-Sep-14 2015 LTIP
Weighted average fair value at grant date	$11.56	97% - 98%	$5.92
Share price at grant date	$15.97	$15.97	$13.72
Expected volatility	18.0%	18.0%	16.0%
SPR life	2.9 years	0.9 - 1.9 years	0.9 - 4.9 years
Expected dividend yield	4.2%	4.2%	4.6%
Risk free interest rate (based on government bonds)	1.8%	1.8%	2.5%

The expense recognised in profit or loss as part of employee benefits expense during the year in relation to SPRs granted to executives under the AGL Long-Term Incentive Plan was $3 million (2015: $3 million).

Note 39 - 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:

	2016 $000	2015 $000
Short-term employee benefits	**12,200**	15,521
Post-employment benefits	**214**	604
Termination benefits	**730**	836
Share-based payments	**4,136**	4,590
	17,280	21,551

Further details are contained in the Remuneration Report attached to and forming part of the Directors' Report.

Loans to joint ventures

On 31 March 2016, AGL completed the disposal of its 50% interest in Diamantina Holding Company Pty Limited. The assets disposed included a loan of $80,392,000 to Diamantina Holding Company Pty Limited.

	2016	2015
Amounts owing by joint ventures		
ActewAGL Retail Partnership	**42,396**	48,462
Amounts owing to joint ventures		
ActewAGL Retail Partnership	**4,411**	9,093
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.	**6,925**	6,967
AGL sold gas and electricity to the ActewAGL Retail Partnership on normal commercial terms and conditions.	**230,221**	221,842
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**	106,714
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.	**500**	-

Note 40 - 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:

	2016 $m	2015 $m
Cash at bank and on hand	**132**	182
Short-term deposits	**120**	77
	252	259

(b) Reconciliation of profit for the year to net cash flows from operating activities

	2016 $m	2015 $m
(Loss)/profit for the year	**(407)**	218
Share of profits of associates and joint ventures	**(26)**	(27)
Dividends received from joint ventures	**19**	32
Depreciation and amortisation	**478**	379
Impairment loss on exploration and evaluation assets	**171**	275
Impairment loss on oil and gas assets	**496**	18
Impairment loss on property, plant and equipment	**112**	-
Impairment loss on intangible assets	**1**	40
Impairment loss on investment in an associate	**5**	2
Impairment loss on remeasurement of disposal group	**-**	7
Diminution in value of inventory	**6**	-
Share-based payments expense	**6**	5
Loss/(gain) in fair value of financial instruments	**595**	(237)
Onerous contracts expense	**7**	262
Cumulative loss reclassified from equity on disposal of investment in a joint venture	**15**	-
Cumulative loss reclassified from equity on acquisition of a business	**-**	37
Gain on disposal of subsidiaries and businesses	**(25)**	-
Net loss on disposal of property, plant and equipment	**3**	20
Non-cash finance costs	**59**	52
Capitalised finance costs	**(6)**	(24)
Deferred borrowing costs	**(1)**	(5)
Other non-cash expenses	**13**	-
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	**(86)**	97
(Increase)/decrease in inventories	**(11)**	(61)
(Increase)/decrease in derivative financial instruments	**(82)**	(19)
(Increase)/decrease in other financial assets	**(52)**	(5)
(Increase)/decrease in other assets	**30**	70
Increase/(decrease) in trade and other payables	**122**	(101)
Increase/(decrease) in provisions	**(21)**	-
Increase/(decrease) in other liabilities	**(2)**	38
Increase/(decrease) in tax assets and liabilities	**(233)**	(29)
Net cash provided by operating activities	**1,186**	1,044

(c) Non-cash financing and investing activities

Dividends satisfied by the issue of shares under the AGL Dividend Reinvestment Plan	**-**	43

Note 41 - 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 2015.

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:

	2016 $m	2015 $m
Current borrowings	**22**	443
Non-current borrowings	**3,086**	3,439
Total borrowings	**3,108**	3,882
Adjustment for cross currency swap hedges and deferred borrowing costs	**(110)**	(63)
Adjusted total borrowings	**2,998**	3,819
Cash and cash equivalents	**(252)**	(259)
Net debt	**2,746**	3,560
Total equity	**7,926**	8,815
Hedging reserve	**25**	68
Adjusted equity	**7,951**	8,883
Net debt	**2,746**	3,560
Adjusted total capital	**10,697**	12,443
Gearing ratio	**25.7%**	28.6%

(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 and 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.

Note 41 - Financial instruments (cont'd)

(c) Interest rate risk management

AGL is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swap contracts or other hedging instruments.

AGL regularly analyses its interest rate exposure, by taking into consideration forecast debt positions, refinancing, renewals of existing positions, alternative financing, hedging positions and the mix of fixed and floating interest rates.

At the end of the reporting period, AGL had the following financial assets and liabilities exposed to floating interest rate risk:

Floating rate instruments	2016 $m	2015 $m
Financial assets		
Cash and cash equivalents	**252**	259
	252	259
Financial liabilities		
USD senior notes (after effect of cross currency swaps)	**338**	338
Subordinated notes	**650**	650
Bank loans	**1,228**	2,038
Other loans	**167**	178
Interest rate swap contracts	**(1,435)**	(1,705)
	948	1,499

Interest rate swap contracts - cash flow hedges

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding at the end of the reporting period:

	Average contracted fixed interest rate		Notional principal amount		Fair value	
Outstanding receive floating pay fixed contracts	**2016 %**	2015 %	**2016 $m**	2015 $m	**2016 $m**	2015 $m
Less than 1 year	**3.85**	3.56	**440**	715	**(5)**	(4)
1 to 2 years	**3.92**	3.85	**400**	440	**(15)**	(11)
2 to 3 years	**4.00**	3.92	**150**	400	**(9)**	(17)
3 to 4 years	**4.05**	4.00	**190**	150	**(15)**	(8)
4 to 5 years	**4.29**	4.05	**245**	190	**(23)**	(11)
5 years or more	**3.61**	3.83	**525**	770	**(31)**	(21)
			1,950	2,665	**(98)**	(72)

The aggregate notional principal amount of the outstanding interest rate swap contracts at 30 June 2016 was $1,950 million (2015: $2,665 million). Included in this amount are $515 million (2015: $960 million) of forward interest rate swap contracts, of which $100 million commences in the 2017 financial year, $150 million commences in the 2019 financial year, $225 million commences in the 2020 financial year and $40 million commences in the 2021 financial year.

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is the Australian BBSW. AGL will settle the difference between the fixed and floating interest rate on a net basis. During the year, no hedges were de-designated and all underlying forecast transactions remain highly probable to occur as per original forecast.

Note 41 - Financial instruments (cont'd)

(c) Interest rate risk management (cont'd)

Interest rate sensitivity

The following sensitivity analysis has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the end of the reporting period and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period.

At the end of the reporting period, if interest rates had been 50 basis points higher or lower and all other variables were held constant, AGL's profit after tax and other comprehensive income would have been affected as follows:

	(Loss)/profit after tax Increase/(decrease)		**Other comprehensive income Increase/(decrease)**	
	2016 $m	2015 $m	**2016 $m**	2015 $m
Interest rates +0.5 percentage points (50 basis points)	**(1)**	(3)	**5**	20
Interest rates -0.5 percentage points (50 basis points)	**1**	3	**(5)**	(19)

(d) Foreign currency risk management

AGL undertakes certain transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Foreign currency risk arises primarily from overseas term borrowings and firm commitments for the purchase of plant and equipment which are denominated in foreign currencies. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts and cross currency swap contracts.

Forward foreign exchange contracts - cash flow hedges

AGL's Corporate Treasury policy requires the hedging of foreign currency risk using forward foreign exchange contracts. The Corporate Treasury's policy is to hedge currency exposures of anticipated cash flows in excess of $0.5 million and to not enter into forward foreign exchange contracts until a firm commitment is in place.

AGL 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 were no forward foreign exchange contracts outstanding at the end of the reporting period (2015: 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 2016 was an asset of $117 million (2015: asset of $74 million), of which $57 million (2015: $42 million) is in a cash flow hedge relationship and $60 million (2015: $32 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**	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
Outstanding contracts	**%**	%			**$m**	$m	**$m**	$m
Buy US dollars								
5 years or more	**4.87**	5.13	**0.888**	0.888	**338**	338	**117**	74

Note 41 - 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 retail customer energy load. AGL's risk management policy for energy price risk is to hedge forecast future positions for up to five years into the future.

Exposures to fluctuations in the wholesale market energy prices are managed through the use of various types of hedge contracts including derivative financial instruments.

The following table details the fair value of energy derivatives outstanding at the end of the reporting period:

	2016	2015
	$m	$m
Energy derivative financial assets - current		
Energy derivatives - cash flow hedges	**49**	9
Energy derivatives - economic hedges	**141**	119
	190	128
Energy derivative financial assets - non-current		
Energy derivatives - cash flow hedges	**17**	2
Energy derivatives - economic hedges	**11**	445
	28	447
Energy derivative financial liabilities - current		
Energy derivatives - cash flow hedges	**-**	6
Energy derivatives - economic hedges	**328**	158
	328	164
Energy derivative financial liabilities - non-current		
Energy derivatives - cash flow hedges	**1**	2
Energy derivatives - economic hedges	**4**	7
	5	9

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 2016 were 6 million MWh (2015: 7 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 41 - 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:

	(Loss)/profit after tax Increase/(decrease)		Other comprehensive income Increase/(decrease)	
	2016	2015	**2016**	2015
	$m	$m	**$m**	$m
Energy forward price +10%	**(77)**	(134)	**25**	45
Energy forward price -10%	**75**	141	**(25)**	(40)

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:

	2016	2015
Hedging reserve	**$m**	$m
Balance at beginning of financial year	**(68)**	(104)
Gain/(loss) in fair value of cash flow hedges	**12**	(22)
Reclassified to cost of sales	**(3)**	81
Reclassified to finance costs	**32**	13
Share of loss in reserve attributable to a joint venture	**(1)**	(14)
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	**(12)**	(22)
Balance at end of financial year	**(25)**	(68)

(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 3.7 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 41 - 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
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	**28**	**27**	**698**	**515**	**139**	**1,407**
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**
2015						
Non-derivative financial liabilities						
Trade and other payables	1,377	-	-	-	-	1,377
USD senior notes	11	11	22	44	553	641
Subordinated notes	19	19	39	130	1,618	1,825
Medium term notes	15	15	30	90	645	795
Bank loans	376	137	84	1,178	1,312	3,087
Other loans	10	9	19	50	173	261
Finance lease liabilities	-	1	-	-	178	179
Deferred consideration	-	32	33	104	276	445
Other contractual liabilities	23	22	123	-	-	168
	1,831	246	350	1,596	4,755	8,778

Note 41 - 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
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)**
2015						
Derivative financial instruments						
Gross settled						
- Cross currency swap contracts - pay leg	(9)	(9)	(18)	(61)	(423)	(520)
- Cross currency swap contracts - receive leg	11	11	22	44	553	641
Net pay	2	2	4	(17)	130	121
Net settled						
- Interest rate swap contracts	(15)	(13)	(23)	(25)	2	(74)
- Energy derivatives	(44)	(62)	(65)	(8)	-	(179)
	(57)	(73)	(84)	(50)	132	(132)

Note 41 - 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
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)**
2015					
Financial assets					
Derivative financial instruments					
- Cross currency swap contracts - cash flow and fair value hedges	74	-	74	-	74
- Interest rate swap contracts - cash flow hedges	7	-	7	-	7
- Energy derivatives - cash flow hedges	11	-	11	-	11
- Energy derivatives - economic hedges	564	12	107	445	564
	656	12	199	445	656
Financial liabilities					
Derivative financial instruments					
- Interest rate swap contracts - cash flow hedges	(79)	-	(79)	-	(79)
- Energy derivatives - cash flow hedges	(8)	-	(8)	-	(8)
- Energy derivatives - economic hedges	(165)	(9)	(68)	(88)	(165)
	(252)	(9)	(155)	(88)	(252)

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 41 - Financial instruments (cont'd)

(i) Fair value measurements (cont'd)

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments:

(a) Receivables / payables with a remaining life of less than 6 months, the notional amount is deemed to reflect the fair value. All other receivables / payables are discounted to determine the fair value if the effect of discounting is material.

(b) The fair value of forward foreign exchange contracts and energy derivatives is calculated as the present value of expected future cash flows relating to the difference between the contracted rates and the market forward rates at the end of the reporting period. Interest rate and cross currency swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates that reflect the credit risk of various counterparties.

(c) The fair value of borrowings is determined as the present value of future contracted cash flows and credit adjustments. Cash flows are discounted using standard valuation techniques at applicable market yield having regard to timing of cash flows.

(d) The fair value of energy derivatives is determined as the present value of future contracted cash flows and credit adjustments. Cash flows are discounted using standard valuation techniques at applicable market yield having regard to timing of cash flows.

(e) The fair value of lease liabilities is estimated as the present value of future cash flows discounted where the effect of discounting is material.

(f) The fair value of deferred consideration is determined as the present value of future contracted cash flows and credit adjustments. Cash flows are discounted using standard valuation techniques at applicable market yield having regard to timing of cash flows.

The following table provides a reconciliation of fair value movements in Level 3 financial instruments.

Energy derivatives	2016 $m	2015 $m
Opening balance	**357**	224
Total gains and losses recognised in profit or loss		
- Settlements during the year	**32**	42
- Changes in fair value (a)	**(407)**	42
Premiums	**6**	(5)
Acquisition through business combination	**-**	54
Closing balance	**(12)**	357

(a) Changes in fair value recognised in the loss for 2016 included a change in a material long-term electricity supply contract of ($349) million and reflects a claim consistent with the terms of the contract by the relevant counterparties leading to a reduced likelihood that the contract will run to term.

The total gains or losses for the year included a loss of $381 million relating to energy derivative Level 3 contracts held at the beginning of the reporting period (2015: a gain of $74 million). Fair value gains or losses on energy derivatives are included in other expenses in the line item “loss/(gain) in 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 $35 million and lower by 10 percent is ($50) million (profit after tax increase/(decrease)). Input changes were applied to forward prices, contract volumes and management assumption of long-term curve used.

Note 42 - 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.

	2016 $m	2015 $m
Financial position		
Assets		
Current assets	**405**	323
Non-current assets	**13,343**	13,245
Total assets	**13,748**	13,568
Liabilities		
Current liabilities	**471**	513
Non-current liabilities	**6,651**	6,571
Total liabilities	**7,122**	7,084
Equity		
Issued capital	**6,696**	6,696
Reserves		
Employee equity benefits	**1**	3
Hedging	**(70)**	(55)
Retained earnings	**(1)**	(160)
Total equity	**6,626**	6,484
Financial performance		
Profit/(loss) for the year	**610**	(364)
Other comprehensive income	**(19)**	(9)
Total comprehensive income for the year	**591**	(373)

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 32 and 36 respectively.

Contingent liabilities

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

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

The Parent Entity has provided warranties and indemnities to certain third parties in relation to the performance of contracts by various wholly-owned subsidiaries.

Capital expenditure commitments

As at 30 June 2016, the Parent Entity had commitments for the acquisition of property, plant and equipment of $nil (2015: $nil) and its share of joint operations capital commitments was $nil (2015: $nil).

Note 43 - Subsequent events

There has not been any other matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of AGL, the results of those operations, or the state of affairs of AGL in future financial periods other than:

Powering Australia Renewables Fund

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

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

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

Final dividend

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

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

Directors' Declaration
For the year ended 30 June 2016

The Directors of AGL Energy Limited declare that:

(a) in their opinion, 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 32 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee between the Parent Entity and those subsidiaries pursuant to ASIC Class Order 98/1418; and

(e) the Directors have been given the declarations required by s.295A of the *Corporations Act 2001.*

Signed in accordance with a resolution of the Directors

Jeremy Maycock
Chairman

Sydney, 10 August 2016

Deloitte.

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

10 August 2016

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 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

G. Couttas

G Couttas
Partner
Chartered Accountants

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 2016, 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, and 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 2016 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.

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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.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter

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

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	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:

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Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
costs accrual of $453 million as disclosed in Note 21. We focused on this area as it involves significant management judgement to estimate consumption between the last invoice date from the individual distributors and the end of the reporting period to determine distribution costs payable at the reporting date.	○ on a sample basis agreeing volume data underlying the calculation of the estimated volumes into purchases, sales and other systems having performed sample testing of the key controls in those systems; and ○ comparing the prices applied by individual distributors with current tariff tables; and • in conjunction with our data analytics experts we assessed the appropriateness of AGL's unbilled distribution costs accrual at 30 June 2016 by calculating an independent expectation of the accrual on an individual meter basis utilising information supplied to AGL by individual distributors and compared our independent estimate to AGL's reported distribution costs payable. We also considered the adequacy of the Group's disclosures in respect of unbilled distribution costs.
Carrying value of property, plant and equipment and intangible assets, including goodwill Property, plant and equipment totaling $6,482 million as disclosed in Note 18 and intangible assets totaling $3,232 million which includes goodwill of $2,791 million as disclosed in Note 19 represent significant balances recorded in the consolidated statement of financial position. The evaluation of the recoverable amount of these assets requires significant judgement in determining the key assumptions supporting the expected future cash flows of the business and the utilisation of the relevant assets.	Our procedures included but were not limited to: • obtaining an understanding of the key controls associated with the preparation of the valuation models used to assess the recoverable amount of AGL's cash generating units; • critically evaluating management's methodologies and their documented basis for key assumptions utilised in the valuation models which are described in Note 19; • in conjunction with our valuation experts we assessed and challenged: ○ the identification of cash generating units, including the allocation of goodwill and property, plant and equipment and the associated identification and allocation of cash flows for the purposes of assessing the recoverable amount of the cash generating units; ○ the key assumptions for long-term

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
	growth rates in the forecast cash flows by comparing them to historical results, economic and industry forecasts; and ○ the discount rate applied; • we checked the mathematical accuracy of the cash flow models, agreed forecast cash flows to the latest Board approved forecasts and assessed the historical accuracy of forecasting by AGL; • we performed sensitivity analyses around the key drivers of growth rates used in the cash flow forecasts and the discount rate used; and • we assessed management's consideration of the sensitivity to a change in key assumptions that either individually or collectively would be required for assets to be impaired and considered the likelihood of such a movement in those key assumptions arising. We have also assessed the appropriateness of the disclosures included in Notes 1, 18 and 19 to the financial report.

Carrying value of natural gas assets
 	
On 4 February 2016, AGL announced that following a review of its natural gas assets, it had taken a strategic decision that exploration and production of natural gas assets would no longer be a core business for the company. The company's decision was influenced by a number of factors including the volatility of commodity prices and long development lead times, the fall in global oil prices with a consequent effect on long-term gas prices and the lower than expected production volumes from pilot wells at the Gloucester Gas Project. As a result AGL conducted a review of its natural gas carrying values and recognised an impairment of $795 million before tax ($640 million after tax) in respect of these assets (as disclosed in Note 8).
 	
We focused on this area because the assessment to determine whether an impairment charge was necessary involved significant judgements by management about the future results of the
	Our procedures included but were not limited to:
	• obtaining an understanding of the key processes associated with management's review of the natural gas asset carrying values;
	• where there were indicators of impairment we utilised our valuation experts to assist us in assessing the following key assumptions underlying the forecast cash flows and their respective impact on the carrying value of the assets:
	  ○ forecast gas prices;
	  ○ forecast gas production capacity;
	  ○ project commencement and commencement of gas delivery;
	  ○ anticipated cost of rehabilitation;
	  ○ capital expenditure estimates; and
	  ○ discount rate.

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Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
natural gas business, the utilisation of the relevant assets and the anticipated cost of any rehabilitation.	We have also assessed the appropriateness of the disclosures included in Note 8 to the financial report.
Financial instruments AGL enters into various financial instruments including derivative financial instruments to hedge the company's exposure to variability in interest rates, foreign exchange movements and energy prices. As at 30 June 2016, derivative financial assets totaled $339 million (current assets of $192 million and non-current assets of $147 million) as disclosed in Note 13 and derivative financial liabilities totaled $435 million (current liabilities of $356 million and non-current liabilities of $79 million) as disclosed in Note 24. These financial instruments are recorded at fair value as required by the relevant accounting standard. We have focused on this area due to the complexities associated with the valuation and accounting for these financial instruments.	Our procedures included but were not limited to: • obtaining an understanding of the internal risk management procedures and the systems and controls associated with the origination and maintenance of complete and accurate information relating to derivative contracts; • utilising our treasury experts we also tested on a sample basis the existence and valuation of derivative contracts as at 30 June 2016. Our audit procedures focused on the integrity of the derivative valuation models and the incorporation of the contract terms and the key assumptions, including future price assumptions and discount rates; and • obtaining an understanding of key financial instrument contract terms to assess the appropriateness of accounting reflected in the financial report. We have also assessed the appropriateness of the disclosures included in Note 41 to the financial report.
Electricity hedging contract AGL has a long-term electricity hedging contract to supply electricity at a fixed price for the period November 2016 to December 2036. In the current year the counterparties have provided AGL with claims (in accordance with the terms of the contract) which potentially allow the counterparties to cancel the contract. This reduces the likelihood that the contract will run to its full term. AGL has reassessed the fair value of the contract by reference to the remaining term (following receipt of the claims) to be $33 million at 30 June 2016 and as a result has recorded a decrease in fair value of $349 million. The balance of $33 million is included in Other financial assets –current and non-	Our procedures included but were not limited to: • obtaining an understanding of the processes used by management to assess the ongoing viability of the contract including management's assessment of the claims which potentially allow the counterparties to cancel the contract; and • utilising our treasury experts to assist in testing the valuation of the contract as at 30 June 2016 taking into account the remaining contractual term. We have also assessed the appropriateness of the disclosures included in Note 41 to the financial report.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
current energy derivatives – economic hedges in Note 13. We focused on this area because the estimation of the fair value of this derivative contract involves management judgment to estimate the probability weighted risk of the ongoing viability of the contract.	
Deferred tax asset relating to tax losses As disclosed in Note 9, at 30 June 2016 the Group has recorded a deferred tax asset of $861 million relating to tax losses incurred by the subsidiary AGL Loy Yang. The recoverability of this deferred tax asset is dependent on the generation of sufficient future taxable profit to utilise these tax losses. Significant judgement is required in forecasting future taxable profit.	We have assessed and challenged management's judgements relating to the forecasts of future taxable profit and evaluated the reasonableness of the assumptions underlying the preparation of these forecasts. We have also assessed the appropriateness of the disclosures included in Note 9 in respect of current and deferred tax balances.

Other Information

The directors are responsible for the other information. The other information comprises the directors' report which we obtained prior to the date of this auditor's report and 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.

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.

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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.

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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 36 to 56 of the directors’ report for the year ended 30 June 2016.

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

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

DELOITTE TOUCHE TOHMATSU

G Couttas
Partner
Chartered Accountants

Sydney 10 August 2016