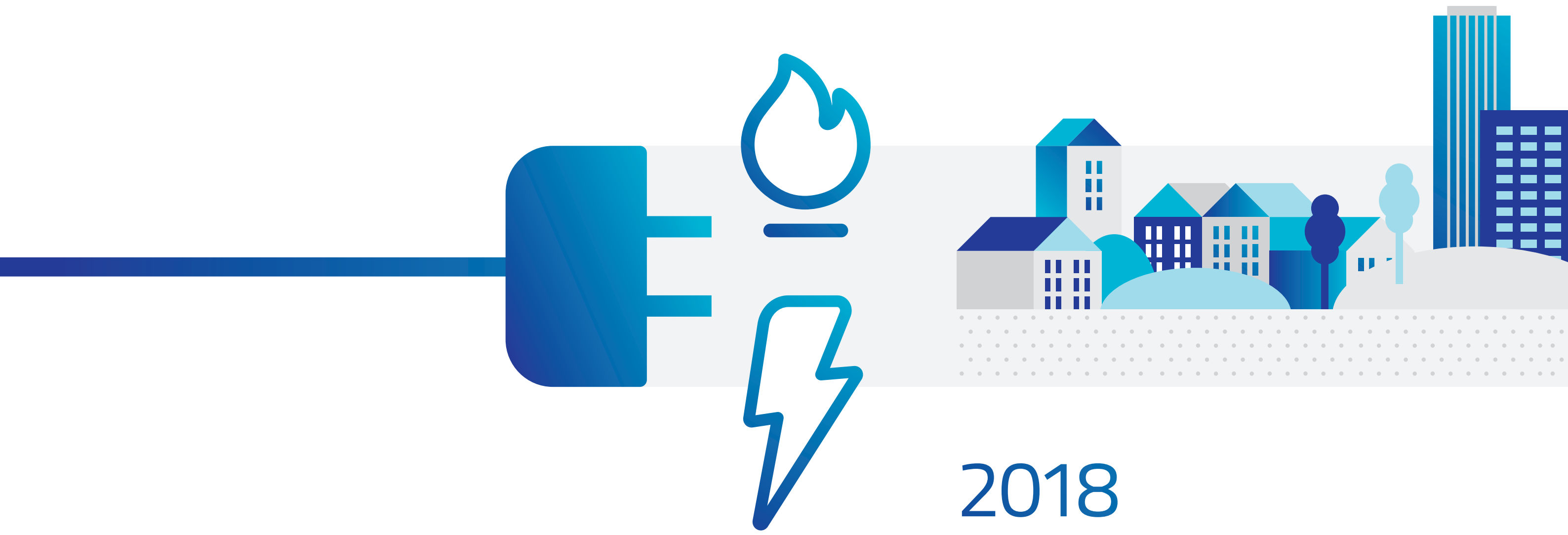


2018
Annual Report

Inside AGL's 2018 Annual Report

This report is intended to provide AGL shareholders with information on AGL's performance for the financial year ended 30 June 2018. Our 2018 Annual Report includes the Financial Report of AGL and its consolidated entities for the year.

Year in Review

This section provides information about AGL and our Executive Team, as well as messages from the Chairman and CEO.

Directors' Report

This section provides detail about AGL's business strategy, our approach to risk management and future prospects, information on our Board of Directors and our Operating and Financial Review (OFR).

Financial Report

This section comprises our full financial accounts for the financial year ended 30 June 2018.

Other Information

This section includes our shareholder composition, investor information, financial calendar and other general corporate information.

This report is available on our website agl.com.au/2018annualreport

A printed copy of our Annual Report is available free of charge upon request.

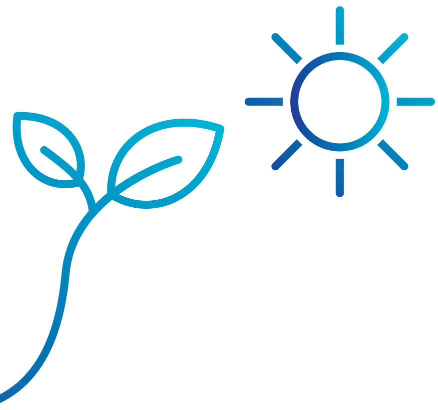
The Sustainability Report provides an account of our performance in relation to the social, environmental and economic challenges facing AGL and the energy industry. This report is available on our website agl.com.au/2018sustainabilityreport

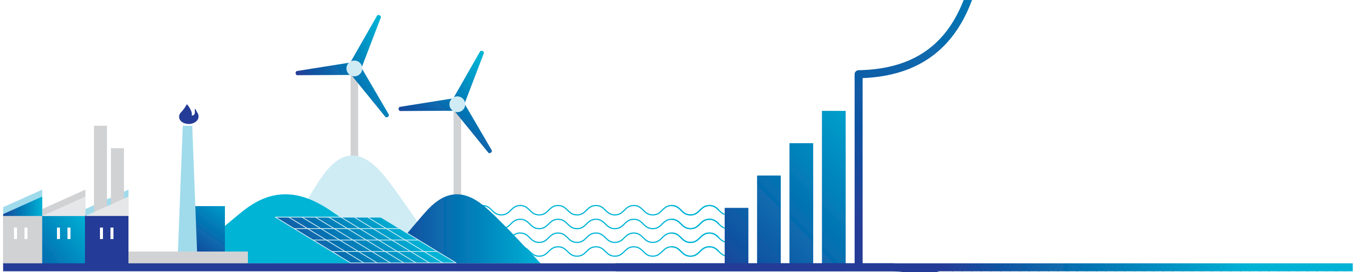
This report is designed to be read in its entirety. The required elements of the Directors' Report, including the Operating and Financial Review (OFR) as required by Regulatory Guide 247, includes information about our Operations (Section 1.4) and our Financial Position (Section 1.3).

AGL's Annual General Meeting will be held at the Melbourne Recital Centre, commencing at 10:30am on Wednesday 26 September 2018. Full details are available in the Notice of Meeting or on AGL's website agl.com.au/agm

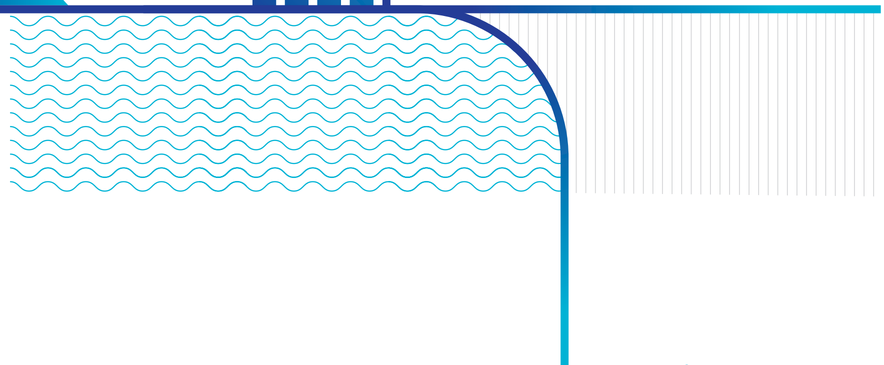
At AGL, we want to help shape a sustainable energy future for Australia.

Proudly Australian, with more than 180 years of experience, we have a responsibility to provide sustainable, secure and affordable energy for our customers. Our purpose has evolved over the years, but our track record reflects our commitment to the long-term.

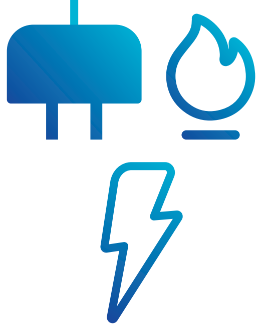




We operate the country's largest electricity generation portfolio and we're its largest ASX-listed investor in renewable energy.



We're an active participant in the gas and electricity wholesale markets.



10,245 MW
operated capacity

45 TWh
operated generation output

3.6 million
customer accounts.

Letter from the Chairman

It was a great honour for me to be appointed as AGL's Chairman in September 2017, and I'm pleased to present to shareholders the Annual Report for the financial year ended 30 June 2018.

Graeme Hunt Chairman

The 2018 financial year was marked by continuing public debate about energy policy because of rising electricity and gas prices over recent years. This has ensured that our industry continues to remain under an unprecedented level of scrutiny.

There were calls for AGL to sell or extend the operating life of the Liddell Power Station in New South Wales, which AGL announced, in 2015, will close in 2022 when it will be 50 years old. This included an offer from Alinta Energy Pty Limited to acquire Liddell. AGL rejected the offer from Alinta and reaffirmed our NSW Generation Plan to invest in new generation. The Australian Energy Market Operator has stated that AGL's plan, once implemented, will address any capacity and energy shortfall that may occur following Liddell's closure. Closing Liddell in 2022 is in the long-term interests of AGL shareholders and will allow for new investment in cleaner, more reliable and lower cost alternatives. The seven years' notice we have provided means the market will not be "caught short" as occurred when Hazelwood Power Station ceased operations abruptly in March 2017.

As energy markets evolve, AGL is responsibly investing in sustainable energy solutions. As part of our NSW Generation Plan, we have committed to a 100 MW upgrade of the Bayswater Power Station, to building a 252 MW gas-fired power station near Newcastle and to underwriting new renewable energy projects with offtake agreements. Elsewhere, we have started to build a fast-start gas-fired power station at Barker Inlet in South Australia at a cost of $295 million, and we are constructing the $850 million Coopers Gap Wind Farm in Queensland and the $450 million Silverton Wind Farm in New South Wales via the Powering Australian Renewables Fund.

We also continue to progress the development of the liquefied natural gas import jetty at Crib Point in Victoria, which has the potential to deliver a flexible new source of gas supply to the southern states of Australia. We anticipate making a final investment decision in FY19.

We are investing in new technology solutions and, through our $300 million Customer Experience Transformation program, delivering innovative products and services that are increasing convenience and transparency for customers and helping them to manage their energy costs and consumption.

As energy prices have increased in recent times, driven largely by changes in the wholesale market and high network costs, we have looked for new ways to support our most vulnerable customers. During FY18, we introduced 12-month low and fixed rate offers and pre-paid options that give customers greater control over when and how much they pay for their energy. With our FY18 results, we announced a $50 million package of debt relief measures for customers in financial hardship. This complements our pre-existing Fairer Way and Staying Connected programs supporting financially vulnerable customers.

Consistent with the Australian Competition & Consumer Commission's retail electricity pricing inquiry released in July 2018, AGL agrees there have been challenges in the market that are impacting customers, and we will continue to make improvements that will be in the best interests of our customers. In particular, we support reforms to make energy offers easier for customers to understand and will continue to innovate to deliver transparency and simplicity in our customer propositions.

Strong corporate governance and risk management

In an environment of increasing scrutiny and higher expectations of corporate behaviour, AGL is committed to ensuring that its corporate governance framework, policies and practices are of a high standard. Delivering on this commitment requires AGL's Board and management to have a sound understanding of current governance requirements and practices, as well as being attuned to emerging governance trends and shifting stakeholder expectations.

The Board is mindful of the importance of setting clear expectations about a culture of responsible behaviour by setting a clear "tone from the top" and monitoring the implementation of, and broader adherence to, AGL's values and policies. This includes monitoring AGL's approach to managing both financial and non-financial risks, including its exposure to safety and environmental risks, and as a guardian of AGL's reputation and the interests of its broader stakeholders.

During the 2018 financial year, the Board revised the Charters for the Board and each Board Committee. One of our aims was to delegate more responsibilities to the Committees – while establishing mechanisms for more comprehensive reporting back to the Board, and between Committees – to allow the Committees to take a deeper dive on specific issues such as safety, customers and culture.

The Board engages with senior management to ensure AGL's values align with the "lived experience" of the business and regularly meets with external stakeholders including customer advocates, regulators, representatives from the communities in which we operate, our people and shareholders. The Board recognises the need for continuous improvement in this area and will continue to maintain an active engagement with our stakeholders.

We are also committed to regularly reviewing our remuneration polices to ensure we not only reward good financial performance but also recognise the importance of fostering behaviours that reflect our values and our stakeholders' expectations. While we were pleased to receive strong support from shareholders for the 2017 Remuneration Report, we recognise that improvements can always be made. During the 2019 financial year, we will undertake a full review of our remuneration framework, any changes arising from which will be set out in next year's Remuneration Report.

Performance delivering strong returns for shareholders

AGL again delivered strong financial results in FY18.

Statutory Profit after tax was $1,587 million, compared with $539 million in FY17. Underlying Profit after tax was $1,023 million, up 28 percent. Return on equity was 13 percent, up 2.8 percentage points. While AGL's total shareholder return in FY18 was negative 12.3 percent, compared with positive 12.0 percent for the S&P/ASX100 Index, over the three years to FY18 it was positive 52.8 percent, compared with 28.0 percent for the Index.

We declared dividends for the year of 117.0 cents per share, up 29 percent on FY17 and including the 63.0 cents per share final dividend declared with the full-year result.

These strong results reflect our continued success in serving our 3.6 million customer accounts, the strong operating performance of Australia's largest privately-owned fleet of electricity generation assets, and a 180-year heritage as a participant in Australia's energy market. The strong results are also a testament to the success of past investment decisions – which have delivered a diverse portfolio of assets that are performing well – and ongoing cost and operating discipline in running the business.

As we look forward, we remain committed to optimising the value of our core assets while responding to opportunities created by the ongoing transition of the energy sector.

Board skills, focus for FY19 and Board succession

During the year, we undertook a Board performance and skills review under the guidance of an expert independent third party to ensure that the Board is well placed to respond to the future opportunities and challenges facing AGL. While the review found the Board is operating effectively and has a number of areas of significant strength, areas for improvement were identified. The Board has agreed a number of actions to implement the improvements that were identified.

During FY19, the Board will continue to focus on assessing how and where to responsibly deploy shareholders' capital and identifying investment opportunities that will deliver long-term sustainable value to shareholders. In addition, the Board will enhance its focus over the immediate term on talent management and fostering a culture of sound corporate governance which, while encouraging and rewarding good performance, does so in a way that is consistent with AGL's values and our stakeholders' expectations.

The Board is committed to a managed and gradual Board succession. As part of the performance review, we considered and updated the Board Skills Matrix to assess the skills and experience we may require in the future, including specialist skills in retail customer markets, energy and industry transformation. We are taking steps to consider how we will meet those future competency requirements. AGL has a number of Directors who have been on the Board for close to 10 years, including Les Hosking and Belinda Hutchinson, both of whom have indicated they will not seek re-election when their current terms expire.

Following my appointment as Chair in September 2017, we appointed Jacqueline Hey, who has been a Director since March 2016, to succeed me as Chair of the Safety, Sustainability & Corporate Responsibility Committee and Diane Smith-Gander, who joined the Board in September 2016, as Chair of the People & Performance Committee. I am proud that, in addition to women filling three of the seven non-executive positions on the Board, women now chair two of our three Board committees.

John Stanhope continues as Chair of the Audit & Risk Management Committee and, alongside me, will stand for re-election at our Annual General Meeting on 26 September 2018. John has served on the Board since September 2009 and is one of our longest-serving directors. Pending his re-election at the AGM, his next term will be his last, so Board succession planning will remain an area of active focus.

Succession planning for the Managing Director & CEO is also a matter of key importance to the Board at all times. While Andy Vesey has no current plans to retire, he is approaching his fourth anniversary leading AGL. As such, the Board is increasing its focus on the development of internal candidates who may be suitable to succeed Andy, while maintaining an active view of potential external candidates.

Conclusion

I encourage shareholders to review the Corporate Governance Summary on pages 12 to 14 for more information about how the Board operates, and to review the full Corporate Governance Statement on AGL's website.

Also published online is our Sustainability Report, which covers key environmental, social and economic issues in more detail and a supplementary report reflecting our adoption of the recommendations of the Task Force on Climate-Related Financial Disclosures.

From the 2019 financial year, AGL intends to apply the principles of Integrated Reporting to its corporate reporting information. This process will bring key aspects of both the Annual Report and Sustainability Report together to provide a holistic overview of AGL's strategy, governance, performance and prospects, including how we think about value creation in the short, medium and long-term.

In conclusion, I would like to thank AGL's shareholders for the honour of serving as the company's chairman and to all our employees for their continued commitment and hard work.

I look forward to seeing many of you at the AGM.

Managing Director and CEO's Report

The past financial year was characterised by intensifying scrutiny of the societal impact of corporations, including in relation to energy prices and policy issues.

At such times, an organisation's values are especially important.

Andy Vesey Managing Director and Chief Executive Officer

AGL's values are: Safety and Beyond, Sustainable Thinking, Inclusive of All and Focused on What Matters.

These values guide us in delivering our strategy, programs and projects and in performing for our customers, shareholders, communities and other stakeholders.

They help us maintain our focus on the most important things: our customers, the safe and reliable operation of our assets and our part in delivering a sustainable energy future for Australia.

Our financial result in FY18 was strong - but I was especially pleased with our safety and diversity results.

We reduced our Total Injury Frequency Rate to 1.2 per million hours worked for employees, while continuing to increase the level of reporting and proactive measures we take to manage and monitor safety issues.

We have exceeded the targets we set for the representation of women within our Senior Leadership Pipeline, which now stands at 42 percent, and have been recognised as an employer of choice for the LGBTI community.

Customer focus

For some customers, rising prices resulting from higher coal and gas costs and rising wholesale and network costs for electricity have impacted the affordability of energy.

While wholesale energy prices began to abate during the year because of an improving policy outlook and the falling costs of renewable energy, we recognise there is more still to do. So we have continued to invest in projects that will make Australia's energy landscape more sustainable in the long term and announced a number of initiatives aimed at addressing affordability directly in the shorter term. We are currently developing, along with our partners, new electricity generation projects with a total capital investment value in excess of $2 billion.

We have announced a package of initiatives to build on our pre-existing programs to help vulnerable and standing offer customers, including $50 million of hardship debt relief and the extension to all states of automatic loyalty discounts to electricity customers on standing offer who have been with AGL for at least two years. In addition, we have launched a guaranteed annual plan review for all standing offer customers and a new Small Business Assist service. These initiatives complement our existing Fairer Way affordability initiative and Staying Connected hardship support program.

AGL's commitment to our customers and the communities in which we operate is part at the heart of everything we do and every decision we make. We are also conducting during FY19 an independent review to ensure our culture and practices match our policies and procedures throughout the business, consistent with maintaining our social licence to operate.

Financial performance

Our financial performance in recent years, including in FY18, is the direct outcome of strong execution following the multibillion-dollar investments we have made in electricity generation in previous years.

Despite increasing competitive pressure and more customers than ever taking advantage of the opportunity to find a better energy plan, we delivered high customer retention levels as we continued to roll out improvements to our digital service capability through our Customer Experience Transformation program.

Earnings momentum is now slowing. We have forecast a guidance range for Underlying Profit after tax of $970 million to $1,070 million for FY19, compared with the $1,023 million delivered in FY18, but our commitment to invest in Australia's sustainably energy future remains.

Strategic direction

Our commitment to our long-term strategy is unchanged.

Over recent years, we have started on a journey of transformation in response to two clear imperatives: to prosper in a carbon-constrained future and build customer advocacy.

We have committed not to extend the lives of our coal-fired electricity generation assets beyond their current design lives and set out how we will manage them responsibly over the coming decades, including in relation to site rehabilitation.

Our $300 million investment in the Customer Experience Transformation program is entering its third and final year and is enhancing our digital capability.

As the falling cost of renewables drives wholesale electricity prices lower, Australia's electricity generation fleet is transitioning from relying on base-load coal to a future of cleaner, lower cost wind and solar generation supported by flexible gas firming generation and energy storage.

Our extensive pipeline of energy supply projects in development will enable AGL to play a leading role in this transition and deliver affordable, reliable and cleaner energy.

Already this includes undertaking a 100 MW upgrade of our Bayswater Power Station in the Hunter Valley.

We are undertaking construction, via the Powering Australian Renewables Fund, of new wind farms at Silverton in New South Wales and Coopers Gap in Queensland, which on completion will be among Australia's largest wind farms.

We have signed an agreement to take 300 MW of solar capacity from Maoneng Australia's Sunraysia solar project near the New South Wales-Victoria border and are actively seeking to underwrite additional third-party projects through off-take agreements.

We are spending $295 million constructing the 210 MW gas-fired Barker Inlet Power Station in South Australia, which we anticipate will be operational early in FY20.

We have committed to investing up to $400 million to construct a 252 MW gas-fired plant in New South Wales, for completion during FY22.

We are progressing the development of a liquified natural gas import jetty at Crib Point in Victoria to drive security and competitiveness of supply, and we anticipate making a final investment decision during FY19.

We are undertaking feasibility studies for potential pumped hydro projects throughout the National Electricity Market and we anticipate investing in large-scale battery storage projects in coming years as costs and reliability for that technology continues to improve.

The next three years

Our actions in recent years have laid a foundation for the next chapter of AGL's development.

Development of a portfolio of affordable energy supply, flexible generation assets such as gas firming and storage and the associated wholesale trading expertise will be essential as the market continues to evolve and to ascribe greater value to these types of flexible, responsive assets.

Given the scale and pace of the transformation under way, policy changes will continue to take time to implement and, while we are optimistic that the National Energy Guarantee can move us in the right direction, it may be some time before certainty prevails.

Our response has been to reprioritise our own strategic actions over the coming 36 months to emphasise actions we are taking for the customer, on the optimisation of our business operations, and in readiness to invest in new growth opportunities.

We have grouped these actions in six categories, as set out in the strategy discussion overleaf:

- Attract, retain and serve customers as efficiently as possible
- Operate, maintain and renew our energy supply portfolio at lowest practical cost
- Ensure key systems and platforms are fit for purpose and scalable for growth
- Develop disruptive capabilities to respond to emerging customer needs
- Identify and act upon opportunities to invest in new areas of profitable growth, and
- Support energy policy discussion to shape sustainable long-term outcomes.

A major component of delivering on these priorities is business optimisation.

At our FY18 results, we have announced our objective to return our operating costs to levels no higher than FY17 by FY21, starting with a $120 million reduction in FY19 . This program includes process improvements across AGL, including as a result of savings from the Customer Experience Transformation program and our upgrade to our enterprise resource planning system.

Another essential aspect of our continued progress is innovation, which is an increasingly mainstream component of all our processes at AGL, as reflected in our decision during the year to reintegrate our New Energy business unit into AGL's core business. Three years running, AGL has been recognised in *The Australian Financial Review*'s Most Innovative Companies list - the only company in our sector to do so. We are positioned well to lead in the orchestration and integration of increasingly efficient large-scale renewable energy, flexible gas-fired and storage technologies and small-scale energy generation and storage assets linked to smarter infrastructure, homes and appliances.

Capital allocation

We also presented our approach to capital allocation during FY18.

As set out in detail on pages 8 and 9, this approach reaffirms our commitments to our credit rating, our dividend policy and to driving shareholder returns – as well as to returning excess cash to shareholders if appropriate growth investment opportunities cannot be found.

At 30 June 2018, we had ample funding headroom under our Baa2 credit rating to support these growth opportunities, or for capital management if we are unable to act upon growth opportunities within a reasonable time-frame.

Consistent with our agile capital approach defined in the capital allocation principles, in FY18, we increased sales of non-core assets to more than $1.2 billion since FY15.

This included the divestment of Active Stream, a digital metering business we built successfully but no longer needed to own and, in April 2018, our agreement to sell the National Assets, a portfolio of small generation and compressed natural gas refuelling assets. The National Assets sale is subject to typical conditions precedent, which were not yet satisfied as at 30 June 2018.

Conclusion

In conclusion, despite the challenges created by high energy prices, policy uncertainty and increasing competition, FY18 was another year of strong performance and continued pursuit of our transformation strategy.

The Australian energy market continues to provide challenges but also opportunities.

AGL retains a strong asset base, a customer base of more than 3.6 million accounts and a robust financial position from which to continue to lead investment in our transitioning sector.

We continue to assess growth opportunities, including those that align strongly with AGL's existing business as well as other opportunities in new markets that will broaden or deepen our capabilities.

It remains an extremely exciting time for our company and our industry.

Executive Team

John Fitzgerald
General Counsel and Company Secretary
BA, LLB, MA

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.

Lisa Harrington
Executive General Manager Stakeholder Relations
BA (Communications)

Lisa has 20 years' experience in stakeholder relations and communications across corporate, government and not-for profit sectors in Australia. Lisa joined AGL in 2013 and led the Government Affairs function prior to being appointed Chief of Staff to the Managing Director and CEO in 2015 In September 2016, Lisa became the EGM of Stakeholder Relations. Lisa is responsible for communications, government and community relations, policy, sustainability and regulation. Lisa has a BA Communications from the University of Technology Sydney, attended the Melbourne Business School as part of AGL's Academy for Senior Leaders and undertook the Advanced Management Program at Harvard Business School.

Doug Jackson
Executive General Manager Group Operations
MBA (Global Energy)

Doug has over 35 years' experience in the energy and mining industry. Doug is responsible for leading AGL's Group Operations businesses including AGL's power generation portfolio and other key sites and operating facilities. Doug leads a geographically dispersed team of approximately 1,800 employees. Prior to joining AGL in 2013, Doug worked in both the United States and Canada, leading the operations and construction of electricity generation and mining assets.

Simon Moorfield
Executive General Manager Information Systems and Technology
BS CS

Simon has over 20 years' experience in IT, having held several CIO and executive roles both locally and internationally. Simon has spent his entire career in technology and program management having worked with NAB, GE and CBA. His significant IT leadership experience in large retail businesses such as CBA Retail and GE Capital Asia Pacific includes leading numerous innovative change and transformation programs. Simon joined AGL in January 2016 as Chief Information Officer.

Alistair Preston
Executive General Manager Organisational Transformation
BSc (Business Administration), PhD (Management)

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

Brett Redman
Chief Financial Officer
BCom, FCA, GAICD

Brett has over 25 years of experience in senior finance roles in large blue chip industrial companies, with expertise in leading group strategy and finance in the Energy and Utilities sector. Prior to joining AGL in 2007, Brett held numerous finance roles at BOC in the South Pacific and North America, Email and CSR, which was complemented by his background in chartered accounting at Deloitte. Brett was appointed AGL's CFO in 2012 and he is responsible for driving AGL's key priority - to execute growth at scale as the business seeks new revenue streams. This builds on leading previous successful growth initiatives including the acquisitions of Loy Yang A and Macquarie power stations, as well as the creation of the Powering Australian Renewables Fund.

Melissa Reynolds
Chief Customer Officer
BEc, MCom, GAICD

Melissa has over 30 years' experience in product, marketing, brand, sales and service in consumer and business markets. This includes leading large scale customer and digital change in the financial services and media sectors. Prior to joining AGL, Melissa held senior roles at NAB, as EGM Retail; Sensis where she led the digital transformation of White Pages; Esanda and Westpac. Melissa joined AGL in May 2017.

Rita Trehan
Chief People Officer
BSc (Sociology), FCIPD

Rita has more than 30 years' experience in business and HR transformation. Previously, Rita was the Chief Human Resources Officer for AES Corporation where she led HR, Safety, Performance Improvement and Internal Communications. Rita joined AGL's Executive Team in October 2017, but had previously worked with AGL over the past two years in an advisory capacity to assist with its culture and business transformation programs. Rita's role as Chief People Officer ended on 30 June 2018.

Richard Wrightson
Executive General Manager Wholesale Markets
BA (Econ)(Hons)

Richard has over 24 years' experience in wholesale energy markets in Australia and the UK. Before arriving in Australia in 1996, Richard was involved in the UK electricity industry in the contract and trading areas of two of the largest generators, PowerGen and British Energy. Richard has significant experience in the Australian energy sector including consulting on the National Electricity Market commencement, as well as working at the Electricity Trust of South Australia, the State Electricity Commission of Victoria and Loy Yang Power. Richard joined AGL in 2010 taking responsibility for AGL's wholesale power, gas and environmental portfolios.

Five Year Summary

$1,587m
Statutory Profit after tax

$1,023m
Underlying Profit after tax

13%
Return on equity

		FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
Profit						
Revenue	$m	12,816	12,584	11,150	10,678	10,445
Underlying EBITDA	$m	2,226	1,852	1,689	1,505	1,330
Underlying EBIT	$m	1,668	1,368	1,211	1,126	1,004
Statutory Profit/(Loss) after tax	$m	1,587	539	(408)	218	570
Underlying Profit after tax	$m	1,023	802	701	630	562
Financial position and cash flow						
Capital expenditure	$m	778	518	529	794	517
Total assets	$m	14,639	14,458	14,604	15,833	14,134
Net debt	$m	2,369	3,178	2,746	3,560	3,265
Gearing (net debt/net debt + equity)	%	21.8	29.6	25.7	28.6	29.8
Operating cash flow before interest, tax and significant items	$m	2,461	1,362	1,588	1,527	1,149
Credit rating[1]		Baa2	Baa2	Baa2	BBB	BBB
Shareholder value						
Statutory earnings per share	cents	242.0	80.5	(60.5)	33.3	98.2
Underlying earnings per share	cents	156.0	119.8	103.9	96.4	96.9
Dividends declared	cents	117.0	91.0	68.0	64.0	63.0
Return on equity	%	13.0	10.2	8.3	7.2	7.5
Operations[2]						
Generation sent out	GWh	45,461	45,446	46,476	40,985	20,730
Renewable generation capacity	MW	1,914	1,914	1,919	1,867	1,765
Carbon intensity of generation portfolio	tCO_2e/MWh	0.96	0.97	0.95	0.95	0.95
Generation capacity (operated and controlled)	MW	10,414	10,414	10,409	10,508	5,847
Customer account numbers						
Electricity accounts	'000	2,235	2,250	2,262	2,279	2,316
Gas accounts	'000	1,406	1,403	1,419	1,456	1,484
Total customer accounts	'000	3,641	3,653	3,681	3,735	3,800
Dual fuel accounts	'000	2,027	2,008	1,962	1,917	1,942
Sales volumes						
Electricity	GWh	39,171	39,650	37,839	36,874	30,690
Gas	PJ	180.0	229.8	234.2	234.1	204.2
People						
Full time equivalent		3,714	3,470	3,358	3,538	2,678
Total injury frequency rate - employee[3]		1.2	2.0	4.3	4.1	2.7
Women in senior leadership pipeline	%	42	38	34	33	33

The dividend declared relating to FY18 is 117.0 cents per share. We target a payout ratio of approximately 75% of Underlying Profit after tax where a minimum franking level of 80% can be maintained.

Renewable generation capacity remained steady in FY18, but is due to increase in FY19 with the Silverton Wind Farm and Coopers Gap Wind Farm.

Women in the senior leadership pipeline is 42%, up 4%. AGL undertakes a gender pay gap analysis twice yearly.

1. Changed from Standard and Poor's to Moody's in FY16.
2. Operated, owned and controlled by AGL.
3. Number of lost time and medical treatment injuries classified as TIFR-related in a 12-month rolling period, per million hours worked in that 12 month period.

Our Strategy

Strategic Imperatives

Our commitment to shape a sustainable energy future drives two strategic imperatives

Prosper in a carbon constrained future

Build customer advocacy

Key Objectives

As we think about how to respond to the multi-decade transition underway in the energy sector, four key objectives shape our strategy and decision-making:

From... Mass retailing To... Personalised retailing

Enabled by new technology, customers' expectations of how they manage their energy consumption are evolving. We are continually seeking to tailor products and services to meet the needs of specific customer segments, and investing in our platforms and capabilities, including through our Customer Experience Transformation program.

From... Operating large assets To... Orchestrating large and small assets

New energy supply and storage technologies are transforming the energy industry's asset mix. In addition to exploring opportunities presented by distributed technologies, we are exploring and trialling innovative asset ownership models, such as the Powering Australian Renewables Fund (PARF) to develop and own large-scale wind and solar projects.

Current Priorities

We enter FY19 with ongoing uncertainty on long-term industry policy and the development and uptake of new technologies. In the shorter-term, we are prioritising six key strategic areas

- Attract, retain and serve customers as efficiently as possible
- Operate, maintain and renew our energy supply portfolio at lowest practical cost
- Ensure key systems and platforms are fit for purpose and scalable for growth
- Develop disruptive capabilities to respond to emerging customer needs
- Identify and act upon opportunities to invest in new areas of profitable growth
- Support energy policy discussion to shape sustainable long-term outcomes

Capital Allocation Framework

Our Capital Allocation Framework reflects a disciplined approach to drive strong and sustainable outcomes for shareholders over time

1. Maintain balance sheet strength

consistent with Baa2 credit rating to enable optimal response to opportunities as they emerge

2. Maintain target dividend payout ratio

of 75% of Underlying Profit after tax, franked to 80%

From... To...

High emissions technology

Lower emissions technology

Leading in existing markets...

and growing into new markets

Community expectations, global targets and technological development continue to support a transition away from carbon-intensive forms of energy supply. We are the largest ASX-listed developer of renewable energy – bringing on major new projects via PARF – and we remain committed to the closure of our coal-fired power stations at the end of their existing operating lives.

The long-term transformation of the energy sector presents potential opportunities for AGL to apply its expertise more broadly and deeply, either in new areas of the energy market, in adjacent or complementary customer markets or through geographic expansion. We continue to explore opportunities actively, while applying a disciplined approach to risk assessment.

Financial Targets

Our financial objectives reflect our commitment to deliver for shareholders in the short to medium term

$970 million to $1,070 million

Guidance for FY19 Underlying Profit after tax (subject to normal trading conditions)

$120 million

Operating cost reductions in FY19 under the business optimisation program, plus target to return to FY17 levels by FY21

For more information on how AGL's remuneration framework aligns with company strategy, see the Remuneration Report
Page 43

3. Agile capital approach

to drive improved return on equity over time amid rapidly evolving business environment:

- Optionality: maintain and maximise ability to pivot/exit as objectives evolve
- Quantum: AGL capital deployed only to level required to achieve strategic objectives
- Time to value: within appropriately short time-frame relative to uncertainty

4. Continued application of threshold hurdle rate

supported by ongoing analysis of cost of capital and appropriate risk adjustment for competing investment classes

5. Return excess cash to shareholders

if more accretive opportunities are not identified within reasonable time-frame

Key Business Risks and Mitigations

Effective risk management and maintaining a strong risk management culture are pivotal for enabling the ongoing success of AGL's business and the achievement of our strategic, operational and commercial objectives.

AGL has a comprehensive, enterprise-wide risk management program aligned with the principles and requirements of ISO 31000, the international standard for risk management. The program is supported by AGL's Risk Management Policy as well as the AGL Risk Management and Assessment Standard, and AGL's Statement of Risk Appetite.

AGL identifies factors that are critical to the successful delivery of our strategic imperatives and our ability to create value into the future, as outlined in Figure 1. Figure 2 provides an overview of these factors and how AGL is responding by key risk theme.

Figure 1 – Strategic Risk Review Process

Top-Down Review	Bottom-Up Review	Define Strategic Risks	Board Review	Ongoing monitoring and reporting
Extensive stakeholder engagement, analysis of strategic objectives, external metrics and trends to identify critical success factors and material issues.	Review of all divisional risk profiles to identify and assess any movement in risks to divisional objectives.	Strategic risk context defined and analysis of top-down and bottom-up insights to inform strategic risk categories, materiality and key focus areas.	Strategic risk profile challenged and endorsed by the Audit & Risk Management Committee (ARMC) for approval by the AGL Board.	Risk activity, performance indicators, critical controls and key focus areas monitored and regularly reported.

To complement the strategic risk review process, AGL undertakes an independent materiality review to gauge stakeholder views on the importance of issues that may have an impact on society, the environment or the economy, and that may influence AGL's ability to create value into the future. In FY18, the results of the materiality review were incorporated into our consideration of risk to ensure that the legitimate concerns of stakeholders and emerging trends are appropriately prioritised and addressed. The material issues that relate to each key risk theme are identified in Figure 2.

Read how AGL is responding to environmental, social and economic risks that stakeholders have identified as material in our FY18 Sustainability Report
agl.com.au/2018sustainabilityreport

Figure 2 – Strategic Risk Themes

Risk theme	Risk context	Inherent uncertainty outlook	Response / mitigation	Material issue
Economic performance	Continued shareholder value creation is dependent upon several factors, including: • Wholesale energy market conditions • Customer demand and competition • Political and regulatory environment • Cost of maintaining reliable and safe assets, and • Execution of growth opportunities.	Increasing	• Review of strategic priorities resulting in 36-month action areas (see page 9). Business optimisation target of $120m in FY19 announced, plus the target to return to FY17 levels by FY21. • Capital allocation framework to drive disciplined decision making. • Continual review and validation of wholesale pricing and load forecasting to ensure optimal management. • Whole-of-life, five-year and one-year asset management plans.	• Financial performance • Capital investment for growth • Cost efficiency • Tax and transparency • Reliable energy
Energy landscape	The energy industry faces policy uncertainty at State and Federal government level. Shifts to alternative and distributed energy are disrupting the traditional market model. Sourcing economical supplies of gas to meet customer need and power generation demand remains critical.	Increasing	• NSW Generation Plan announced in December 2017, and subsequently endorsed by AEMO. • Constructive engagement in relation to the proposed National Energy Guarantee. • Crib Point LNG import jetty to provide a secure and economic gas supply, with a final investment decision to be made in FY19.	• Energy market evolution • Power station transition and closure • Business and investment leadership

Risk theme	Risk context	Inherent uncertainty outlook	Response / mitigation	Material issue
Environment	AGL remains Australia's largest emitter of greenhouse gases. Recognising the need for affordable, reliable and sustainable energy, AGL needs to manage the planned transition of our asset portfolio to a low carbon future in a safe, orderly and sustainable manner.	**Increasing**	• Principles-based Rehabilitation and Transition Governance Framework developed to manage closure of Liddell Power Station. • Silverton (200 MW) and Coopers Gap (453 MW) wind farms under construction through PARF.	• Transition to low carbon energy • Renewable energy • Minimising other environmental impacts
Customers	In seeking to become more customer centric, external challenges arise from: • Evolving competitor landscape as product offerings are expanded and new participants enter the market • Threat of cyberattacks • Possibility of tighter regulation stemming from a desire to improve energy affordability.	**Increasing**	• Digital capability improving through the Customer Experience Transformation program. • Security Uplift Program in place to substantially improve information security capabilities to protect AGL, and customer information and our IT assets. • Financial Inclusion Action Plan developed, outlining commitments to address financial inclusion and resilience.	• Customer-led approach and delivery • Energy prices and affordability • Product innovation • Data and IT security
People	Recruiting and retaining an engaged workforce with the right mix of talent is essential as the energy industry continues to transition, requiring a workforce that balances strong industry knowledge with new and emerging skillsets. Traditional governance structures need to evolve to support the amount or pace of transformation within the business.	**Increasing**	• Continued focus on delivering an inclusive, and therefore attractive, workplace culture. • Better Mental Health Program delivered. • Investment in people, process, performance and transformation program to better manage human capital. • Continued focus on process and personal safety. • Delivery of integrated risk and compliance management systems to embed a strong and ethical governance culture.	• Workplace culture and talent • Health and safety • Contractor and supplier management • Strong and ethical governance
Stakeholders	AGL has diverse stakeholders with whom we need to engage effectively, as solutions are sought for the challenges of energy reliability and security, emissions reduction, wholesale market design, energy affordability and technology development.	**Stable**	• Social & Economic Inclusion Policy under development, defining our role in providing affordable energy. • Community Complaints and Feedback Policy implemented, and subsequently adopted by the Clean Energy Council. • Stakeholder councils providing effective engagement avenues.	• Public policy engagement • Community engagement • Stakeholder advocacy

Climate Related Financial Disclosures

The Task Force on Climate-Related Financial Disclosures' (TCFD) voluntary disclosure framework provides an opportunity for AGL (alongside market participants across the global economy) to disclose clear, comparable, and consistent information about the risks and opportunities that climate change poses to our business.

Read AGL's full 'Powering a Climate Resilient Economy' report, available on our website at agl.com.au/about-agl/investors/special-reports

Governance

The governance processes surrounding material business risks are very important. Climate change risk and opportunities are considered by the AGL Board and its committees.

Strategy

AGL has considered both physical and transitional risks associated with climate change and has developed its strategy to ensure AGL's long term sustainability.

Risk Management

Climate change is managed in the same manner as any risk that the organisation is exposed to. Key risks are monitored, and continually reviewed, with reporting to the ARMC and Executive Team quarterly.

Targets

The carbon intensity of AGL's operated generation portfolio is a key metric for measuring performance over time.

Corporate Governance Summary

AGL is committed to ensuring that its corporate governance framework, policies and practices are of a high standard. Delivering on this commitment requires AGL to have a sound understanding of current governance requirements and practices, as well as being attuned to emerging governance trends and shifting stakeholder expectations. Set out below is a summary of selected aspects of AGL's corporate governance framework, policies and practices and a highlight of the key governance issues affecting AGL during FY18.

Corporate Governance Statement

Throughout FY18, AGL's corporate governance arrangements were consistent with the Corporate Governance Principles and Recommendations (3rd edition) published by the ASX Corporate Governance Council (ASX Principles). AGL has also considered the recently released draft 4th edition of the ASX Principles and notes that many of AGL's current practices already align with the 4th edition commentary and recommendations.

AGL's 2018 Corporate Governance Statement is available at **agl.com.au/corporategovernance**. The Corporate Governance Statement outlines details in relation to AGL's Values, its Board, Board Committees, Executive Team, risk management framework and financial reporting, diversity and inclusion, key corporate governance policies and shareholder engagement. AGL's website also contains copies of AGL's Board and Committee Charters and key policies and documents referred to in the Corporate Governance Statement.

AGL's Board

AGL's Board is responsible for the governance of AGL and for reviewing and approving AGL's strategic direction and providing oversight of AGL's management. It is also responsible for setting AGL's company culture through "tone from the top" and by monitoring the implementation of, and broader adherence to, AGL's core values, policies and related processes. This includes monitoring AGL's approach to managing both financial and non-financial risks, such as its exposure to environmental risks, safety risks and potential damage to AGL's reputation and the interests of broader stakeholders. AGL's current strategy, approved by the Board, is discussed in detail in the Managing Director and CEO's Report and set out graphically on pages 8 and 9.

The Board has established an Audit & Risk Management Committee (ARMC), Nominations Committee, People & Performance Committee (P&PC) and Safety, Sustainability & Corporate Responsibility Committee (SSCR). Details of each Committee are set out in the 2018 Corporate Governance Statement while Directors' memberships of relevant Committees are noted on page 16. Each of these Committees assists the Board with specified responsibilities that are set out in the Committee Charters, as delegated and approved by the Board.

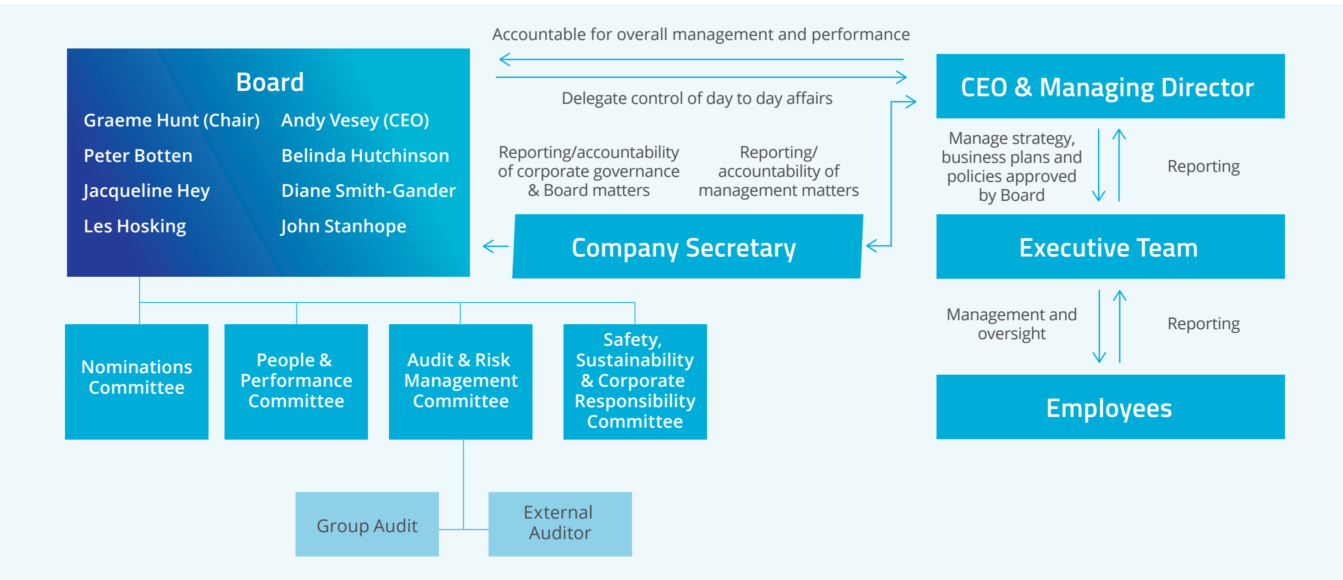
AGL's Managing Director and CEO is responsible for AGL's day-to-day affairs and has the authority to control AGL's affairs in relation to all matters other than those responsibilities specifically reserved to the Board. The Managing Director and CEO is supported by an Executive Team, whose details are set out on page 6.

AGL's governance framework is summarised below.

Key areas of focus for the Board during FY18

During FY18, the key areas of focus for the Board, in addition to the standing agenda items described below, included:

- AGL's NSW Generation Plan, including the announcement of the new 250 MW gas-fired power station near Newcastle and the 100 MW efficiency upgrade to the Bayswater Power Station
- the ongoing assessment of the LNG import jetty at Crib Point, which is expected to reach final investment decision in FY19
- the unsolicited, non-binding, highly conditional indicative offer from Alinta Energy to acquire the Liddell Power Station, and the requests from the Commonwealth Government for the Board to consider the extension of the power station beyond its planned closure date of December 2022
- transformation initiatives including the Customer Experience Transformation project and the enterprise resource planning upgrade



- asset sales including the divestment of Active Stream and sale processes for the National Assets and North Queensland Gas Assets
- overseeing customer affordability initiatives including customer hardship programs and other customer initiatives focused on increasing convenience and transparency for customers and helping them to actively manage their energy costs and consumption .

Many of these areas continue to be a focus for the Board during FY19.

Standing items

Standing agenda items include:

- strategy, growth and capital management
- group performance (including financial performance, asset performance, customer metrics and other non-financial performance such as HSE performance)
- governance, compliance and risk (including financial and non-financial risks)
- investor and stakeholder relations
- Board evaluation, board skills and succession planning
- financial reports.

Changes to Board composition during FY18 and Board Committees

At the conclusion of AGL's 2017 Annual General Meeting, Jeremy Maycock retired from the Board and Graeme Hunt was appointed to the role of Chair. During FY18, the following changes were made to AGL's Board Committees:

• Jacqueline Hey was appointed Chair of the SSCR

• Diane Smith-Gander was appointed Chair of the P&PC

• Les Hosking retired as Chair and as a member of the P&PC and was appointed a member of the SSCR.

During FY18, the Charter for each Board Committee was revised by the Board, one of the aims of which was to delegate more responsibilities to the Committees (supplemented by more comprehensive reporting from Committees back up to the Board, and between Committees (where appropriate)) to allow the Committees to take a deeper dive on specific issues such as safety, customers, stakeholder relations and culture.

A selection of the key areas of focus for the Committees in FY18 is set out in the table at the bottom of this page.

Board Skills

AGL seeks to maintain a Board which comprises individuals best able to discharge the responsibilities of Directors having regard to the execution of AGL's strategic objectives, legal requirements and the highest standards of corporate governance.

During FY18 the Board undertook an extensive effectiveness review, facilitated by an independent third party. One of the outputs of the review is a revised Board Skills Matrix, which has been adopted by the Board. The Board Skills Matrix sets out the mix of skills and experience that the current Directors possess. A copy of the Board Skills Matrix is provided on page 14 and further detail can be found online in AGL's 2018 Corporate Governance Statement. The Board considers that its current members have an appropriate mix of skills that enable the Board to discharge its responsibilities and deliver AGL's strategic objectives. As part of normal succession processes, the Board has also used the Board Skills Matrix to assess the skills and experience that may be required on the Board in the future and is taking steps to consider how those future competency requirements will be met.

SSCR	ARMC	P&PC	Nominations
• AGL's HSE strategic framework 'Target Zero' - Overseeing AGL's safety performance and safety culture, systems, capability and risk to assist AGL in achieving the goal of being a safe and sustainable business. • Reviewing AGL's Code of Conduct, recommending to the Board that AGL adopt a revised Code of Conduct and overseeing activities to support AGL's Values. • Considering the key material issues impacting AGL to inform the focus of the FY18 Sustainability Report. • Reviewing key themes in relation to AGL's customers including complaint handling processes, brand health and initiatives to drive improved customer advocacy.	• Overseeing the issues, incidents and risks identified by management in the quarterly Group Audit, compliance and risk reports and ensuring there is clear accountability for, and effective closure of, relevant issues. • Overseeing the steps AGL is taking to transition to reporting that meets the principles of the International Integrated Reporting Framework. • Reviewing the effectiveness of AGL's governance and risk management systems and identifying ways to further strengthen governance, accountability and culture within AGL.	• Overseeing the preparation of AGL's Remuneration Report. • Overseeing AGL's remuneration framework. • Approval of a revised gender diversity target of 50% representation of women in the senior leadership pipeline by 30 June 2022. • Talent pipeline development including developing initiatives to give the Board exposure to AGL's key talent.	• Changes to membership of the Board Committees. • Implementation of a formal Board Evaluation process and considered the updated Board Skills matrix. • Succession planning to address AGL's future opportunities and challenges.

Board Skills Matrix

Gas Experience

Knowledge of the supply, storage and transportation aspects of Australia's gas markets, including trading, contracting and wholesale pricing.

Board – 5/8
ARMC – 3/4
SSCR – 2/4
P&PC – 2/3

Electricity Experience

Knowledge of the essential elements of the National Electricity Market (NEM), including trading, contracting and wholesale and retail pricing. A knowledge of the generation market (renewables, coal and gas), as well as downstream retail and commercial and industrial market dynamics.

Board – 5/8
ARMC – 3/4
SSCR – 1/4
P&PC – 2/3

Operations/Asset Management

Having led or overseen the management of complex operating assets which require the leadership of a large, skilled workforce.

Board – 7/8
ARMC – 3/4
SSCR – 4/4
P&PC – 2/3

Corporate Finance

Experience leading or overseeing the corporate finance function within a large business or investment banking environment. Experience dealing with a range of funding sources and capital structuring models and financial accounting and reporting.

Board – 8/8
ARMC – 4/4
SSCR – 4/4
P&PC – 3/3

Risk Management and Compliance

A working knowledge of contemporary risk and compliance management practices. Experience managing business risks and controls and the activities necessary to effectively manage and mitigate risk.

Board – 8/8
ARMC – 4/4
SSCR – 4/4
P&PC – 3/3

Customer/ Retail

Knowledge of customer segmentation models and how to influence customer behaviour in an increasingly digital world. This experience would ideally come from a retail environment, however business-to-business sales in the commercial or industrial environment is also highly relevant.

Board – 7/8
ARMC – 3/4
SSCR – 3/4
P&PC – 3/3

Technology/Industry Transformation

Experience and insights from industries that have been through significant technology/digital disruption or transformation. Experience with new and emerging technology.

Board – 7/8
ARMC – 4/4
SSCR – 3/4
P&PC – 3/3

Large Public Company/ Governance

Experience as a Director of public company Board(s) within the ASX100. Particularly relevant are businesses with an exposure to complex political, regulatory and business environments with a strong track record of environmental and social governance and significant people and performance structures.

Board – 8/8
ARMC – 4/4
SSCR – 4/4
P&PC – 3/3

Strategy and Growth

Experience developing strategic objectives and driving growth opportunities in large, complex organisations.

Board – 8/8
ARMC – 4/4
SSCR – 4/4
P&PC – 3/3

5.4 years
Average tenure

3 of 8
Female Directors

Board of Directors

The Directors present their report together with the financial statements of AGL Energy Limited and its controlled entities for the year ended 30 June 2018. The following sections form part of this Directors' Report - Five Year Summary (page 7); Our Strategy (pages 8-9); Key Business Risks and Mitigations (pages 10-11); Corporate Governance Summary (pages 12-14); Board of Directors (pages 15-17); Operating and Financial Review (pages 18-41); Remuneration Report (pages 42-63); and Other Required Disclosures (pages 64-66).

The names of the persons who have been Directors, or appointed as Directors, during the period since 1 July 2017 and up to the date of this Report are Andy Vesey (Managing Director & CEO), Jeremy Maycock (Chairman - retired 27 September 2017), Les Hosking, Graeme Hunt (Chairman since 27 September 2017), Belinda Hutchinson, Jacqueline Hey, John Stanhope, Peter Botten and Diane Smith-Gander.

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

Peter Botten CBE

BSc, ARSM
Non-Executive Director since October 2016. Age 63.

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

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

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

Diane Smith-Gander

BEc, MBA, FAICD, FGIA, Hon. DEc, FAIM, GAICD
Non-Executive Director since September 2016. Age 60.

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

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

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

Jacqueline Hey

BCom, Grad Cert (Mgmt), GAICD
Non-Executive Director since March 2016. Age 52.

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

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

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

Leslie Hosking

Non-Executive Director since November 2008. Age 73.

Current Directorships: Adjunct Professor of the University of Sydney John Grill Centre for Project Leadership.

Former Directorships of listed companies over the past 3 years: Les was a Non-Executive Director of Adelaide Brighton Limited from 10 June 2003 until 16 May 2018 and held the position of Chairman from 17 May 2012 until 16 May 2018.

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 also previously a Director of The Carbon Market Institute Limited, Innovation Australia Pty Limited, Australian Energy Market Operator Limited (AEMO), and Managing Director and Chief Executive Officer of NEMMCo.

Graeme Hunt

MBA, BMET
Non-Executive Director since September 2012 and Chairman since 27 September 2017. Age 61.

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

Former Directorships of listed companies over the past 3 years: Graeme was a Director of Broadspectrum Limited (formerly known as Transfield Services Limited) from 7 May 2012 until 31 December 2016, and held the position of Managing Director and Chief Executive Officer from 1 November 2012 until 31 December 2016.

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

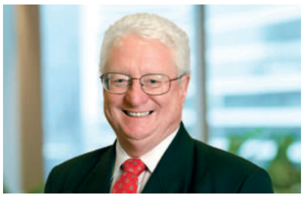
Belinda Hutchinson AM

BEc, FCA, FAICD
Non-Executive Director since December 2010. Age 65.

Current Directorships: Chancellor of the University of Sydney, Chairman of Thales Australia Limited (commenced 27 August 2015) and Future Generation Global Investment Company (commenced 28 May 2015), a Director of Qantas Airways Limited (commenced 12 April 2018), Australian Philanthropic Services and a Member of St Vincent's Health Australia NSW Advisory Council.

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

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



John Stanhope AM

BCom (Economics and Accounting), FCPA, FCA, FAICD, FAIM, FAHRI
Non-Executive Director since March 2009. Age 67.

Current Directorships: Chairman of Australia Post, Port of Melbourne, The Bionics Institute of Australia and Melbourne Jazz Limited, Chancellor of Deakin University and Vice Chair of the International Integrated Reporting Council.

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

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

Andy Vesey

BA (Econ), BSc (Mec. Eng.), MS
Managing Director and Chief Executive Officer. Age 63.

Current Directorships: Nil

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

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

Composition of Board Committees as at 30 June 2018

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

Directors' Interests

The relevant interest of each Director in the share capital of AGL or any of its related bodies corporate, as notified by the Directors to the ASX in accordance with Section 205G of the Corporations Act, at the date of this Report is as follows:

AGL Energy Limited Ordinary Shares	
Andy Vesey	399,506
Les Hosking	6,201
Graeme Hunt	4,000
Belinda Hutchinson	9,156
John Stanhope	7,950
Jacqueline Hey	7,783
Peter Botten	2,390
Diane Smith-Gander	5,670

No options have been granted over any securities or interests of AGL or the consolidated entity. Andy Vesey also holds performance rights allocated as LTI awards under AGL's Long Term Incentive Plan, which are detailed on page 57 of the Remuneration Report.

Company Secretaries

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

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

Dividends

The annual dividend for the year ended 30 June 2018 was 117.0 cents per share (80% franked) compared with 91.0 cents per share (80% franked) for the prior year. The FY18 dividend includes an interim dividend of 54.0 cents per share paid on 26 March 2018 and a final dividend of 63.0 cents per share payable on 21 September 2018.

For more information on dividends, refer to the Other Required Disclosures on page 64.

Directors' Meetings

The number of Directors' Meetings (including meetings of Committees of Directors) and number of meetings attended by each of the Directors of AGL during the financial year ended 30 June 2018 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
Graeme Hunt	11	11	7	7			2	2	2	2	2	2
Andy Vesey	11	11	7	7								
Jacqueline Hey	11	11	7	7	5	5			6	6	2	2
Les Hosking	11	11	7	7	5	5	3	3	6	6	2	2
Graeme Hunt	11	11	7	7							2	2
Belinda Hutchinson	11	11	6	7	5	5	6	6			2	2
Peter Botten	11	11	6	7					6	6	2	2
Diane Smith-Gander	11	11	7	7			6	6	6	6	2	2
John Stanhope	11	11	7	7	5	5	6	6			2	2
Jeremy Maycock	3	3										

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 26 occasions when Non-Executive Directors also attended some of the meetings of committees, of which they were not members.

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

Operating and Financial Review

For the year ended 30 June 2018

1. Financial Performance

Principal activities

AGL's principal activities consisted of the operation of energy businesses and investments, including electricity generation, gas storage and the retail sale of electricity, gas, solar and energy efficient products and services to residential and business customers. There were no significant changes in the principal activities of AGL during the year.

Review and results of operations

Information on the operations and financial position of AGL is set out in the Operating and Financial Review (pages 18 to 41). Information on AGL's business strategies and prospects for future financial years is set out in the Directors' Report (pages 8 to 11).

1.1 Group Results Summary

1.1.1 Reconciliation of Statutory Profit to Underlying Profit

1.1.1.1 Profit after tax

	2018 $m	2017 $m
Statutory Profit after tax	**1,587**	539
Adjust for:		
Significant items after tax		
Sunverge impairment	**27**	–
Active Stream gain on divestment	**(29)**	–
(Gain)/loss on fair value of financial instruments after tax	**(562)**	263
Underlying Profit after tax	**1,023**	802

Statutory Profit after tax was $1,587 million, up $1,048 million compared with the prior year. This included two items excluded from Underlying Profit:

- The gain on fair value of financial instruments of $562 million compared with a $(263) million loss in the prior year reflected the roll-off of FY18 electricity hedges, which had a negative fair value in the prior year as a result of increases in wholesale electricity market prices, but which have now matured. See section 1.1.5 for more detail.
- Significant items of $2 million from impairments and divestments.

Underlying Profit after tax was $1,023 million, up 27.6% from the prior year. A description of the factors driving Underlying Profit is included in section 1.1.2.

	2018	2017
Earnings per share on Statutory Profit[1]	**242.0 cents**	80.5 cents
Earnings per share on Underlying Profit[1]	**156.0 cents**	119.8 cents

1. EPS calculations have been based upon a weighted average number of ordinary shares of 655,825,043 (30 June 2017: 669,299,682).

1.1.1.2 Earnings before Interest and Tax (EBIT)

	2018 $m	2017 $m
Statutory EBIT	**2,464**	988
Significant items	**3**	–
(Gain)/loss on fair value of financial instruments	**(803)**	376
Finance income included in Underlying EBIT	**4**	4
Underlying EBIT	**1,668**	1,368

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1.1.1.3 Summary of Underlying EBIT by Business Unit

	2018 $m	2017 $m
Wholesale Markets	**2,664**	1,967
Customer Markets	**208**	446
Group Operations	**(924)**	(814)
Investments	**33**	17
Centrally Managed Expenses	**(313)**	(248)
Underlying EBIT	**1,668**	1,368

Refer to section 1.4 for detailed Business Unit analysis.

1.1.2 Group Financial Performance

	2018 $m	2017 $m
Revenue	**12,816**	12,584
Cost of sales	**(9,070)**	(9,192)
Other income/(loss)	**49**	(176)
Gross margin	**3,795**	3,216
Operating costs (excluding depreciation & amortisation)	**(1,569)**	(1,364)
Underlying EBITDA	**2,226**	1,852
Depreciation & amortisation	**(558)**	(484)
Underlying EBIT	**1,668**	1,368
Net finance costs	**(217)**	(228)
Underlying Profit before tax	**1,451**	1,140
Income tax expense	**(428)**	(338)
Underlying Profit after tax	**1,023**	802

1.1.2.1 Year-on-year movement in revenue ($m)

Total revenue was $12,816 million, up 1.8%, driven predominantly by increased customer revenue, reflecting higher wholesale electricity market prices. The increase was partially offset by the non-recurrence of revenue in Group Operations associated with asset divestments that occurred in the prior year. Further analysis on the movement in gross margin is provided below.

Other income of $49 million in the current year includes equity accounted investments income of $39 million and profit on asset disposals. The prior year loss of $(176) million was driven by the divestment of the Nyngan and Broken Hill solar plants to the Powering Australian Renewables Fund (PARF), as a result of which government grant revenue of $223 million was recognised within revenue and a loss on disposal of $(202) million was recognised in other income/(loss).

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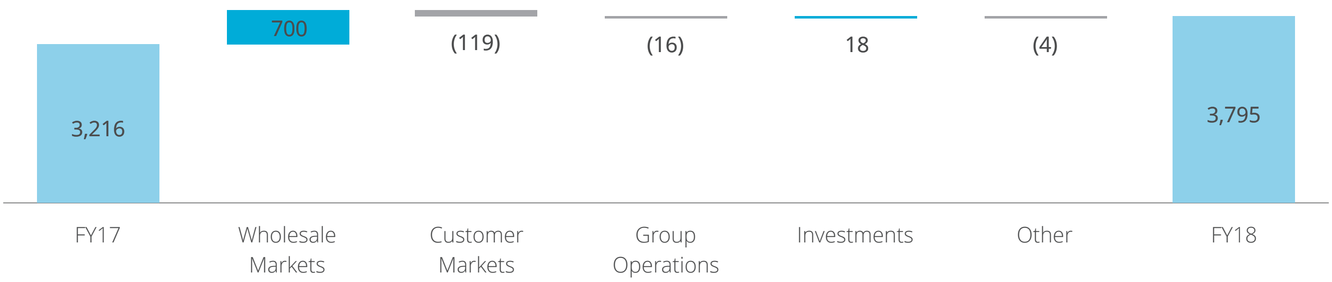
1.1.2.2 Year-on-year movement in gross margin ($m)



Total gross margin was $3,795 million, up 18.0%. The increase was largely attributable to Wholesale Markets benefitting from higher wholesale electricity market prices and higher per unit wholesale gas revenue more than offsetting higher gas supply costs. Partly offsetting the higher Wholesale Markets gross margin was a decrease in Customer Markets margin, as higher wholesale electricity and gas costs (transfer price) were reflected in higher consumer pricing, impacting the level of customer product switching and market churn, resulting in margin compression. The decrease in Group Operations margin reflected the non-recurrence of a one-off margin benefit of $21 million in the prior year from the divestment of the solar assets to the PARF as mentioned in section 1.1.2.1 above.

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1.1.2.3 Operating costs

	2018 $m	2017 $m
Wholesale Markets	**(22)**	(21)
Customer Markets	**(551)**	(447)
Group Operations	**(716)**	(673)
Investments	**(3)**	(1)
Centrally Managed Expenses	**(277)**	(222)
Operating costs (excluding depreciation & amortisation)	**(1,569)**	(1,364)
Depreciation & amortisation	**(558)**	(484)
Operating costs (including depreciation & amortisation)	**(2,127)**	(1,848)

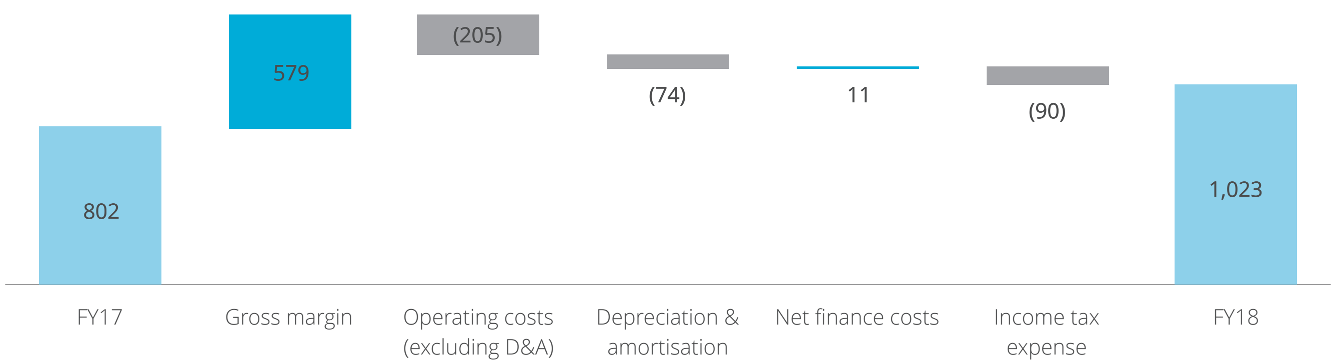
Total operating costs (excluding depreciation and amortisation) were $1,569 million, up 15.0%. The largest driver was in Customer Markets, in which operating costs (excluding depreciation and amortisation) were $551 million, up $104 million. This reflected costs associated with increased market activity such as the flow-on impacts associated with increasing consumer prices, acquisition and retention activity, increased labour costs to accommodate an increase in call volumes, bad and doubtful debts expense due to higher billed revenue and investment in customer affordability initiatives. In addition, there were reorganisation costs associated with business optimisation initiatives, the benefits of which will be realised next year and beyond. See section 1.4.2.2 for more detail.

Centrally Managed Expenses operating costs (excluding depreciation and amortisation) increased $55 million. This included costs associated with responding to a period of intense regulatory activity, New Energy projects, IT transformation and reorganisation. Business as usual costs were broadly flat.

Group Operations operating costs (excluding depreciation and amortisation) increased $43 million, primarily due to initiatives to maintain plant availability, AGL Loy Yang reorganisation costs, and CPI and wage escalation across the fleet. This was partly offset by higher capitalisation of costs due to major outage activity at the AGL Macquarie and AGL Loy Yang sites and the discontinuation of associated operating costs associated with divested assets.

Higher depreciation and amortisation costs, principally in Group Operations, reflected a higher asset base at AGL Macquarie as a result of sustaining capital expenditure relative to a short depreciation schedule given the planned closure of Liddell Power Station in December 2022. Depreciation of the Torrens A Power Station at AGL Torrens increased, reflecting an asset life revision as a result of the decision to start mothballing the station commencing in 2019, following the decision in June 2017 to construct the Barker Inlet Power Station. In Customer Markets, depreciation increased as a result of the Customer Experience Transformation program, which at the end of FY18 had incurred 66% of the $300 million planned expenditure.

1.1.2.4 Year-on-year movement in Underlying Profit after tax ($m)



Underlying Profit after tax was $1,023 million, up 27.6%. The principal driver of the increase was the strong margin growth in Wholesale Markets driven by higher wholesale electricity market prices (refer section 1.4.1). This was offset to some degree by Customer Markets margin compression, higher operating costs and higher depreciation and amortisation (refer section 1.1.2.3 above).

Net finance costs were $217 million, down 4.8%, largely due to lower borrowings. Underlying tax expense was $428 million, up 26.6% broadly reflecting the increase in profit. The underlying effective tax rate was 29.5%, broadly flat year-on-year.

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1.1.3 Significant Items

1.1.3.1 Asset and business disposals

Current year

On 30 November 2017 AGL completed the disposal of its Active Stream metering business. A post tax profit of $29 million was recognised in the year.

AGL started the Active Stream business in May 2015 as part of its New Energy strategy. Since that time, Active Stream installed more than 230,000 digital meters across New South Wales, Queensland, and South Australia. AGL's decision to divest Active Stream reflected the evolution of AGL's strategy to become technology agnostic in the development of innovative, data-enabled energy products and services that are accessible to all customers, regardless of meter provider. Post the sale, Active Stream continues to provide digital metering services to AGL on a non-exclusive basis.

AGL has agreed to sell a portfolio of small generation and compressed natural gas refuelling assets, known as AGL's National Assets portfolio, to Sustainable Energy Infrastructure, a consortium led by Whitehelm Capital. The portfolio of assets comprises 18 small generation operations located throughout Australia with a combined capacity of 81 MW, including landfill gas, biogas and biomass generation and cogeneration, in addition to compressed natural gas refuelling. The sale is subject to typical conditions precedent, which were not satisfied at 30 June 2018.

Prior year

Nil.

1.1.3.2 Asset impairments

Current year

During the year, AGL impaired the carrying value of its investment interest in Sunverge Energy Inc and related assets, following rapid technological changes in the energy storage market. A total post-tax impairment loss of $27 million was recognised in the year.

AGL acquired a 22% share in Sunverge Energy Inc in February 2016 as part of a strategy that prioritised the ability to be a first-mover in the orchestration of customer-owned energy storage assets. This investment enabled the launch of the Virtual Power Plant (VPP) pilot in South Australia and enhanced AGL's orchestration knowledge, which will underpin future initiatives.

Prior year

Nil.

1.1.4 Hedging

AGL's approach to managing energy price risks, both through physical ownership of energy generation and through financial hedging, reflects the need to provide pricing certainty to customers, and limit exposure to adverse market outcomes. AGL generates electricity in excess of its customers' demand in some states. In other states, AGL generates less than its customers' demand. As such, AGL manages risk exposure by determining the appropriate timing and degree of contracting activities, provided the overall AGL risk appetite is not exceeded in the pursuit of Wholesale Markets' strategic objectives.

AGL has in place a governance framework that establishes the policy guidelines under which energy hedging activities are conducted. Key components of that policy include segregation of duties, independent risk oversight, earnings-at-risk limits, compliance management and regular reporting to the Board. The risk policy represents the Board's and Senior Management's commitment to an effective risk management function to ensure appropriate management and oversight of AGL's risks related to Wholesale Markets.

The policy allows for commercial optimisation of the portfolio provided that AGL adheres to overall earnings-at-risk limits that reflects its risk appetite.

1.1.5 Changes in Fair Value of Financial Instruments

AGL uses certain financial instruments (derivatives) to manage energy price risks and to manage its exposure to interest and foreign exchange rates arising in the normal course of business. The majority of these financial instruments exchange a fixed price for a floating market based price of a given commodity, interest rate, currency or a quoted asset, with only the net differential being settled with the counterparty. AGL is exposed to price volatility on the sale and purchase of energy related commodities in the normal course of business, and therefore enters into instruments that minimise the price risk to AGL on both exposures (sold and purchased derivative contracts).

Certain purchased energy and all treasury-related derivatives are designated in hedge relationships with forecast transactions or balance sheet items, pursuant to criteria as specified in accounting standards. Derivative instruments assigned to an effective hedge relationship with a forecast transaction have movements in fair value deferred to an equity hedge reserve until the transaction to which those instruments are matched impact upon profit or loss. Derivative instruments not assigned to an effective hedge relationship have movements in fair value recognised in profit or loss. AGL's energy-related derivatives assigned to hedge relationships are purchased derivative contracts, where AGL pays a fixed price in exchange for a floating price received from the counterparty. The energy-related derivatives recognised in profit or loss are in a net sold position, where AGL receives a fixed price from a counterparty in exchange for a floating price paid to the counterparty.

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Movement in fair value

The initial fair value of a derivative is the consideration paid or received (the premium). Fair value movements in any given period are a function of changes to underlying indices, market prices or currencies and the roll-off of realised contractual volumes or amounts.

The movement in net derivate assets/(liabilities) in FY18 was $549 million to $25 million, from $(524) million. The primary driver for this movement was decreases in forward energy prices impacting fair value movements.

The fair value movement driving the change in the net derivative assets/(liabilities) position reflected unrealised fair value movements as follows:

- An increase in the fair value of net sold energy-related derivatives of $803 million was recognised in profit or loss (excluded from Underlying Profit). This net gain was a combination of reversal of prior period fair value losses and lower current year forward curve.
- A decrease in the fair value of purchased energy-related derivatives designated as a hedge relationship of $(159) million was recognised in the equity hedge reserve. This decrease primarily reflected lower market prices relative to contracted purchase prices.
- Currency related fair value losses of $(7) million recognised in borrowings.

The unrealised fair value movements were offset by net premiums paid/premium roll off of $75 million.

A reconciliation of the statement of financial position movement in financial instruments carried at fair value, which balances to the amount included in the statement of profit or loss for the year ended 30 June 2018 is presented in the following table:

Net assets/(Liabilities)	2018 $m	2017 $m	Change $m
Energy derivative contracts	**54**	(486)	540
Cross currency and interest rate swap derivative contracts	**(29)**	(38)	9
Total net assets/(liabilities) for financial instruments	**25**	(524)	549
Change in net assets/(liabilities)	**549**		
Premiums paid	**(93)**		
Premium roll off	**168**		
Equity accounted fair value	**13**		
Total change in fair value	**637**		
Recognised in equity hedge reserve	**(159)**		
Recognised in borrowings	**(7)**		
Recognised in profit and loss – pre-tax:	**803**		
Total change in fair value	**637**		

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1.2 Cash Flow

1.2.1 Reconciliation of Underlying EBITDA to Cash Flow

		2018 $m		2017 $m
Underlying EBITDA		**2,226**		1,852
Equity accounted income (net of dividend received)		**-**		2
Accounting for onerous contracts		**(33)**		(36)
Gain on divestments		**-**		(23)
Movement in other assets/liabilities and non-cash items		**21**		(53)
Working capital movements				
(Increase)/decrease in receivables	**66**		41	
Increase/(decrease) in creditors	**26**		(73)	
(Increase)/decrease in inventories	**(32)**		73	
Net derivative premiums paid/roll-offs	**49**		(58)	
(Increase)/decrease in other financial assets (margin calls)	**162**		(431)	
Net movement in green assets/liabilities	**(2)**		54	
Other	**(22)**		14	
Total working capital movements		**247**		(380)
Underlying operating cash flow before interest & tax		**2,461**		1,362
Net finance costs paid		**(168)**		(179)
Income taxes paid		**(159)**		(292)
Net cash provided by operating activities		**2,134**		891
Net cash used in investing activities		**(629)**		(302)
Net cash used in financing activities		**(1,196)**		(687)
Net increase/(decrease) in cash and cash equivalents		**309**		(98)

Underlying operating cash flow before interest and tax was $2,461 million, up $1,099 million. The primary drivers of this improvement were a $593 million year-on-year move in margin calls, an increase in EBITDA of $374 million and a positive year-on-year change in the movement in other assets/liabilities and non-cash items of $74 million, predominantly related to employee and rehabilitation provisions. As a result, the cash rate of conversion of EBITDA to cash flow was 111%, up from 74% in the prior year.

Total working capital movements for the year ended 30 June 2018 were $247 million:

- Higher cash flow from receivables reflected lower Business Customer volumes and a reduction in days sales outstanding as more customers paid on time.
- Higher cash flow from trade creditors reflected higher network payments in the prior year and higher gas volumes in the current year.
- Lower cash flow from inventory reflected:
  - A lower coal stockpile at 30 June 2017 due to delivery delays and an increase in coal rates and holdings in the current year;
  - Utilisation in the prior year of significant gas bank balance available under contractual arrangements; and
  - Increase in Active Stream trading stock prior to the divestment of the business. The disposal of the trading stock was reflected in sale proceeds (within investing cash flows).
- Higher cash flow from net derivative premiums compared with the prior year as a result of Wholesale contracts rolling off.
- Higher cash flow from margin calls due to increases in wholesale electricity prices in the prior year. The cash out flows in the prior year have now reversed as expected in the current year as existing positions roll-off.
- Lower cash flow from green assets reflecting increased Large-scale Renewable Energy Certificates (LRECs) purchases due to increased compliance obligations and the drawdown of self-generated inventory in the prior year.

The decrease in income tax was largely due to tax paid in the prior year on the sale of the Macarthur Wind Farm.

Investing cash flow increased due to higher capital expenditure and lower proceeds from asset sales compared with the prior year.

Financing cash flow includes dividends of $(682) million and a reduction in net borrowings of $(504) million including the cancellation of $150 million of term debt in September 2017 and the purchase of $68 million of AGL Loy Yang CPI bonds in December 2017. The prior year included the issuance of unsecured senior notes.

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1.2.2 Capital Expenditure

	2018 $m	2017 $m
Wholesale Markets	**18**	5
Customer Markets	**162**	103
Group Operations	**500**	359
Centrally Managed Expenses	**98**	51
Total capital expenditure	**778**	518

1.2.2.1 Summary of capital expenditure split between growth and sustaining

Growth and transformation	**295**	217
Sustaining	**483**	301
Total capital expenditure	**778**	518

Total capital expenditure was $778 million, an increase of $260 million compared with the prior year.

- Sustaining capital expenditure was $483 million, an increase of $182 million. This comprised $180 million of expenditure on major outages, an increase of $113 million on the prior year. Other sustaining capex was $303 million, up $69 million.
- Growth and transformation capital expenditure was $295 million, an increase of $78 million. The largest components were driven by spend on the Customer Experience Transformation program ($129 million), AGL's program to upgrade its enterprise resource planning systems ($60 million) and on the construction of the Barker Inlet Power Station ($53 million), which was lower than expected due to planning delays.

1.3 Review of Financial Position

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

AGL maintained its credit rating of Baa2 as provided by Moody's Investors Service throughout the year.

AGL's dividend policy is to target a payout ratio of 75% of annual Underlying Profit after tax and a minimum franking level of 80%. Total dividends declared for the period of $767 million reflected this payout ratio and were 27% higher than the prior year, consistent with AGL's profit growth.

The Dividend Reinvestment Plan (DRP) continued to operate during the year, at nil discount. During the year, AGL acquired shares for allotment to DRP participants on market, thereby preventing any dilutive impact that would have occurred if new shares were issued.

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1.3.1 Summary Statement of Financial Position

	2018 $m	2017 $m
Assets		
Cash and cash equivalents	**463**	154
Other current assets	**3,343**	3,471
Property, plant and equipment	**6,685**	6,447
Intangible assets	**3,271**	3,286
Other non-current assets	**877**	1,100
Total assets	**14,639**	14,458
Liabilities		
Borrowings	**2,841**	3,346
Other liabilities	**3,408**	3,538
Total liabilities	**6,249**	6,884
Net assets / total equity	**8,390**	7,574

At 30 June 2018 AGL's total assets were $14,639 million, an increase from $14,458 million at 30 June 2017. The increase in cash was primarily due to the decrease in margin call payments compared to the prior year (refer section 1.2 above), which is also reflected in an equivalent decrease in other current assets, specifically current financial assets. The increase in property, plant and equipment was reflective of the increase in capital expenditure (refer section 1.2.2 above). The decrease in other non-current assets was driven by the decrease in deferred tax assets as AGL Loy Yang utilised tax losses in the current year. AGL Loy Yang had tax losses of $2.2 billion at the time of acquisition in 2012.

Total liabilities at 30 June 2018 were $6,249 million, down from $6,884 million at 30 June 2017. The primary change reflected the repayment of borrowings, and a decrease in other current financial liabilities due to the revaluation of energy derivative contracts (refer section 1.1.5 above).

Total equity at 30 June 2018 was $8,390 million, up $816 million, reflecting the reduction in AGL's liabilities during the year as borrowings were reduced and energy derivative contracts were revalued. AGL's return on equity, calculated on a rolling 12-month basis was 13.0%, an improvement from 10.2% the prior year. The improvement in return on equity reflects an increase in Underlying Profit as well as a small reduction in average monthly equity from $7,899 million to $7,884 million, due to the impact of the on-market share buyback carried out during FY17.

1.3.2 Net Debt Reconciliation

Net debt reconciliation		
Borrowings	**2,841**	3,346
Less: Adjustment for cross currency swap hedges and deferred borrowing costs	**(9)**	(14)
Cash and cash equivalents	**(463)**	(154)
Net debt	**2,369**	3,178

Net debt at 30 June 2018 was $2,369 million, down from $3,178 million at 30 June 2017 reflecting the repayment of borrowings.

AGL's gearing (measured as the ratio of net debt to net debt plus equity) at 30 June 2018 was 21.8% compared with 29.6% at 30 June 2017.

AGL maintained its credit rating of Baa2 throughout the year as provided by Moody's Investors Service. Key metrics consistent with this credit rating at 30 June 2018:

- Interest cover: 7.0 times
- Funds from operations to net debt: 37%

AGL's funds from operations has been calculated with a similar methodology to Moody's whereby the movement in all current and non-current tax assets and liabilities is treated as working capital. As in prior years, a calculation has been undertaken to normalise for material changes in non-current tax assets and liabilities (including movements in fair value and tax loss utilisation). The normalised interest cover for the year is 9.1 times and normalised funds from operations to net debt is 51%.

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1.3.3 Significant Changes to Assets

On 25 August 2017, AGL agreed to sell its North Queensland gas assets to a consortium of Shandong Order Gas Co. Ltd and Orient Energy Pty Ltd. The sale remains subject to a number of conditions precedent including regulatory approval.

On 30 November 2017, AGL completed the sale of its Active Stream metering business for proceeds of $165 million. A post tax gain of $29 million was recognised in profit or loss for the year.

On 23 April 2018, AGL announced the sale of its National Assets portfolio to Sustainable Energy Infrastructure, a consortium led by Whitehelm Capital. The sale is subject to typical conditions precedent, which were not satisfied at 30 June 2018.

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1.4 Review of Operations

AGL manages its business in four key operating segments: Wholesale Markets, Customer Markets, Group Operations and Investments. Further detail on the activities of each operating segment is provided further below.

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

On 13 December 2017, AGL published restated segmental results to reflect the split of the former Energy Markets operating segment into Wholesale Markets and Customer Markets. This change was effective 1 July 2017. Refer to section 1.4.6.

1.4.1 Wholesale Markets

Wholesale Markets comprises Wholesale Electricity, Wholesale Gas and Eco Markets and is responsible for managing the price risk associated with procuring electricity and gas for AGL's customers and for managing AGL's obligations in relation to renewable energy schemes. Wholesale Markets also controls the dispatch of AGL's owned and contracted generation assets and associated portfolio of energy hedging products.

- Wholesale Electricity is responsible for managing the procurement of key fuel inputs and hedging of AGL's wholesale electricity requirements, for commercial management of the generation portfolio and for wholesale pricing to support AGL's consumer and business customer bases.
- Wholesale Gas is responsible for sourcing and managing AGL's gas supply and transportation portfolio to maximise wholesale price effectiveness. Wholesale Gas supplies other retailers, internal and third-party gas-fired generators, and other gas customers. Wholesale Gas is also responsible for the management of the price exposures related to AGL's oil-linked wholesale gas contracts.
- Eco Markets is responsible for managing AGL's liabilities relating to both voluntary and mandatory renewable energy schemes, the largest being the Small Scale Renewable Energy Scheme (SRES) and the Large Scale Renewable Energy Target (LRET).

1.4.1.1 Wholesale Markets Underlying EBIT

	2018 $m	2017 $m
Wholesale Electricity gross margin	**2,217**	1,549
Wholesale Gas gross margin	**432**	302
Eco Markets gross margin	**47**	145
Gross margin	**2,696**	1,996
Operating costs (excluding depreciation & amortisation)	**(22)**	(21)
Underlying EBITDA	**2,674**	1,975
Depreciation & amortisation	**(10)**	(8)
Underlying EBIT	**2,664**	1,967

Wholesale Markets Underlying EBIT was $2,664 million, up 35.4% as higher wholesale electricity market prices and higher per unit wholesale gas revenue more than offset higher gas supply costs and increased compliance costs in Eco Markets.

- Wholesale Electricity gross margin was $2,217 million, up 43.1%. Wholesale forward prices in the National Electricity Market increased in the prior year, which resulted in the Wholesale Electricity business increasing the transfer price charged to the Customer Markets business and higher per unit revenue on external electricity sales, including Wholesale customers. Partly offsetting higher revenue was an increase in fuel costs from $17.6/MWh on average in the prior year to $21.7/MWh, reflecting higher coal and gas prices. The increase in coal costs was mainly due to a higher use of short-term contracts because of rail infrastructure congestion in the Hunter Valley, reducing the availability of lower cost coal to AGL Macquarie, and coal cost escalation. Fuel costs were also impacted by higher wholesale gas prices. In addition, Wholesale Electricity gross margin was impacted by lower generation volume at AGL Macquarie due to unplanned outages, partially mitigated by increase in generation at AGL Loy Yang.
- Wholesale Gas gross margin was $432 million, up 43.0%. The increase was driven by higher wholesale prices across the Consumer and Business portfolios (through transfer price) and Wholesale customer portfolio. This was partly offset by gas purchase costs, which increased from $4.8/GJ on average in the prior year to $5.3/GJ. In addition, a number of wholesale contracts rolled off in the prior year, reducing Wholesale customers margin in the current year. Although Business customer volumes declined by 47.6% compared with the prior year (refer section 1.5.2), the margin impact from these contracts to Wholesale Gas was relatively minor.
- Eco Markets gross margin was $47 million, down 67.6% as compliance costs increased due to AGL sourcing a larger portion of Large-scale Renewable Energy Certificates (LRECs) through on-market purchases. In the prior year, AGL sourced a greater proportion of its obligation through self-generation and drawdown of existing inventory. This was not repeated in the current year due to the lower opening inventory of certificates and the increased compliance obligation per MWh consistent with the step-up through to 2030 under the Renewable Energy Target.

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1.4.2 Customer Markets
Customer Markets comprises the Consumer, Business and New Energy Services customer portfolios and is responsible for the retailing of electricity, gas, solar and energy efficiency products and services to residential and business customers. Customer Markets sources its energy from Wholesale Markets at a transfer price based on methodologies that reflect the prevailing wholesale market conditions and other energy costs in each state.

- The Consumer business is responsible for the sales and service experience of customers and includes product innovation, sales, marketing, brand and operations. Customer Markets also includes the Customer Experience Transformation.
- Business Customers is responsible for the sale of electricity and gas to high consuming commercial and industrial customers and for assisting customers to manage risks associated with energy markets.
- New Energy Services sells and installs residential and commercial solar together with business energy efficiency solutions.

1.4.2.1 Customer Markets Underlying EBIT

	2018 $m	2017 $m
Consumer Electricity gross margin	**452**	485
Consumer Gas gross margin	**250**	307
Business Electricity gross margin	**36**	40
Business Gas gross margin	**46**	60
New Energy Services gross margin	**7**	11
Fees, charges and other margin	**70**	77
Gross margin	**861**	980
Operating costs (excluding depreciation & amortisation)	**(551)**	(447)
Underlying EBITDA	**310**	533
Depreciation & amortisation	**(102)**	(87)
Underlying EBIT	**208**	446

Customer Markets Underlying EBIT was $208 million, down 53.4%, driven by margin compression in the consumer portfolio, lower volumes in the business gas portfolio and higher operating costs predominately driven by market activity.

AGL churn increased by 2.5 ppts to 18.9% from 16.4% reported at 30 June 2017 due to increased competition and market activity. The Rest of Market churn increased 3.8 ppts to 24.0% from 20.2% reported at 30 June 2017, increasing the favourable gap between AGL and the rest of the market from 3.8 ppts as at 30 June 2017 to 5.1 ppts as at 30 June 2018. Acquisitions and retentions increased to 2.2 million, up 24.7%.

- Consumer Electricity gross margin was $452 million, down 6.8%. Higher wholesale electricity costs (transfer price) were reflected in customer price increases. Market activity increased substantially with a higher level of churn and customers switching to lower priced products, resulting in margin compression. Electricity volumes declined 0.9% driven by lower average consumption in the residential portfolio as a result of a change in customer mix.
- Consumer Gas gross margin was $250 million, down 18.6%, as a result of increased gas commodity costs (transfer price) and margin compression driven by increased churn and customers product switching to lower priced products within a highly competitive market. Gas volumes increased 2.4% due to higher market volume revisions related to the prior year. Colder weather in 1H18 was offset by warmer weather in 2H18.
- Business Electricity gross margin was $36 million, down 10.0%, as a result of a decline in volumes largely driven by the loss of two large customers.
- Business Gas gross margin was $46 million, down 23.3%, as volumes declined 47.6% due to tight market conditions.
- New Energy Services gross margin was $7 million, down 36.4%, driven primarily by a one-off cost of $4 million incurred as part of the integration of the New Energy Services business into Customer Markets.
- Fees, charges and other margin was $70 million, down 9.1%, due to a decrease in late payment fees reflecting a positive trend of customers paying on time and AGL's focus on customer affordability.

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1.4.2.2 Customer Markets Operating Costs

	2018 $m	2017 $m
Labour and contractor services	**(173)**	(150)
Bad and doubtful debts	**(94)**	(77)
Campaigns and advertising	**(151)**	(97)
Net other expenditure	**(63)**	(46)
Net operating costs (excluding depreciation & amortisation)	**(481)**	(370)
Less: fees, charges and other margin	**70**	77
Operating costs (excluding depreciation & amortisation)	**(551)**	(447)
Add: depreciation & amortisation	**(102)**	(87)
Operating costs (including depreciation & amortisation)	**(653)**	(534)

Customer Markets operating costs (excluding depreciation and amortisation) were $551 million, up $104 million.

- Labour and contractor services costs were $173 million, up 15.3%, as a result of ensuring customer facing staff levels were sufficient through a period of high market activity, costs of entry into the Western Australian gas market and reorganisation costs.
- Bad and doubtful debts were $94 million, up 22.1%, largely due to higher billed revenues driven by price increases.
- Campaigns and advertising costs were $151 million, up 55.7%, due to increased sales and retention costs driven by intense market activity as well as costs associated with entry into the Western Australian gas market and continued strategic investment in brand transformation activities.
- Net other expenditure was $63 million, up 37.0%, due to higher payment channel costs driven by price increases, continued investment in customer affordability initiatives, lower late payment fees as more customers paid on time, and higher costs associated with the increased regulatory environment.

Depreciation and amortisation was $102 million, up 17.2%, driven by capital expenditure on the Customer Experience Transformation program.

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1.4.2.3 Consumer Customer Profitability and Operating Efficiency

	2018	2017
Gross margin	**$702m**	$792m
Net operating costs (including depreciation & amortisation)	**$(527)m**	$(413)m
EBIT	**$175m**	$379m
Average customer accounts ('000)	**3,648**	3,655
Gross margin per customer account	**$192**	$217
Net operating costs per customer account	**$(144)**	$(113)
EBIT per customer account	**$48**	$104
Net operating costs as percentage of gross margin	**75.1%**	52.1%
Cost to Serve	**$(301)m**	$(257)m
Cost to Serve per customer account	**$(83)**	$(70)
Acquisitions and retentions ('000)	**2,230**	1,788
Cost to Grow	**$(226)m**	$(156)m
Cost to Grow per account (acquired and retained)	**$(101)**	$(87)

Consumer EBIT per customer account was $48 per account, down 53.8%, driven by increased transfer price, margin compression and higher net operating costs.

Consumer gross margin per customer account was $192 per account, down 11.5%, as gross margin decreased on increased market activity.

Average customer accounts were flat as strong internal acquisition and retention activities and entry into the Western Australia gas market largely offset increased customer churn within a competitive market.

Consumer net operating costs per customer account were $144, up 27.4%, and Consumer net operating costs as a percentage of gross margin were 75.1%, up 23.0 ppts. Higher customer prices resulted in an increase in market activity costs, payment channel costs and bad and doubtful debts whilst labour costs increased as noted above in section 1.4.2.2.

Cost to Serve per customer account was $83, up 18.6%, in line with the increase in customer pricing driving higher bad and doubtful debts expense and payment channel costs in line with the increases in billed revenue. Additionally, labour costs increased as a result of reorganisation activities and increasing customer facing staff in response to the higher market activity.

Cost to Grow per account includes the consumer operating costs related to acquiring and retaining customers divided by the number of customers acquired and retained. Cost to Grow per account increased to $101, up 16.1%, due to investment into the Customer Experience Transformation program, entry into the Western Australia gas market, continued brand investment and increased sales channel and marketing campaign costs. Partially offsetting this was a strong focus on internal retention activity and digital acquisitions and retentions, driven by continued investment in the Customer Experience Transformation program.

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1.4.2.4 Customer Numbers and Churn

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

	2018 ('000)	2017 ('000)
Consumer Electricity	**2,220**	2,237
New South Wales	**823**	807
Victoria	**658**	638
South Australia	**367**	388
Queensland	**372**	404
Consumer Gas	**1,406**	1,402
New South Wales	**643**	657
Victoria	**528**	531
South Australia	**131**	132
Queensland	**83**	82
Western Australia	**21**	-
Total Consumer accounts	**3,626**	3,639
Total Business Customer accounts	**15**	14
Total Customer accounts	**3,641**	3,653

Electricity customer accounts have remained broadly flat as a result of significant competition in Queensland and South Australia, offset by growth in New South Wales and Victoria. Gas customer accounts have remained broadly flat following AGL's entry into the Western Australian gas market, whilst market competition increased in the eastern states.

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1.4.3 Group Operations

Group Operations comprises AGL's power generation portfolio and other key sites and operating facilities, in business units: Thermal, Renewables, Natural Gas, and Other operations.

- Thermal primarily comprises: AGL Macquarie (4,640 MW), consisting of the Bayswater and Liddell black coal power plants in New South Wales; AGL Loy Yang (2,210 MW), a brown coal mine and power plant in Victoria; and AGL Torrens (1,280 MW), a gas power plant in South Australia. Currently under construction as part of AGL Torrens is the Barker Inlet Power Station (210 MW), due for completion in 2019.
- Renewables primarily comprises 788 MW of hydroelectric power stations in Victoria and New South Wales; 924 MW of wind power generation in South Australia and Victoria (as the operator) and 156 MW of solar power in New South Wales (as the operator).
- Natural Gas includes the Newcastle Gas Storage Facility in New South Wales, the Silver Springs underground gas storage facility in Queensland, the natural gas production assets at Camden in New South Wales and the North Queensland gas assets, including the Moranbah Gas Project. AGL has entered into an agreement to sell the North Queensland gas assets (refer section 1.3.3 above).
- Other operations primarily consists of National Assets, which AGL agreed to sell in April 2018 (the sale is subject to conditions precedent), the Active Stream metering business, which was sold in November 2017 (refer section 1.3.3 above), Power Development, Property & Facilities and technical functions

1.4.3.1 Group Operations Underlying EBIT

	2018 $m	2017 $m
Gross margin	**206**	222
Operating costs (excluding depreciation & amortisation)	**(716)**	(673)
Underlying EBITDA	**(510)**	(451)
Depreciation & amortisation	**(414)**	(363)
Underlying EBIT	**(924)**	(814)

The following tables provide a breakdown of the contributors to Underlying EBITDA and Underlying EBIT:

Thermal	**(425)**	(398)
Renewables	**(51)**	(29)
Natural Gas	**(8)**	(7)
Other operations	**(26)**	(17)
Underlying EBITDA	**(510)**	(451)
Thermal	**(771)**	(692)
Renewables	**(74)**	(52)
Natural Gas	**(40)**	(31)
Other operations	**(39)**	(39)
Underlying EBIT	**(924)**	(814)

Group Operations Underlying EBIT was $(924) million, down 13.5%.

- Thermal Underlying EBIT was $(771) million, down 11.4%, because of higher depreciation, which reflected a higher asset base at AGL Macquarie as a result of increased capital expenditure relative to a short depreciation schedule given the committed closure date of Liddell Power Station in December 2022. In addition, depreciation on the Torrens A power station increased reflecting an asset life revision due to the decision to start mothballing the station in 2019, pending the planned completion of Barker Inlet Power Station. Thermal operating costs also increased reflecting initiatives to maintain plant availability, CPI and wage escalation, and reorganisation costs at AGL Loy Yang. This was partly offset by higher coal sales to Loy Yang B and additional capitalisation of costs at AGL Macquarie and AGL Loy Yang due to increased major outage activity.
- Renewables Underlying EBIT was $(74) million, down 42.3%, largely reflecting a one-off margin benefit of $21 million in the prior year for the divestment of Nyngan and Broken Hill solar plants into PARF.
- Natural Gas Underlying EBIT was $(40) million, down 29.0%, primarily a result of increased depreciation of $8 million due to changes in Camden's useful life consistent with AGL's commitment to close the project in 2023. Operating costs also increased driven by higher Newcastle Gas Storage Facility maintenance and Camden well workover activity.
- Other operations Underlying EBIT was $(39) million, flat year-on-year, reflecting a one-off margin benefit on the divestment of Active Stream in November 2017 and the discontinuation of Distributed Energy Services depreciation from April 2017 (held for sale). This is offset by lower National Assets margin in FY18 and gain on divestment of the Silverton Wind Farm to PARF in the prior year.

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1.4.3.2 Group Operations Operating Costs

	2018 $m	2017 $m
Labour	**(333)**	(314)
Contractor services	**(187)**	(171)
Other operations	**(196)**	(188)
Operating costs (excluding depreciation & amortisation)	**(716)**	(673)

Group Operations operating costs (excluding depreciation and amortisation) of $716 million reflecting an increase of $43 million, primarily due to initiatives to maintain plant availability, AGL Loy Yang reorganisation costs, and CPI and wage escalation across the fleet. This was partly offset by higher capitalisation of costs driven by AGL Macquarie and AGL Loy Yang major outage activity, the impact of the Active Stream divestment in November 2017 and lower solar operating costs following the divestment of Nyngan and Broken Hill solar plants in the prior year.

1.4.4 Centrally Managed Expenses

AGL manages and reports a number of expense items including information technology under Centrally Managed Expenses. These costs are not formally reallocated to the other operating segments because their management is the responsibility of various corporate functions. Included within Centrally Managed Expenses in the year was AGL's New Energy business. Direct investments that are made by New Energy are reported in the Investments segment.

	2018 $m	2017 $m
Gross margin	**(4)**	-
Operating costs (excluding depreciation & amortisation)	**(277)**	(222)
Underlying EBITDA	**(281)**	(222)
Depreciation & amortisation	**(32)**	(26)
Underlying EBIT	**(313)**	(248)

The following table provides a more detailed breakdown of Centrally Managed Expenses operating costs excluding depreciation & amortisation.

Labour	**(136)**	(104)
Hardware and software costs	**(70)**	(64)
Consultants and contractor services	**(23)**	(16)
Insurance premiums	**(19)**	(19)
Other	**(29)**	(19)
Operating costs (excluding depreciation & amortisation)	**(277)**	(222)

Centrally Managed Expenses Underlying EBIT was $(313) million, down 26.2%. This included costs associated with responding to a period of intense regulatory activity, New Energy projects, IT transformation and reorganisation. Business as usual costs were broadly flat with efficiency savings offsetting labour inflation.

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1.4.5 Investments

Investments comprises AGL's interests in the ActewAGL Retail Partnership, PARF, Digital Energy Exchange and New Energy investments: Advanced Microgrid Solutions Inc, Energy Impact Partners' Fund, Activate Capital Partners, Solar Analytics Pty Limited, Sunverge Energy Inc and Ecobee Inc.

	2018 $m	2017 $m
ActewAGL	**38**	24
New Energy investments	**(3)**	(7)
Other	**(2)**	0
Underlying EBIT	**33**	17

ActewAGL Retail partnership contributed an equity share of profits of $38 million for the year compared with $24 million in the prior year. The increase was due to increased customer pricing from 1 July 2017.

1.4.6 Segment Restatement

On 13 December 2017, AGL published restated segmental results to reflect the split of the previous Energy Markets operating segment into two new operating segments, Wholesale Markets and Customer Markets. New Energy Services was also incorporated into Customer Markets and there was a minor update to reflect the transfer of the Health, Safety & Environment function from Group Operations to Centrally Managed Expenses (People & Culture).

Prior year

Revised Structure	2017 $m
Wholesale Markets	1,967
Customer Markets	446
Group Operations	(814)
Investments	17
Centrally Managed Expenses	(248)
Underlying EBIT	1,368

Previous Structure	2017 $m
Energy Markets	2,413
Group Operations	(825)
Investments	17
Centrally Managed Expenses	(237)
Underlying EBIT	1,368

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1.5 Portfolio Review

The portfolio review reporting for both the Electricity (section 1.5.1) and Gas (section 1.5.2) businesses provide a consolidated margin for each fuel across operating segments. This is as an effective tool to present how value is generated in the business for each type of fuel. The portfolio review combines the revenue from external customers and associated network and other costs, the costs of the procurement and hedging of AGL's gas and electricity requirements, and the costs of managing and maintaining AGL's owned and contracted generation assets to calculate the consolidated margin. A per unit rate ($/MWh for electricity and $/GJ for gas) is derived from each category of revenue and cost using the relevant associated volumes.

The tables in section 1.5.1 and 1.5.2 should be read in conjunction with section 1.7 to reconcile the segmental revenue and costs allocated to each portfolio with Group Underlying EBIT.

1.5.1 Electricity Portfolio

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

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

	2018 GWh	2017 GWh	Movement %
Consumer customers pool purchase volume	**14,695**	14,985	(1.9)%
Business customers & Wholesale Markets pool purchase volume	**25,887**	26,522	(2.4)%
Pool purchase volume	**40,582**	41,507	(2.2)%
Add: Net generation volume surplus	**2,483**	1,592	56.0%
Pool generation volume	**43,065**	43,099	(0.1)%
Consumer customers sales	**13,768**	13,888	(0.9)%
Business customers sales	**9,752**	11,198	(12.9)%
Wholesale customers sales	**15,651**	14,564	7.5%
Total customer sales volume	**39,171**	39,650	(1.2)%
Energy losses	**1,411**	1,857	(24.0)%
Pool purchase volume	**40,582**	41,507	(2.2)%

Pool generation volumes were 43,065 GWh, broadly flat, as reduced generation at AGL Macquarie as a result of lower planned availability, was partially offset by the increase in generation at AGL Loy Yang. Total customer sales volumes were 39,171 GWh, a decrease of 479 GWh or 1.2%. Consumer customer sales volumes were 13,768 GWh, a decrease of 120 GWh or 0.9% driven by lower average consumption in the residential portfolio as a result of a change in customer mix. Total average consumption per customer decreased by 0.8% as average residential consumption per customer declined 2.8% whilst small business consumption per customer increased 8.3%. Business customer sales volumes were 9,752 GWh, a 1,446 GWh decrease or 12.9% predominately due to the loss of two large volume customers. Wholesale customer sales volumes were 15,651 GWh, up 1,087 GWh or 7.5%, driven by increased commercial load from existing Wholesale Customers.

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	Portfolio Margin		Per Unit		Volume Denomination	
	2018 $m	2017 $m	2018 $/MWh	2017 $/MWh	2018 GWh	2017 GWh
Consumer customers[1]	**4,145**	3,810	***301.1***	*274.3*	**13,768**	13,888
Business customers[1]	**1,615**	1,550	***165.6***	*138.4*	**9,752**	11,198
Wholesale customers & Eco Markets[1,2]	**1,055**	767	***67.4***	*52.7*	**15,651**	14,564
Group Operations (Thermal & Renewables)	**97**	108				
Total revenue[1]	**6,912**	6,235	***176.5***	*157.3*	**39,171**	39,650
Consumer network costs[1]	**(1,691)**	(1,777)	***(122.8)***	*(128.0)*	**13,768**	13,888
Consumer other cost of sales[1]	**(597)**	(486)	***(43.4)***	*(35.0)*	**13,768**	13,888
Business customers network costs[1]	**(583)**	(616)	***(59.8)***	*(55.0)*	**9,752**	11,198
Business customers other cost of sales[1]	**(292)**	(202)	***(29.9)***	*(18.0)*	**9,752**	11,198
Customer network and other cost of sales[1]	**(3,163)**	(3,081)	***(134.5)***	*(122.8)*	**23,520**	25,086
Fuel[3]	**(936)**	(760)	***(21.7)***	*(17.6)*	**43,065**	43,099
Generation running costs[3]	**(577)**	(523)	***(13.4)***	*(12.1)*	**43,065**	43,099
Depreciation & amortisation[3]	**(370)**	(318)	***(8.6)***	*(7.4)*	**43,065**	43,099
Costs of generation (a)[3]	**(1,883)**	(1,601)	***(43.7)***	*(37.1)*	**43,065**	43,099
Pool generation revenue[2,4]	**3,881**	3,577	***90.1***	*83.0*	**43,065**	43,099
Pool purchase costs[2,5]	**(3,582)**	(3,645)	***(88.3)***	*(87.8)*	**40,582**	41,507
Net derivative (cost)/revenue[4]	**(259)**	(14)	***(6.0)***	*(0.3)*	**43,065**	43,099
Net Portfolio Management (b)[6]	**40**	(82)	***1.0***	*(2.1)*	**39,171**	39,650
Total wholesale costs (a + b)[5]	**(1,843)**	(1,683)	***(45.4)***	*(40.5)*	**40,582**	41,507
Total costs[6]	**(5,006)**	(4,764)	***(127.8)***	*(120.2)*	**39,171**	39,650
Portfolio margin[7]	**1,906**	1,471	***48.7***	*37.1*	**39,171**	39,650
Consumer customers	**452**	485				
Business customers	**36**	40				
Wholesale Electricity	**2,217**	1,549				
Eco Markets	**46**	141				
Group Operations (Thermal & Renewables)	**(845)**	(744)				

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

Electricity portfolio margin increased to $48.7 per MWh from $37.1 per MWh driven by higher wholesale prices.

Total revenue was $6,912 million, an increase of $677 million. Revenue from Consumer customers was $4,145 million, an increase of $335 million, driven by increases in net customer prices reflecting higher wholesale market prices, partly offset by lower sales volumes within a competitive market. Business customer revenue was $1,615 million, an increase of $65 million, due to favourable customer mix which more than offset the loss of two high volume customers. Wholesale Electricity & Eco Markets revenue was $1,055 million, an increase of $288 million, reflecting the 1,087 GWh increase in Wholesale customer sales volumes and contract price increases.

Lower network rates and customer sales volumes resulted in lower network costs. Increases in solar feed-in tariffs paid to customers and increased costs of complying with green schemes contributed to the increase in Consumer other cost of sales.

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Total Wholesale costs were $(1,843) million, an increase of $160 million, or $4.9 per MWh. Net portfolio management improved $122 million or $3.1 per MWh driven by higher pool prices and increased forward contract prices. Fuel costs increased $176 million or $4.1 per MWh reflecting increased short-term coal and gas purchases, including current contract cost escalation. Increased depreciation of $52 million is predominantly due to a higher asset base at AGL Macquarie due to the committed closure of Liddell Power Station and a revision of Torrens A Station's useful life.

In addition to the commentary above, Electricity portfolio margin is discussed in sections 1.4.1 and 1.4.2.

1.5.2 Gas Portfolio

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

	2018 PJ	2017 PJ	Movement %
Consumer customers	**59.9**	58.5	2.4%
Business customers	**32.3**	61.6	(47.6)%
Wholesale Markets & generation	**87.8**	109.7	(20.0)%
Total customer sales volume	**180.0**	229.8	(21.7)%
Energy losses	**2.9**	3.4	(14.7)%
Gas purchase volume	**182.9**	233.2	(21.6)%

Total customer sales volume was 180.0 PJ, a decrease of 49.8 PJ or 21.7% due to the loss of large Business customers and Wholesale customers driven by gas supply constraints in the market. The increase in Consumer customer volumes was due to higher market volume revisions related to the prior year. This was reflected in an increase in average consumption per customer of 2.7%.

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	Portfolio Margin		Per Unit		Volume Denomination	
	2018 $m	2017 $m	2018 $/GJ	2017 $/GJ	2018 PJ	2017 PJ
Consumer customers	**1,538**	1,400	***25.7***	*23.9*	**59.9**	58.5
Business customers	**339**	513	***10.5***	*8.3*	**32.3**	61.6
Wholesale Gas & Eco Markets	**755**	829	***8.6***	*7.6*	**87.8**	109.7
Total revenue	**2,632**	2,742	***14.6***	*11.9*	**180.0**	229.8
Consumer network costs	**(537)**	(509)	***(9.0)***	*(8.7)*	**59.9**	58.5
Consumer other cost of sales	**(38)**	(37)	***(0.6)***	*(0.6)*	**59.9**	58.5
Business customers network costs	**(31)**	(53)	***(1.0)***	*(0.9)*	**32.3**	61.6
Business customers other cost of sales	**(6)**	(15)	***(0.2)***	*(0.2)*	**32.3**	61.6
Customer network and other cost of sales	**(612)**	(614)	***(6.6)***	*(5.1)*	**92.2**	120.1
Gas purchases	**(959)**	(1,096)	***(5.3)***	*(4.8)*	**180.0**	229.8
Haulage, storage & other	**(332)**	(359)	***(1.8)***	*(1.6)*	**180.0**	229.8
Total wholesale costs	**(1,291)**	(1,455)	***(7.2)***	*(6.3)*	**180.0**	229.8
Total costs	**(1,903)**	(2,069)	***(10.6)***	*(9.0)*	**180.0**	229.8
Portfolio margin	**729**	673	***4.1***	*2.9*	**180.0**	229.8
Consumer customers	**250**	307				
Business customers	**46**	60				
Wholesale Gas	**432**	302				
Eco Markets	**1**	4				

Gas portfolio margin increased to $4.1 per GJ from $2.9 per GJ driven by an increase in the market price.

Total revenue was $2,632 million, a decrease of $110 million largely due to a reduction in Business and Wholesale customers sales revenue. The $174 million decrease in Business customers revenue was due to a decrease in volumes sold as a result of tight market conditions and the loss of large volume customers. The decrease in Wholesale customer revenue was driven by the roll-off of a number of wholesale customers. Consumer revenue was $1,538 million, an increase of $138 million due to increases in net customer prices driven by higher wholesale prices and further supported by a 2.4% increase in consumer sales volumes, within a competitive market.

Total costs were $(1,903) million, a decrease of $166 million mainly due to lower gas volumes purchased as a result of lower customer sales volume. Total network cost increase is due to increased network prices.

In addition to the commentary above, Gas portfolio margin is discussed in sections 1.4.1 and 1.4.2.

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1.6 Consolidated Financial Performance by Operating Segment

2018 $m	Wholesale Markets	Customer Markets	Group Operations	Centrally Managed Expenses	Investments	Inter-segment	**Total Group**
Revenue	8,624	7,746	234	1	-	(3,789)	**12,816**
Cost of sales	(5,928)	(6,885)	(41)	(5)	-	3,789	**(9,070)**
Other income/(loss)	-	-	13	-	36	-	**49**
Gross margin	**2,696**	**861**	**206**	**(4)**	**36**	**-**	**3,795**
Operating costs (excluding depreciation & amortisation)	(22)	(551)	(716)	(277)	(3)	-	**(1,569)**
Underlying EBITDA	**2,674**	**310**	**(510)**	**(281)**	**33**	**-**	**2,226**
Depreciation & amortisation	(10)	(102)	(414)	(32)	-	-	**(558)**
Underlying EBIT	**2,664**	**208**	**(924)**	**(313)**	**33**	**-**	**1,668**
Net finance costs							**(217)**
Underlying Profit before tax							**1,451**
Income tax expense							**(428)**
Underlying Profit after tax							**1,023**

2017 $m	Wholesale Markets	Customer Markets	Group Operations	Centrally Managed Expenses	Investments	Inter-segment	**Total Group**
Revenue	8,007	7,397	455	1	-	(3,276)	**12,584**
Cost of sales	(6,011)	(6,416)	(40)	(1)	-	3,276	**(9,192)**
Other income/(loss)	-	(1)	(193)	-	18	-	**(176)**
Gross margin	**1,996**	**980**	**222**	**-**	**18**	**-**	**3,216**
Operating costs (excluding depreciation & amortisation)	(21)	(447)	(673)	(222)	(1)	-	**(1,364)**
Underlying EBITDA	**1,975**	**533**	**(451)**	**(222)**	**17**	**-**	**1,852**
Depreciation & amortisation	(8)	(87)	(363)	(26)	-	-	**(484)**
Underlying EBIT	**1,967**	**446**	**(814)**	**(248)**	**17**	**-**	**1,368**
Net finance costs							**(228)**
Underlying Profit before tax							**1,140**
Income tax expense							**(338)**
Underlying Profit after tax							**802**

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1.7 Portfolio Review Reconciliation

2018 $m	Electricity Portfolio	Gas Portfolio	Other AGL	Adjustments (a)	**Total Group**
Wholesale Markets	1,055	755	-	3,134	**4,944**
Customer Markets	5,760	1,877	109	(50)	**7,696**
Group Operations	97	-	137	(59)	**175**
Other	-	-	1	-	**1**
Revenue	**6,912**	**2,632**	**247**	**3,025**	**12,816**
Wholesale Markets	(902)	(1,291)	-	(3,651)	**(5,844)**
Customer Markets	(3,163)	(612)	(31)	606	**(3,200)**
Group Operations	-	-	(40)	20	**(20)**
Other	-	-	(6)	-	**(6)**
Cost of sales	**(4,065)**	**(1,903)**	**(77)**	**(3,025)**	**(9,070)**
Other income/(loss)	-	-	49	-	**49**
Gross margin	**2,847**	**729**	**219**	**-**	**3,795**
Operating costs (excluding depreciation & amortisation)	(571)	-	(998)	-	**(1,569)**
Depreciation & amortisation	(370)	-	(188)	-	**(558)**
Portfolio Margin / Underlying EBIT	**1,906**	**729**	**(967)**	**-**	**1,668**

2017 $m	Electricity Portfolio	Gas Portfolio	Other AGL	Adjustments (a)	**Total Group**
Wholesale Markets	767	829	-	3,264	**4,860**
Customer Markets	5,360	1,913	124	(63)	**7,334**
Group Operations	108	-	347	(66)	**389**
Other	-	-	1	-	**1**
Revenue	**6,235**	**2,742**	**472**	**3,135**	**12,584**
Wholesale Markets	(831)	(1,455)	-	(3,622)	**(5,908)**
Customer Markets	(3,081)	(614)	(35)	468	**(3,262)**
Group Operations	-	-	(40)	19	**(21)**
Other	-	-	(1)	-	**(1)**
Cost of sales	**(3,912)**	**(2,069)**	**(76)**	**(3,135)**	**(9,192)**
Other income/(loss)	-	-	(176)	-	**(176)**
Gross margin	**2,323**	**673**	**220**	**-**	**3,216**
Operating costs (excluding depreciation & amortisation)	(534)	-	(830)	-	**(1,364)**
Depreciation & amortisation	(318)	-	(166)	-	**(484)**
Portfolio Margin / Underlying EBIT	**1,471**	**673**	**(776)**	**-**	**1,368**

Notes

(a) Key adjustments include:

- Wholesale Markets electricity pool sales in the statutory accounts has been reallocated to cost of sales (net portfolio management) in the Portfolio Review where it is combined with pool purchase costs and derivatives to reflect AGL's net position.
- Wholesale Markets other revenue in the statutory accounts has been reallocated to cost of sales (generation running costs) in the Portfolio Review including ancillary services revenue, brown coal sales and wind farm asset management fees.
- Within Wholesale Markets, derivatives from certain wholesale contracts are recognised within cost of sales in the statutory accounts. In the Portfolio Review the revenue and costs have been separately disclosed.
- Intra-segment and inter-segment eliminations include: Gas sales from Wholesale Gas to Wholesale Electricity; gas sales from Group Operations (Natural Gas) to Wholesale Markets; electricity sales from Group Operations (National Assets) to Wholesale Markets; and metering sales from Group Operations (Active Stream) to Customer Markets. Elimination adjustment also includes the reallocation of green costs from Wholesale Markets (Eco-Markets) to Consumer and Business customer other cost of sales.

Remuneration Report

For the year ended 30 June 2018

2. Remuneration Report

This Remuneration Report forms part of the Directors' Report.

Message from the Chair of the People & Performance Committee

Dear Shareholders,

On behalf of your Board, I am pleased to present the Remuneration Report for AGL Energy Limited (AGL) and its consolidated entities for the year ended 30 June 2018 (FY18). The Remuneration Report aims to provide you with an understanding of the remuneration principles in place for key management personnel (KMP). At the 2018 Annual General Meeting (AGM) we will seek your support for this Remuneration Report.

Our financial performance in FY18 was strong in a complex and fast-evolving market. The number of customers seeking new or improved energy plans was at an all-time high. Management continues to respond to operating challenges in the generation and wholesale markets to deliver reliable supply. We continue to undertake transformation activities to benefit our customers in the long-term. We made strong progress on many key initiatives such as our Customer Experience Transformation program, while progressing construction on the Barker Inlet Power Station, Coopers Gap and Silverton wind farms (via the Powering Australian Renewables Fund) and establishing our NSW Generation Plan.

Remuneration Outcomes

The starting point for considering remuneration outcomes is Statutory Profit. The Board adjusts Statutory Profit for non-cash fair value movements in financial instruments and may adjust for other significant items on a case-by-case basis.

Statutory Profit after tax in FY18 was $1,587 million, up from $539 million in FY17. When adjusted for the impact of fair value movements in financial instruments, Profit after tax was $1,023 million, up 28 percent. Underlying operating cash flow before interest and tax was $2,461 million, reflecting a cash conversion rate of 111 percent, up from 74 percent.

Short-term incentives (STIs) reward executives for financial and strategic achievements throughout the year. They reflect not only what the Company achieved, but how those outcomes were achieved. For FY18, executives achieved STI awards at or just above target opportunity levels (between 100 and 110 percent of target) reflecting our strong financial performance and demonstrated progress against AGL's strategy.

The performance period for the FY16 long-term incentive (LTI) plan completed on 30 June 2018 and this grant vested at 31.5 percent overall. This was achieved as the Company partially met the relative total shareholder return (TSR) measure (being placed at the 56th percentile in comparison to the customised peer group) but did not meet the three-year average return on equity (ROE) measure, after excluding the impact of share buybacks and asset write-downs as had been previously flagged by the Board for this LTI grant.

AGL reviews executive fixed remuneration annually to ensure it remains market competitive and is positioned appropriately relative to market benchmarks. During FY18, only one executive, Doug Jackson (Executive General Manager (EGM), Group Operations), received an increase in fixed remuneration of 2.5 percent, effective September 2017.

The Non-Executive Directors received a 1.9 percent increase in fees, effective 1 January 2018, in line with the commitment in last year's Remuneration Report to not increase fees more than the Consumer Price Index (CPI).

Further details of remuneration outcomes are available in section 2.3 of this Remuneration Report, while a detailed discussion of strategy is included in the Our Strategy section of the Directors' Report.

This year, we continued to review and refine our remuneration framework, listening to feedback from and discussing changes with stakeholders. We also commenced a comprehensive review of our executive remuneration framework to ensure continued alignment with our strategic imperatives, AGL's Values and the expectations of our broader stakeholders. The first phase included an evaluation of market practices in place at S&P/ASX50 Index companies, and resulted in no change to the framework for FY18. We continue to enhance disclosures, and have included a concise summary diagram (page 43) outlining our strategy, FY18 performance and the resulting remuneration outcomes.

I invite you to read this Remuneration Report and trust that you will find it helpful in understanding AGL's approach to remuneration. My thanks go to Les Hosking for his thoughtful commitment as Chair of the People & Performance Committee from 2012 until 2017.

Your directors look forward to welcoming you to the 2018 AGM and receiving your feedback on this Remuneration Report.

Yours sincerely

Diane Smith-Gander
Chair, People & Performance Committee

Remuneration Report

For the year ended 30 June 2018

Summary of FY18 Performance and Remuneration Outcomes

How we think and act

AGL Values	Safety and beyond	Sustainable thinking	Inclusive of all	Focused on what matters

Our strategy[1]

Strategic imperatives	Prosper in a carbon constrained future	Build customer advocacy

Critical success factors

Objectives	Personalised retailing	Orchestrating large and small assets	Lower emissions technology	Growing into new markets

Our remuneration framework[2]	Fixed remuneration	Short-term incentive (STI)	Long-term incentive (LTI)
Remuneration element	Base salary and superannuation	Cash and Restricted Shares One-year performance period	Performance Rights Three-year performance period

How did we perform?[3]	Short-term incentive (STI)	Long-term incentive (LTI)
FY18 performance	**Profit after tax:** Statutory Profit after tax of $1,587 million. Underlying Profit after tax up 28% from FY17 to $1,023 million. **Productivity:** Operating expenditure below planned levels due to strong operating cost discipline and productivity initiatives. **Transformation**: Customer Experience Transformation program delivering innovative products and services to increase convenience and transparency to customers. **Growth:** Coopers Gap Wind Farm project successfully executed; NSW Generation Plan delivered; Barker Inlet Power Station tracking to schedule.	**Relative total shareholder return (TSR):** Three-year TSR to 30 June 2018 of 52.77%, equating to the 56th percentile against the FY16 LTI peer group. **Return on equity (ROE):** Notwithstanding average annual reported ROE over the performance period was 10.48% and would have resulted in partial vesting, the Board excluded the impact of share buybacks and asset write-downs that occurred during the performance period. The average annual ROE over the performance period was therefore 9.52%.

What was delivered?[3]	Fixed remuneration	Short-term incentive (STI)	Long-term incentive (LTI)
FY18 remuneration outcomes	No executive KMP received an increase in fixed remuneration during the year, except for the EGM, Group Operations, Mr Jackson. Mr Jackson received an increase of 2.5% in fixed remuneration for FY18.	see STI Awards table below	**FY18 vesting (FY16 grant)** **TSR:** 50% of grant, 63% of Rights vesting **ROE:** 50% of grant, 0% of Rights vesting

STI Awards	% of target	% of max
MD/CEO	104.5%	72.6%
Other executives	107 – 110%	74.3 – 76.4%

1. Refer to pages 8-9 of this Annual Report for more detailed information on AGL's strategy.
2. Refer to section 2.2.2 for further information regarding AGL's remuneration framework.
3. Refer section 2.3 for comprehensive FY18 fixed remuneration and short-term and long-term incentive outcomes.

Remuneration Report

For the year ended 30 June 2018

2.1 Introduction

The directors present the Remuneration Report for AGL Energy Limited (AGL) and its consolidated entities for the year ended 30 June 2018 (FY18), prepared in line with the *Corporations Act 2001 (Cth)*. The Report forms part of the Directors' Report and provides shareholders with an understanding of the remuneration principles in place for key management personnel (KMP).

This Report explains the FY18 remuneration framework and outcomes for the KMP of AGL. The KMP comprise the Managing Director and Chief Executive Officer (MD/CEO), certain AGL executives with operational and/or financial responsibility (together referred to in this Report as 'executives') and the Non-Executive Directors. The executives defined as KMP for FY18 are the MD/CEO, the Chief Financial Officer (CFO) and the Executive General Managers (EGMs) of the three major operating segments: Customer Markets and Wholesale Markets (previously consolidated into one segment, 'Energy Markets') and Group Operations.

The EGM for Customer Markets (Chief Customer Officer, Melissa Reynolds) and the EGM, Wholesale Markets (Richard Wrightson) became KMP effective 1 July 2017. Stephen Mikkelsen, previous EGM, Energy Markets, ceased to be a KMP on 30 June 2017. Although not a KMP in FY18, Mr Mikkelsen's remuneration outcomes (including termination payments) have been reported in full until his cessation of employment with AGL on 28 September 2017.

Table 2.1.1: Key management personnel

Name	Position	Dates
Non-Executive Directors		
Current		
Graeme Hunt	Chairman	Full year (Chairman from 27 September 2017)
Peter Botten	Non-Executive Director	Full year
Jacqueline Hey	Non-Executive Director	Full year
Les Hosking	Non-Executive Director	Full year
Belinda Hutchinson	Non-Executive Director	Full year
Diane Smith-Gander	Non-Executive Director	Full year
John Stanhope	Non-Executive Director	Full year
Former		
Jerry Maycock	Chairman	Until 27 September 2017
Executives		
Current		
Andy Vesey	MD/CEO	Full year
Doug Jackson	EGM, Group Operations	Full year
Brett Redman	CFO	Full year
Melissa Reynolds	Chief Customer Officer	Full year
Richard Wrightson	EGM, Wholesale Markets	Full year
Former		
Stephen Mikkelsen	EGM, Energy Markets	Not applicable

2.2 Remuneration Strategy and Framework

2.2.1 Remuneration Strategy

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

In pursuit of these imperatives, AGL organises its objectives around financial, strategic, people/culture and customer outcomes.

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

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

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

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

Remuneration Report
For the year ended 30 June 2018

AGL is committed to ensuring that its remuneration framework is equitable and supports the objective of increasing female representation at senior levels of the Company.

2.2.2 Remuneration Framework
AGL reviews its remuneration framework regularly to ensure it continues to be fit-for-purpose and drives performance outcomes that deliver on AGL's strategy. These regular executive remuneration framework reviews are also considered good governance by the Board.

During FY18, AGL commenced a comprehensive review of the current remuneration framework with an evaluation of remuneration practices and frameworks in place at S&P/ASX50 Index companies. The purpose of this evaluation was to determine whether AGL's remuneration policies and practices remain market competitive. The review will continue into FY19 to ensure the AGL framework continues to align with the Company's strategic imperatives. Any refinements will be implemented in FY20. AGL will continue to engage proactively with stakeholders to ensure the rationale for proposed significant changes are fully understood and any concerns can be discussed at the earliest opportunity.

2.2.2.1 FY18 Executive Remuneration Framework
The remuneration framework is designed to reward the achievement of both short and longer-term objectives which in turn, align executive and shareholder experiences through share ownership and value. The following diagram provides an overview of the remuneration framework for executives for FY18.

Remuneration Report

For the year ended 30 June 2018

Fixed remuneration	Short-term incentive (STI)	Long-term incentive (LTI)
Objectives		
To attract and retain executives with the right capability and experience.	To reward executives for delivering financial returns and progress relative to AGL's strategy.	To reward executives for long-term performance, encourage shareholding and deliver long-term value creation for shareholders.
Inputs		
• Skills and experience • Role complexity • Responsibility Benchmarked against companies ranked 11-50 on the ASX. International companies may be referenced where appropriate.	**Annual performance period** • Financial measures 50–70% • Strategic measures 30–50% • Performance outcome range 0–120% • Individual performance moderator (IPM) against stretching, quantifiable metrics (0-1.2 multiplier)	**Three-year performance period** • 50%: relative total shareholder return (TSR) measured against the S&P/ASX100 • 50%: return on equity (ROE)

STI:

	% of fixed remuneration	
Award	Target	Maximum[1]
MD/CEO	100%	144%
Other execs	50–70%	72–100.8%

LTI:

	% of fixed remuneration	
Award	Threshold	Maximum
MD/CEO	60%	120%
Other execs	25–35%	50–70%

Fixed remuneration	Short-term incentive (STI)	Long-term incentive (LTI)
AGL approach		
AGL initially sets fixed remuneration at a level reflective of the inputs above. Fixed remuneration is reviewed annually by the Board, considering performance during the year, relevant market data, tenure and experience.	The starting point for considering STI outcomes is Statutory Profit. The Board may adjust Statutory Profit in consideration of any non-recurring significant items that materially affect AGL's financial results. This is to ensure that management are not unfairly advantaged or disadvantaged by items outside their control. An executive delivering against all financial and strategic objectives would normally achieve a target STI outcome.	Relative TSR provides a comparative performance benchmark against the external market. Straight line vesting from 50-100% of award for 50th to 75th percentile performance against peer group. ROE provides a measure of the effectiveness with which AGL is deploying shareholders' funds. Vesting from 50-100% of the award for performance against the approved ROE range.
Delivery		
Base salary and superannuation.	See table below	Performance Rights which vest after three years, subject to meeting the performance conditions.

STI delivery:

Cash and Restricted Shares (restrictions lifted after twelve months)		
	Cash	Restricted Shares
MD/CEO	50%	50%
Other execs	90%	10%

Total Remuneration

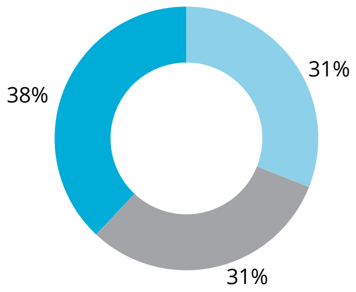
The level and mix of remuneration is designed to reward the achievement of both short and longer-term objectives which, in turn, align executive and shareholder experiences through share ownership and value.

1. Includes maximum IPM

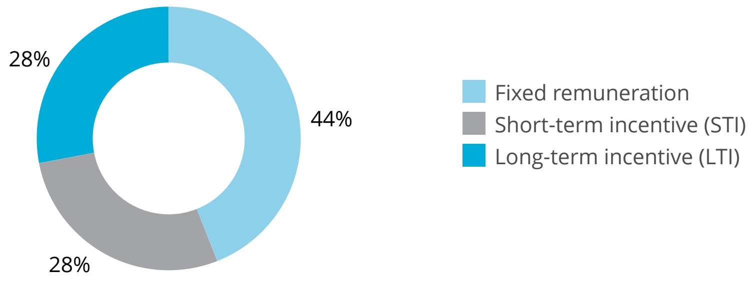
Remuneration Report
For the year ended 30 June 2018

2.2.3 Remuneration Mix
The remuneration mix is structured to attract and retain appropriately. The FY18 remuneration mix for executives is summarised below.

MD/CEO



Other executives (average)



The variable/at-risk component of total remuneration is 69 percent and 56 percent for the MD/CEO and other executives respectively. The level of variable/at-risk remuneration is broadly consistent with the average in S&P/ASX50 Index companies.

2.3 FY18 Performance and Executive Remuneration Outcomes
2.3.1 AGL Five-Year Performance

Element	FY18	FY17	FY16	FY15	FY14
Statutory Profit/(Loss) ($m)	1,587	539	(408)	218	570
Underlying Profit ($m)	1,023	802	701	630	562
Statutory earnings per share (EPS) (cents)	242.0	80.5	(60.5)	33.3	98.2[1]
Underlying EPS (cents)	156.0	119.8	103.9	96.4	96.9[1]
Dividends (cents)	117	91	68	64	63
Closing share price at 30 June ($)	22.48	25.50	19.29	15.55	15.48
Return on equity (%)[2]	13.0[3]	10.2[3]	8.3	7.2	7.5

1. Restated for the bonus element of the one-for-five share rights issue completed in September 2014.
2. Used to calculate a portion of executives' LTI outcomes for the FY16, FY17 and FY18 grants.
3. Includes share buybacks.

2.3.2 Fixed Remuneration Approach and Outcomes
The overall objective in establishing fixed remuneration is to attract and retain talented executives to lead AGL in tackling the challenges confronting the energy industry. Fixed remuneration at AGL therefore needs to be internationally competitive to ensure the Company is able to attract and retain those executives with experience in companies or industries undergoing similar transformation.

The current AGL executive team comprises a diverse blend of experience both domestically and internationally and from across a broad spectrum of industries, reflective of AGL's transformation agenda.

AGL's approach is to set executive's fixed remuneration initially at a level reflecting their experience that allows progressive increases to apply as the executive performs and becomes more experienced in their role.

Fixed remuneration is reviewed annually in the context of market positioning and performance. This may or may not result in an increase for executives. During FY18, executives did not receive an increase in fixed remuneration, with the exception of Mr Jackson, who received a 2.5 percent increase, effective 1 September 2017. This increase is reflective of Mr Jackson's performance for the year and to ensure his remuneration remains competitive relative to appropriate market benchmarks.

AGL is committed to gender pay equity across employees, including executives. With respect to the current executives in roles of equivalent size, there is no gender gap in fixed remuneration.

Remuneration Report
For the year ended 30 June 2018

2.3.3 STI Approach and Outcomes
The objective of the STI is to reward executives for delivering financial returns and progress relative to AGL's strategy consistent with the delivery of value creation for shareholders.

Executives have a STI scorecard which establishes performance expectations across financial (70 percent) and strategic (30 percent) measures. The STI scorecard for Mr Wrightson encompasses 50 percent financial and 50 percent strategic measures, as the Wholesale Markets business does not have material operating expenditure. Assessment of actual performance against these measures determines the scorecard outcome for each executive in the range 0 - 120 percent of target. In general, the Board expects an executive delivering against all financial and strategic objectives to achieve a target outcome of 100 percent. STI outcomes are then moderated in the range 0 - 1.2 by individual performance outcomes against measures linked to strategy.

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

	Fixed remuneration $		STI target %		STI performance outcome (0-120%)		Individual performance modifier (0-1.2)		STI award $	% of fixed remuneration
		X		X		X		=		
At minimum	2,300,000	X	100%	X	0%	X	0	=	-	0%
Between minimum and target	2,300,000	X	100%	X	80%	X	0.9	=	1,656,000	72%
At target	2,300,000	X	100%	X	100%	X	1	=	2,300,000	100%
Between target and maximum	2,300,000	X	100%	X	110%	X	1.05	=	2,656,500	116%
At maximum	2,300,000	X	100%	X	120%	X	1.2	=	3,312,000	144%

Net profit after tax and operating expenditure were chosen as the key financial measures to drive shareholder returns and operate as efficiently as possible in the market within which AGL operates. The strategic measures are focused on transformation and growth to drive the overall AGL objectives consistent with the delivery of value creation for shareholders.

The key financial deliverables were exceeded during FY18 in a complex and fast-evolving market, with the number of customers seeking new or improved energy plans at an all-time high. Management also responded to operating challenges in the generation and wholesale markets to deliver reliable supply, and further deliver transformation activities to benefit customers in the long term. AGL made strong progress on many key initiatives such as its Customer Experience Transformation program, while progressing construction on the Barker Inlet Power Station, Coopers Gap and Silverton wind farms (via the Powering Australian Renewables Fund) and establishing its NSW Generation Plan.

Executive STI scorecard outcomes and individual performance moderators are detailed in Tables 2.3.3.2 and 2.3.3.3. Key drivers of the outcomes included:

- FY18 Statutory Profit after tax was $1,587 million. Profit after tax adjusted for non-cash fair value movements in financial instruments (Underlying Profit) was $1,023 million, up 28 percent.
- Total operating costs of $1,569 million were below forecast levels for the year as a result of strong operating cost discipline and productivity initiatives undertaken by management during the year.
- AGL accelerated the preparation of, and subsequently published, the NSW Generation Plan in December 2017 following public scrutiny of the Company's announcement in April 2015 to close the Liddell Power Station in December 2022. This plan was subsequently endorsed by the Australian Energy Market Operator as being sufficient to mitigate potential capacity risks to the National Electricity Market arising from Liddell's closure.
- Actions were taken to deliver fairness, simplicity and transparency to customers amid rising community concerns about energy affordability and intense market activity. Examples of innovative AGL product offers included the launch of the AGL Essential 'no discounts' digital product, the introduction of loyalty-based discounts for customers on standing offers in Victoria and South Australia and improvements to the Company's hardship programs.
- Management delivered safety and diversity outcomes in excess of targets over the year. The combined total injury frequency rate for employees and contractors combined decreased from 3.1 in FY17 to 2.4 in FY18. Representation of women in the Senior Leadership Pipeline increased 4 percentage points to 42 percent.

Remuneration Report

For the year ended 30 June 2018

Table 2.3.3.1: Actual FY18 STI outcomes

Executive[1]	Total STI award $	Cash $[2]	Restricted Shares $[3]	Total STI paid as % of target opportunity %	Total STI forfeited as a % of target opportunity %	Total STI paid as % of maximum opportunity %
A Vesey	2,403,500	1,201,750	1,201,750	104.5	0.0	72.6
D Jackson	610,112	549,101	61,011	109.7	0.0	76.2
B Redman	746,996	672,296	74,700	109.4	0.0	76.0
M Reynolds	636,650	572,985	63,665	107.0	0.0	74.3
R Wrightson	316,250	284,625	31,625	110.0	0.0	76.4

1. Includes executives who were KMP at 30 June 2018.
2. To be paid in September 2018.
3. To be allocated once the full-year financial results have been disclosed to the market, generally in August/September 2018.

Remuneration Report

For the year ended 30 June 2018

Table 2.3.3.2: STI scorecard - performance measures and FY18 outcomes

			A Vesey MD/CEO				D Jackson EGM, Group Operations				B Redman CFO			
Strategic Imperative	Goal Type	Performance Measure	Weighting	Min	Target	Max	Weighting	Min	Target	Max	Weighting	Min	Target	Max
Prosper in a carbon constrained future Build customer advocacy	Financial	AGL profit after tax	50%			●	50%			●	50%			●
	Financial	AGL/business unit operating expenditure	20%			●	20%			●	20%			●
	Strategic	Business unit financial earnings targets												
	Strategic	Drive AGL's growth agenda					30%			●	30%		●	
	Strategic	Deliver key project deliverables on time and under budget												
	Strategic	Cumulative achievement of executive team strategic objectives	30%		●									

Remuneration Report

For the year ended 30 June 2018

	M Reynolds Chief Customer Officer				R Wrightson EGM, Wholesale Markets				
	Weighting	Min	Target	Max	Weighting	Min	Target	Max	Outcome
	50%			●	50%			●	Statutory Profit after tax in FY18 was $1,587 million, up from $539 million in FY17. Underlying Profit after tax was $1,023 million, up 28 percent on FY17.
	20%			●					Operating expenditure was below planned levels due to strong operating cost discipline and productivity initiatives.
					50%		●		Despite loss of margin from generation outages, strong performance in managing the portfolio pricing for long-term contracts, gas supply mix and eco-markets was achieved.
									Progressing construction of Barker Inlet Power Station. Coopers Gap and Silverton wind farms (via the Powering Australian Renewables Fund) under development. NSW Generation Plan.
	30%			●					Customer Experience Transformation program delivering innovative products and services to increase convenience and transparency for customers.
									In addition to the above, improving customer transparency, proactively managing standing offer customers and initiatives around product innovation to address affordability.

Remuneration Report

For the year ended 30 June 2018

Table 2.3.3.3: Individual performance moderators and FY18 outcomes

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

			A Vesey MD/CEO						D Jackson EGM, Group Operations						B Redman CFO					
Strategic Imperative	Goal Type	Performance Measure	Weighting	Min		Target		Max	Weighting	Min		Target		Max	Weighting	Min		Target		Max
Prosper in a carbon constrained future / Build customer advocacy	People / Culture	Champion the AGL Values (including embedding the safety culture)	15%				●		10%				●		10%				●	
		Increase bench strength for key successor roles	20%			●			10%				●		10%					●
		Increase female representation at senior levels	15%					●	10%					●	10%					●
	Customer	Digital adoption and net promoter scores																		
		Grow high value customer base																		
	Financial	Achieve financial performance measures with regard to broader metrics, e.g. differentiate business as usual from growth/ transformation reporting/outcomes													30%					●
		Lost capacity factor of fleet							25%		●									
		Commercial availability factor of fleet							25%					●						
	Strategic	Enhance reputation and standing of the company	35%			●														
		Board support and engagement	15%			●														
		Drive systems transformation/ digitalisation and post-implementation operating model													20%				●	
		Deliver key project deliverables on time and under budget													20%					●
		Improve organisational effectiveness - business readiness for enterprise resource planning systems transformation							20%				●							
		Identify future plan for sustainable energy generation																		

Remuneration Report

For the year ended 30 June 2018

M Reynolds Chief Customer Officer				R Wrightson EGM, Wholesale Markets				
Weighting	Min	Target	Max	Weighting	Min	Target	Max	Outcome
10%				10%				Values embedded across AGL in FY18: safety and beyond, sustainable thinking, inclusive of all, and focused on what matters. Examples of values-aligned initiatives in FY18: the NSW Generation Plan, family and domestic violence training for employees, recognised as an employer of choice for the LGBTI community, and public advocacy of same-sex marriage.
10%				10%				Executive and extended leadership role successors and high-potential individuals identified with development action plans ongoing.
10%				10%				Senior Leadership Pipeline now at 42 percent female representation, up from 38 percent in FY17 and 34 percent in FY16.
40%								Digital adoption increased by 55 percent from FY17. Net promoter scores: Digital +34, My Account +17, contact centre +29, One Minute Move +50, self-service meter read +39, energy insights +21.
30%								Earnings per customer delivered above budget expectations.
								Achieved group budgeted operating expenditure. Detailed reporting in place and separate reporting of business as usual vs growth/transformation outcomes with linkages to market activity to drive performance.
								Below plan for lost capacity factor across AGL's fleet.
								Achieved more than budgeted commercial availability factor of AGL's fleet.
				20%				Positive scores received from confidential third party shareholder confidence surveys. Actively managing stakeholders with regard to concerns on energy shortage with closure of Liddell.
								Baseline support and engagement levels met.
								Systems project substantially meeting milestones. Work well advanced on defining finance model post implementation of enterprise resource planning systems.
								Key projects on-track for delivery.
								Safety campaigns implemented across Group Operations; training profiles completed and technical training structure review complete in preparation for AGL's project to upgrade its enterprise resource planning systems.
				50%				Progressing development of Crib Point pipeline and jetty. NSW Generation Plan outlined and progressing.

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2.3.4 Prior Year STI Awards - Restricted Shares

Table 2.3.4.1: FY17 STI Restricted Share awards outstanding (FY17 STI deferral)

Executive[1]	Allocation date	Number of awards allocated	Value at allocation date $[2]	Vesting date
A Vesey	23 August 2017	56,415	1,328,246	23 August 2018
D Jackson	23 August 2017	2,813	66,230	23 August 2018
B Redman	23 August 2017	3,571	84,076	23 August 2018

1. Includes executives who were KMP at 30 June 2018.
2. Calculated based on allocation price of $23.5442 (actual weighted average price paid for shares for all participants receiving STI deferral), rounded to the nearest dollar. Due to the residual amount being less than the value of a share, value at allocation date is slightly lower than values reported in Table 2.4.1.1.

Table 2.3.4.2: FY16 STI Restricted Share awards vested during FY18 (FY16 STI deferral)

Executive[1]	Allocation date	Number of awards vested	Value vested $[2]	Vesting date
A Vesey	23 August 2016	90,481	2,081,063	23 August 2017
D Jackson	23 August 2016	2,777	63,871	23 August 2017
B Redman	23 August 2016	4,563	104,949	23 August 2017

1. Includes executives who were KMP at the vesting date.
2. Calculated based on closing share price on the vesting date, being $23.00.

2.3.5 LTI Approach and Outcomes

The objective of the LTI is to reward executives for delivering long-term performance, to encourage shareholding and deliver long-term value creation for shareholders.

The LTI is a Performance Rights plan which assesses AGL's performance against two key metrics, relative total shareholder return (TSR) and return on equity (ROE), over a three-year period. Relative TSR is chosen because it provides a comparative, external market performance benchmark against a peer group of companies. ROE is chosen because it provides a measure of the effectiveness with which AGL is deploying shareholders' funds by dividing profit after tax for a given period by the monthly average of shareholders' equity for the same period. To ensure sustained performance, average ROE over the three years is calculated at the end of the performance period. Both LTI measures are key to AGL's long-term success as they clearly link to the creation of absolute and comparative shareholder value.

Pre-FY16 LTI Plan - LTI Transitional Grants

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

- The first transitional share grant (relating to FY16) was granted in September 2016 and vested in September 2017.
- The second and final transitional share grant (relating to FY17) was granted in September 2017 and will vest in September 2018.

Further details of the transitional grants and how they are calculated were provided in section 3.5 of the FY17 Remuneration Report.

Table 2.3.5.1: FY17 LTI Transitional Restricted Share awards outstanding

Executives[1]	Allocation date	Number of awards allocated	Value at allocation date $[2]	Vesting date
A Vesey	29 September 2017	23,277	599,997	29 September 2018
D Jackson	29 September 2017	620	15,981	29 September 2018
B Redman	29 September 2017	4,073	104,987	29 September 2018
R Wrightson	29 September 2017	581	14,976	29 September 2018

1. Includes executives who were KMP at 30 June 2018.
2. Calculated based on allocation price of $25.7764 (June 2017 volume-weighted average share price).

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Table 2.3.5.2: FY16 LTI Transitional Restricted Share awards vested during FY18

Executive[1]	Allocation date	Number of awards vested	Value vested $[2]	Vesting date
A Vesey	30 September 2016	31,971	747,162	29 September 2017
D Jackson	30 September 2016	852	19,911	29 September 2017
B Redman	30 September 2016	5,594	130,732	29 September 2017
R Wrightson	30 September 2016	799	18,673	29 September 2017

1. Includes executives who were KMP at the vesting date.
2. Calculated based on closing share price on the vesting date, being $23.37.

FY16 LTI Offer - Vested During FY18

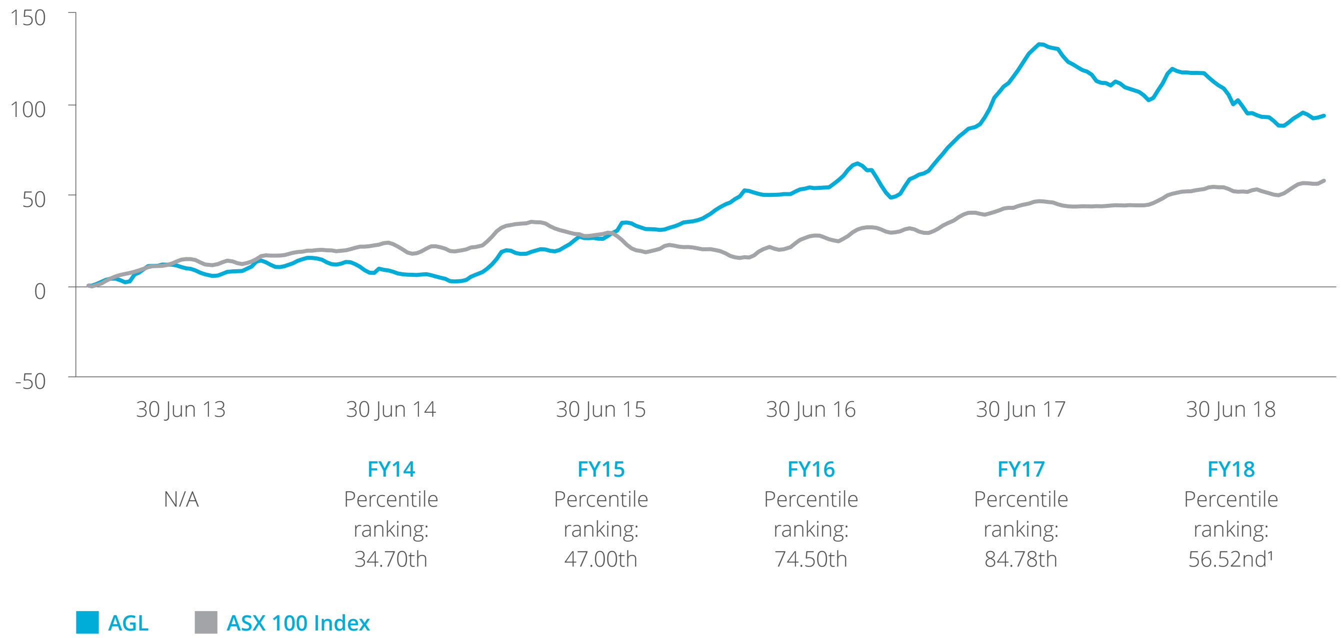
In assessing outcomes under the LTI, the Board will assess the quality of the results and the manner in which they were achieved as well as ensuring that those outcomes are aligned with the experience of AGL's shareholders.

The metrics for the FY16 plan that vested at the end of the year were relative TSR (compared to a customised peer group[1] selected to reflect similar characteristics to AGL in relation to volatility, industry, size and other factors) and ROE.

The vesting outcome of the FY16 LTI offer is detailed below.

Metric	Vesting schedule	Outcome	Commentary
Relative TSR	Straight-line vesting between 50-100% for 50th to 75th percentile	56.52nd percentile 63% vesting	AGL's relative TSR performance over the three-year performance period ending 30 June 2018 was at the 56.52nd percentile, resulting in 63% vesting for this metric.
ROE	Straight-line vesting between 50-75% for 10% to 12% Straight-line vesting between 75-100% for 12% to 15%	9.52% average annual ROE Nil vesting	Notwithstanding average annual reported ROE over the performance period was 10.48% and would have resulted in partial vesting, the Board excluded the impact of share buybacks and asset write-downs that occurred during the performance period. The average annual adjusted ROE over the performance period was 9.52% which resulted in nil vesting for the ROE metric.
Total		**31.5% vesting**	**The combined vesting outcome for the FY16 LTI is therefore 31.5%.**

Relative TSR: AGL and ASX100



1. The peer group of companies for the relative TSR component of the FY16 LTI plan is Amcor, Ansell, Aristocrat Leisure, Asciano (delisted), ASX, Aurizon Holdings, AusNet Services, Brambles, Cochlear, Computershare, CSL, DUET Group (delisted), Federation Centres (now: Vicinity Centres), Healthscope, Insurance Australia Group, Medibank Private, Orora, Primary Health Care, Qantas Airways, Ramsay Health Care, Scentre Group, Sonic Healthcare, Sydney Airport, Tatts Group (delisted), Transurban Group and Woolworths.

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Table 2.3.5.3: Vesting/Lapse of FY16 LTI Performance Rights

Executive[1]	Grant date	Number of awards granted	Value at grant date $[2]	Vesting date	Number of awards vested	Value vested $[3]	Number of awards lapsed	Value lapsed $[3]
A Vesey	30 September 2015	158,093	1,827,553	30 June 2018	49,799	1,119,482	108,294	2,434,449
D Jackson	30 September 2015	21,958	253,834	30 June 2018	6,916	155,472	15,042	338,144
B Redman	30 September 2015	28,231	326,348	30 June 2018	8,892	199,892	19,339	434,741

1. Includes executives who were KMP at 30 June 2018.
2. Calculated based on fair values shown in Note 35 to the consolidated financial report, being $9.00 for relative TSR and $14.12 for ROE.
3. Calculated based on closing share price on 30 June 2018, being $22.48.

FY17 LTI Offer - Outstanding
The terms of the FY17 LTI offer were detailed in the FY17 Remuneration Report and the 2016 Notice of AGM for shareholder approval for the offer to the MD/CEO.

Table 2.3.5.4: FY17 LTI Performance Rights outstanding

Executive[1]	Grant date	Vesting date	Number of awards granted	Value at grant date $[2]	Maximum value yet to vest $[2,3]
A Vesey[3,4]	21 October 2016	30 June 2019	147,068	1,927,326	1,927,326
D Jackson	21 October 2016	30 June 2019	28,907	356,708	356,708
B Redman	21 October 2016	30 June 2019	36,367	448,764	448,764
R Wrightson	21 October 2016	30 June 2019	7,992	98,621	98,621

1. Includes executives who were KMP at 30 June 2018.
2. Calculated based on fair values shown in Note 35 to the consolidated financial report, being $7.96 for relative TSR and $16.72 for ROE.
3. The minimum value of the grant is zero.
4. Based on alternate fair values shown in Note 35 to the consolidated financial report, being $9.10 for relative TSR and $17.11 for ROE.

FY18 LTI Offer - Grant
The metrics for FY18 are relative TSR, compared to the constituent companies in the S&P/ASX100 Index, and ROE.

Table 2.3.5.5: FY18 LTI Performance Rights

Executive[1]	Grant date	Vesting date	Number of awards granted	Value at grant date $[2]	Maximum value yet to vest $[2,3]
A Vesey	3 November 2017	30 June 2020	107,074	1,654,829	1,654,829
D Jackson	3 November 2017	30 June 2020	21,572	333,395	333,395
B Redman	3 November 2017	30 June 2020	26,477	409,197	409,197
M Reynolds	3 November 2017	30 June 2020	23,083	356,742	356,742
R Wrightson	3 November 2017	30 June 2020	11,153	172,364	172,364

1. Includes executives who were KMP at the grant date.
2. Calculated based on fair values shown in Note 35 to the consolidated financial report, being $10.05 for relative TSR and $20.86 for ROE.
3. The minimum value of the grant is zero.

FY18 LTI Offer - Terms
Relative TSR vesting schedule:

AGL's relative TSR ranking against comparator group	Vesting of award subject to relative TSR measure (% of maximum)
Less than 50th percentile	0%
50th percentile to 75th percentile	Straight-line vesting between 50% and 100%
At or above 75th percentile	100%

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ROE vesting schedule:

Setting ROE targets is inherently difficult in the rapidly evolving Australian energy market. The Board is always striving to strike a balance between setting goals that are appropriately stretching for management, while not being unattainable, and that are viewed by shareholders as targeting appropriate levels of returns. While always judged by shareholders with the benefit of hindsight, the Board sets these targets prospectively based on the best information available at the time. Refer to the FY17 Report for a detailed explanation of the evolution of AGL's ROE targets.

AGL's average annual ROE outcome	Vesting of award subject to ROE measure (% of maximum)
Less than 11.5%	0%
11.5% to 14%	Straight-line vesting between 50% and 100%
At or above 14%	100%

FY19 LTI Offer - ROE target

The Board has decided that the FY19 ROE target will provide a broader range of acceptable outcomes, between 10 percent and 14 percent average annual ROE, that will result in vesting of this part of the LTI. Based on AGL's corporate plans, the Board has approved a vesting schedule which will deliver 50 percent of the available LTI award vesting for 10 percent average annual ROE, 90 percent vesting of the award for 12 percent average annual ROE and 100 percent vesting at what is considered true 'stretch' being 14 percent average annual ROE.

2.3.6 Movement in Performance Rights

Table 2.3.6.1: FY18 movement in executive Performance Right holdings under the LTI plan

Executive	Balance at start of year	Acquired during year as part of remuneration	Performance Rights vested but not yet allocated[1]	Other changes during year[2]	Balance at end of year
Current					
A Vesey	305,161	107,074	(49,799)	(108,294)	254,142
D Jackson	50,865	21,572	(6,916)	(15,042)	50,479
B Redman	64,598	26,477	(8,892)	(19,339)	62,844
M Reynolds	-	23,083	-	-	23,083
R Wrightson	-	11,153	-	7,992	19,145
Former					
S Mikkelsen[3]	66,120	-	-	(66,120)	-
Grand total	**486,744**	**189,359**	**(65,607)**	**(200,803)**	**409,693**

1. Includes Performance Rights vested under the FY16 LTI plan but will not be allocated as shares to executives until August/September 2018.
2. Represents balance adjustments for executives joining or leaving KMP, and any units forfeited under the LTI. Includes Performance Rights forfeited under the FY16 LTI plan but will not lapse for executives until August/September 2018.
3. Mr Mikkelsen ceased to be a KMP on 30 June 2017 and an employee on 28 September 2017. As such, his closing balance has been adjusted to reflect no further holdings as a KMP.

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2.4 Executive Remuneration Disclosure
2.4.1 Statutory Remuneration

Table 2.4.1.1: Executive remuneration and benefits for FY18 (prepared in accordance with the statutory accounting requirements)

		Short-term benefits			
Executive	**Year**	**Cash salary/ fees $[1]**	**Total cash incentive $[2]**	**Non-monetary benefits $[3]**	**Other short-term benefits $[4]**
Current					
A Vesey	**FY18**	**2,300,000**	**1,201,750**	**296,270**	**-**
	FY17	2,266,667	1,328,250	250,129	-
D Jackson	**FY18**	**771,097**	**549,101**	**16,103**	**-**
	FY17	742,884	596,154	43,349	-
B Redman	**FY18**	**954,951**	**672,296**	**15,702**	**-**
	FY17	942,884	756,756	11,874	-
M Reynolds	**FY18 (from 1 Jul 2017)**	**829,951**	**572,985**	**9,067**	**-**
R Wrightson[9]	**FY18 (from 1 Jul 2017)**	**554,951**	**284,625**	**12,676**	**350,000**
Former					
S Mikkelsen[10]	**FY18 (until 28 Sep 2017)**	**234,641**	**-**	**3,072**	**-**
	FY17	950,176	780,120	3,308	-
A Preston	FY17 (until 18 Sep 2016)	169,697	-	4,401	-
TOTAL	**FY18**	**5,645,592**	**3,280,757**	**352,890**	**350,000**
	FY17	5,072,308	3,461,280	313,061	-

1. Represents cash salary including any salary-sacrificed items (such as additional superannuation contributions and charitable donations).
2. Represents cash payments under the STI achieved in the year (payable in September following the relevant financial year-end), excluding the Restricted Share portion (to be allocated in August/September following the relevant financial year-end). The Restricted Share portion is disclosed under STI Restricted Shares.
3. Includes benefits such as, but not limited to, the provision of car parking, expatriate benefits and fringe benefits tax (FBT) on all benefits, where applicable. FBT included is in respect of the FBT year ended 31 March 2018.
4. Includes retention payments and other cash allowances.
5. Includes the value of all STI Restricted Shares expected to be granted in relation to the performance year.
6. Includes a proportion of the fair value of all outstanding LTI offers at the start of the year or offered during the year (including the LTI transitional grants). Under Australian Accounting Standards, the fair value is determined as at the offer date and is apportioned on a straight-line basis across the expected vesting period after adjusting at each reporting date for an estimation of the number of shares that will ultimately vest. The FY18 LTI equity expense is impacted by the forfeiture rate of the FY16 grant. Amounts previously recognised in prior years have been reversed in FY18, reducing the expense.
7. Includes a proportion of the fair value of all Restricted Shares held at the start of the year, or which were granted during the year, generally for retention or sign-on purposes.
8. Represents the sum of cash STIs and Performance Rights/Restricted Shares/other equity as a percentage of total remuneration, excluding termination payments.
9. Mr Wrightson received a retention payment of $350,000 in FY18 with respect to his role prior to becoming KMP. This represents the final payment under this arrangement.
10. Mr Mikkelsen ceased to be a KMP on 30 June 2017, however amounts have been disclosed until 28 September 2017 when Mr Mikkelsen ceased employment. All termination benefits were provided in accordance with the terms of his employment contract and includes leave entitlements paid on cessation of employment.

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	Post-employment benefits	Share-based payments					
	Superannuation/ pension $	STI Restricted Shares $[5]	LTI equity $[6]	Other equity $[7]	Total $	Performance-related %[8]	Termination benefits $
	-	**1,201,750**	**759,295**	**-**	**5,759,065**	**54.9%**	-
	-	1,328,250	1,728,310	-	6,901,606	63.5%	-
	20,049	**61,011**	**161,397**	**-**	**1,578,758**	**48.9%**	-
	19,616	66,239	224,728	-	1,692,970	52.4%	-
	20,049	**74,700**	**208,060**	**-**	**1,945,758**	**49.1%**	-
	19,616	84,084	388,226	-	2,203,440	55.8%	-
	20,049	**63,665**	**137,582**	**-**	**1,633,299**	**47.4%**	-
	20,049	**31,625**	**92,107**	**-**	**1,346,033**	**30.3%**	-
	5,012	**-**	**(77,817)**	**-**	**164,908**		**938,685**
	19,616	-	431,219	-	2,184,439	55.5%	-
	-	-	64,892	-	238,990	27.2%	-
	85,207	**1,432,751**	**1,280,624**	**-**	**12,427,821**		**938,685**
	58,848	1,478,573	2,837,375		13,221,445		-

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2.5 Non-Executive Directors' Remuneration

2.5.1 Fee Pool

The maximum aggregate fee pool for Non-Executive Directors is $2.75 million per annum. The fee pool is regularly reviewed by the Board and, if appropriate, adjusted (subject to shareholder approval), having regard to the anticipated time commitment, workload and responsibilities attached and the fees paid by comparable organisations. The current fee pool was approved by shareholders at the 2016 AGM.

2.5.2 Fee Policy

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

In setting Non-Executive Directors' fees, the Board considers the following:

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

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

2.5.3 FY18 Fees

During the year, the fees for Non-Executive Directors were increased by 1.9 percent, effective 1 January 2018.

Table 2.5.3.1: Non-Executive Director fees (effective 1 January 2018)

Board/Committee	Chair fee $	Member fee $
Board base fee	556,400	192,900
Audit & Risk Management Committee	53,000	26,500
Other Committees	40,800	20,400

Table 2.5.3.2: Non-Executive Director remuneration for FY18

Non-Executive Director	Year	Cash fees $	Superannuation $	Total $
Current				
G Hunt	**FY18**	**460,508**	**20,049**	**480,557**
	FY17	227,619	19,381	247,000
P Botten	**FY18**	**192,968**	**18,332**	**211,300**
	FY17 (from 21 Oct 2016)	131,565	12,499	144,064
J Hey	**FY18**	**230,959**	**20,049**	**251,008**
	FY17	212,084	19,616	231,700
L Hosking	**FY18**	**224,698**	**20,049**	**244,747**
	FY17	231,534	19,616	251,150
B Hutchinson	**FY18**	**217,501**	**20,049**	**237,550**
	FY17	212,084	19,616	231,700
D Smith-Gander	**FY18**	**224,785**	**20,010**	**244,795**
	FY17 (from 28 Sep 2016)	157,506	14,812	172,318
J Stanhope	**FY18**	**243,751**	**20,049**	**263,800**
	FY17	237,734	19,616	257,350
Former				
J Maycock	**FY18 (until 27 Sep 2017)**	**127,154**	**5,012**	**132,166**
	FY17	519,734	19,616	539,350
B Phillips	FY17 (until 28 Sep 2016)	50,542	4,755	55,297
TOTAL	**FY18**	**1,922,324**	**143,599**	**2,065,923**
	FY17	1,980,402	149,527	2,129,929

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2.6 Remuneration Governance

2.6.1 Role of the People & Performance (P&P) Committee

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

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

The P&P Committee includes independent members of the Board, which are reviewed periodically. To assist in performing its duties and making recommendations to the Board, the P&P Committee has access to management and independent external consultants to seek advice on various remuneration-related matters as required. The Board's protocols in respect of the engagement of remuneration advisers are outlined in section 2.6.2.

2.6.2 Remuneration Advisers

Any recommendations made by consultants in relation to remuneration arrangements of KMP must be made directly to the Board without any influence from management. There are arrangements in place to ensure any advice is independent of management. During FY18, the P&P Committee engaged *KPMG 3dc* to act as independent remuneration advisers. *KPMG 3dc* did not provide any remuneration recommendations as defined in the *Corporations Act 2001 (Cth)* to the P&P Committee during FY18.

2.6.3 Executive Contract Terms

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

Table 2.6.3.1: Information relating to service agreements of executives

	Notice period[2]			
Executives[1]	By executive	By AGL	Termination payment[3,4]	Post employment restraint period
A Vesey	6 months[5]	12 months	N/A	12 months
D Jackson	6 months[6]	3 months	9 months	12 months
B Redman	6 months[6]	3 months	9 months	12 months
M Reynolds	6 months[6]	3 months	9 months	12 months
R Wrightson	6 months[6]	3 months	9 months	12 months

1. Includes executives who were KMP at 30 June 2018.
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. Termination payments reference fixed remuneration.
5. Mr Vesey may also terminate his agreement with three months' notice in the event of a 'fundamental change', which includes circumstances where he ceases to hold the most senior management role within AGL or ceases to report directly to the Chairman, or if the scope of his responsibilities is materially diminished. In this case he will be entitled to a payment equivalent to twelve months' fixed remuneration.
6. 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' fixed remuneration.

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2.6.4 Equity Plan Governance

Key elements of equity plan governance

Element	Details
Clawback	The Board has discretion to prescribe clawback events in which any unvested equity awards may be clawed back from executives. Clawback events include where the executive has committed any act of fraud or gross misconduct in relation to the affairs of AGL, materially breached their obligations to AGL, or has hedged the value of, or entered into a derivative arrangement in relation to, an unvested equity award or where any unvested equity award has vested as a result of a material misstatement in the financial statements of AGL.
Change of control	The Board will determine at the time a change of control event occurs how to treat unvested equity in accordance with the plan rules, and ultimately has absolute discretion in determining this treatment, taking into consideration market practice.
Hedging policy	AGL has a policy in place that prevents executives from entering into any derivative or other financial product in relation to equity plans.
Cessation of employment	*Prior to vesting date:* if an executive leaves AGL before the scheduled vesting date, they are generally not entitled to participate in the vesting event. The Board has discretion to determine the relevant treatment at termination in the event of redundancy or other involuntary termination, including bona fide retirement. *Post-vesting date:* once equity has vested, generally no further employment or other restrictions apply.
Board discretion	In relation to assessing equity awards, including treatment at vesting, the Board's overarching discretion will apply, particularly when determining whether an extraordinary event should be taken into consideration in relation to assessing the performance of AGL for the purposes of the vesting event.

2.6.5 KMP Share Ownership

Minimum shareholding policy

To provide for shareholder alignment, AGL has implemented a minimum shareholding policy for KMP and other executives reporting to the MD/CEO. Shareholdings are reported in Table 2.6.5.1. Those KMP not yet at the recommended level of shareholding corresponding to their tenure have indicated their intention to acquire further AGL shares once the FY18 results blackout period has ended. The acquisition of AGL shares by KMP must also be in compliance with AGL's Securities Dealing Policy which prevents KMP from acquiring shares during a blackout period or when they are in possession of inside information.

The minimum shareholding policies stipulate that:

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

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Movement in AGL shares

The movement during FY18 in the number of AGL shares, including Restricted Shares, held by each KMP, including their related parties, is shown in Table 2.6.5.1. Restricted Shares generally relate to the STI deferral, or for attraction/retention purposes in certain circumstances.

Table 2.6.5.1: KMP shareholdings

FY18	Balance at start of year	Acquired during year[1]	Other changes during year[2]	Balance at end of year	% base fees[3]
Non-Executive Director					
Current					
G Hunt	4,000	-	-	4,000	47%
P Botten	2,390[4]	-	-	2,390[4]	28%
J Hey	3,519	4,264	-	7,783	91%
L Hosking	5,001	1,200	-	6,201	72%
B Hutchinson	9,156[4]	-	-	9,156[4]	107%
D Smith-Gander	5,670[4]	-	-	5,670[4]	66%
J Stanhope	7,717[5]	233	-	7,950[6]	93%
Former					
J Maycock[7]	79,831	-	(79,831)	-	
Non-Executive Director total	**117,284**	**5,697**	**(79,831)**	**43,150**	

1. Includes purchase of ordinary shares during FY18 and Dividend Reinvestment Plan.
2. Includes sale of ordinary shares during FY18 and balance adjustments for directors joining or leaving KMP.
3. Calculated based on closing share price on 30 June 2018, being $22.48.
4. All shares held indirectly.
5. Includes 5,027 shares held directly and 2,690 shares held indirectly.
6. Includes 5,260 shares held directly and 2,690 shares held indirectly.
7. Mr Maycock ceased to be a KMP on 27 September 2017. As such, his closing balance has been adjusted to reflect no further holdings as a KMP.

FY18	Balance at start of year	Granted / acquired during year[1]	Received upon vesting / exercise[2]	Other changes during year[3]	Balance at end of year	Performance Rights vested but not yet allocated[4]	% FR[5,6,7]
Executive							
Current							
A Vesey	267,617	79,692	102,197	(50,000)	399,506	49,799	439%
D Jackson	18,449	4,809	8,008	-	31,266	6,916	108%
B Redman	45,961	7,644	48,797	(40,000)	62,402	8,892	164%
M Reynolds	-	-	-	-	-	-	0%
R Wrightson	-	581	6,497	4,125	11,203	-	44%
Former							
S Mikkelsen[8]	50,055	4,655	67,398	(122,108)	-	-	
Executive total	**382,082**	**97,381**	**232,897**	**(207,983)**	**504,377**	**65,607**	
Grand total	**499,366**	**103,078**	**232,897**	**(287,814)**	**547,527**	**65,607**	

1. Includes purchase of ordinary shares during FY18, Restricted Shares allocated under FY17 STI and FY17 LTI Transitional Grant and Dividend Reinvestment Plan.
2. Includes shares acquired upon vesting of LTI awards during FY18.
3. Includes sale of ordinary shares during FY18 and balance adjustments for executives joining or leaving KMP.
4. Includes shares vested under the LTI but will not be allocated as shares to executives until August/September 2018.
5. Calculated based on closing share price on 30 June 2018, being $22.48.
6. Including Performance Rights vested but not yet allocated.
7. Percentage of fixed remuneration (FR).
8. Mr Mikkelsen ceased to be a KMP on 30 June 2017 and an employee on 28 September 2017. As such, his closing balance has been adjusted to reflect no further holdings as a KMP.

Other Required Disclosures

These Other Required Disclosures (pages 64 to 67) are attached to and form part of the Directors' report.

3. 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.

4. 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.

5. 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.

6. 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 28 of the Financial Report 2018.

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. No non-audit services have been provided by the external auditor during the year.

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

7. 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 this Directors' Report have been rounded to the nearest million dollars, unless otherwise stated.

8. 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 2018.

9. Indemnification and Insurance of Officers

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

- liability to third parties (other than related entities) when acting in good faith; and
- costs and expenses of successfully defending legal proceedings and ancillary matters.

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

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

The contract prohibits disclosure of the nature of the liabilities covered and the amount of premium.

10. Dividends

The Directors have declared a final dividend of 63.0 cents per share, compared with 50.0 cents per share for the prior final dividend. The annual dividend for the year ended 30 June 2018 was 117.0 cents per share compared with 91.0 cents per share for the prior year. The dividend will be 80% franked and will be paid on 21 September 2018. The record date to determine shareholders' entitlements to the final dividend is 23 August 2018. Shares will commence trading ex-dividend on 22 August 2018.

Other Required Disclosures

The following dividends have been paid or declared by the Directors since 30 June 2017:

Final dividend of 50.0 cents per share (80% franked) paid on 22 September 2017	$328 million
Interim dividend of 54.0 cents per share (80% franked) paid on 26 March 2018	$354 million
Final dividend of 63.0 cents per share (80% franked) payable on 21 September 2018	$413 million

Before declaring each dividend the Directors satisfied themselves that:

- AGL's assets exceeded its liabilities immediately before declaring the dividend and the excess was sufficient for the payment of the dividend;
- the payment of the dividend was fair and reasonable to AGL's shareholders as a whole; and
- the payment of the dividend would not materially prejudice AGL's ability to pay its creditors.

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

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

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

The AGL Dividend Reinvestment Plan (DRP) will operate in respect of the 2018 final dividend. AGL will acquire shares on market and allot them to DRP participants at no discount to the simple average of the daily weighted average price at which AGL's ordinary shares trade during each of the 10 trading days commencing 27 August 2018. The last date for shareholders to elect to participate in the DRP for the 2018 final dividend is 24 August 2018.

11. Subsequent Events

Apart from the matters identified elsewhere in this Directors' Report and the AGL Financial Report, the Directors are not aware of any other matter or circumstance that has arisen since 30 June 2018 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.

12. Non-IFRS Financial Information

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

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

- significant items (which are material items of revenue or expense that are unrelated to the underlying performance of the business); and
- changes in the fair value of financial instruments recognised in the statement of profit or loss (to remove the volatility caused by mismatches in valuing financial instruments and the underlying asset differently).

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

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

13. Corporate Governance

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

14. Environmental Regulation

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

During the financial year ended 30 June 2018, there were four non-compliances that became the subject of environmental and planning regulatory action under relevant legislation. In particular, there were three alleged non-compliances that resulted in penalty infringement notices being issued and one alleged non-compliance that resulted in an official caution being received. There were other non-compliances which did not result in regulatory action. These were notified to the relevant regulator, and reported under the AGL site licence conditions in accordance with the respective legal requirements.

The non-compliances that resulted in a penalty infringement notice being issued were as follows:

1. 14 May 2018 – a penalty infringement notice was issued to AGL Macquarie Pty Limited for an alleged failure to comply with a condition of its environmental protection licence (EPL 2122). This notice was issued in relation to an event that occurred on the 1 March 2018 where ash slurry overflowed from an ash pit into an area of sensitive vegetation. This notice included a $15,000 fine.
2. 4 May 2018 – two penalty infringement notices were issued to AGL Upstream Investments Pty Limited for alleged breaches of a condition of petroleum title. The notice was based on an alleged failure to run cement bond logs on wells EM02 and EM04, respectively. Each notice included a $5,000 fine. On 15 June 2018 AGL requested a review of these notices and specifically, requested that they be withdrawn on the basis that they have been invalidly issued. At the date of this report, AGL was waiting to hear the outcome of the review.

Other Required Disclosures

The alleged non-compliance that resulted in an official caution being issued was:

- 21 February 2018 – when an official caution was issued to AGL Macquarie Pty Limited for an alleged failure to comply with a condition of its of environmental protection licence (EPL 2122). This notice was issued in relation to a dust event from the Liddell Ash Dam that occurred on the 20 December 2017 during hot dry and windy conditions.

Also, as previously reported, in June 2017 the NSW Environment Protection Authority (EPA) commenced proceedings against AGL Upstream Investments Pty Limited, alleging that AGL had contravened a condition of its environment protection licence (EPL 12003). The alleged offence relates to a flood event that occurred in early June 2016 and impacted the Camden Gas Project.

On 13 November 2017 AGL filed a notice of motion regarding matters in dispute relating to the charge. AGL's notice of motion was dismissed by the Land and Environment Court on 16 March 2018. An appeal against the Land and Environment Court's decision on the Notice of Motion was filed with the NSW Court of Criminal Appeal CCA on 29 March 2018. As at the date of this Report the appeal is ongoing.

There is no allegation that environmental harm occurred .

More information on AGL's environmental performance is published in AGL's 2018 Sustainability Report, available on the AGL website.

Approval of Directors' Report

This Directors' Report is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Board this 9th day of August 2018.

Graeme Hunt
Chairman

Financial Report

AGL Energy Limited and controlled entities

Consolidated Statement of Profit or Loss

For the year ended 30 June 2018

	Note	2018 $m	2017 $m
Continuing operations			
Revenue	4	**12,816**	12,584
Other income	5	**31**	-
Expenses	6	**(9,864)**	(11,131)
Share of profits of associates and joint ventures		**39**	19
Profit before net financing costs, depreciation and amortisation		**3,022**	1,472
Depreciation and amortisation	7	**(558)**	(484)
Profit before net financing costs		**2,464**	988
Finance income	8	**10**	13
Finance costs	8	**(223)**	(237)
Net financing costs		**(213)**	(224)
Profit before tax		**2,251**	764
Income tax expense	9	**(664)**	(225)
Profit for the year		**1,587**	539
Profit attributable to:			
Owners of AGL Energy Limited		**1,587**	539
Non-controlling interests		**-**	-
		1,587	539
Earnings per share			
Basic earnings per share	25	**242.0 cents**	80.5 cents
Diluted earnings per share	25	**241.7 cents**	80.4 cents

The Consolidated 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 2018

	Note	2018 $m	2017 $m
Profit for the year		**1,587**	539
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement gain on defined benefit plans	34	**42**	107
Income tax relating to items that will not be reclassified subsequently	9	**(13)**	(32)
		29	75
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges			
(Loss)/gain in fair value of cash flow hedges		**(103)**	72
Reclassification adjustments transferred to profit or loss		**(56)**	(15)
Available-for-sale financial assets			
Loss on revaluation of available-for-sale financial assets		**(3)**	-
Income tax relating to items that may be reclassified subsequently	9	**48**	(17)
		(114)	40
Other comprehensive (loss)/income for the year, net of income tax		**(85)**	115
Total comprehensive income for the year		**1,502**	654
Total comprehensive income attributable to:			
Owners of AGL Energy Limited		**1,502**	654
Non-controlling interests		**-**	-
		1,502	654

The Consolidated 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 2018

	Note	2018 $m	2017 $m
Current assets			
Cash and cash equivalents	37	**463**	154
Trade and other receivables	11	**1,891**	1,944
Inventories	12	**370**	351
Current tax assets	9	**147**	-
Other financial assets	13	**600**	744
Other assets	14	**261**	231
		3,732	3,424
Assets classified as held for sale	18	**74**	201
Total current assets		**3,806**	3,625
Non-current assets			
Inventories		**10**	20
Other financial assets	13	**448**	142
Investments in associates and joint ventures	15	**100**	80
Property, plant and equipment	16	**6,685**	6,447
Intangible assets	17	**3,271**	3,286
Deferred tax assets	9	**242**	792
Other assets	14	**77**	66
Total non-current assets		**10,833**	10,833
Total assets		**14,639**	14,458
Current liabilities			
Trade and other payables	19	**1,579**	1,507
Borrowings	20	**19**	173
Provisions	21	**233**	201
Current tax liabilities	9	**81**	13
Other financial liabilities	22	**394**	827
Other liabilities	23	**2**	10
Total current liabilities		**2,308**	2,731
Non-current liabilities			
Borrowings	20	**2,822**	3,173
Provisions	21	**509**	520
Other financial liabilities	22	**432**	293
Other liabilities	23	**178**	167
Total non-current liabilities		**3,941**	4,153
Total liabilities		**6,249**	6,884
Net assets		**8,390**	7,574
Equity			
Issued capital	24	**6,223**	6,223
Reserves		**(102)**	16
Retained earnings		**2,269**	1,335
Total equity attributable to owners of AGL Energy Limited		**8,390**	7,574
Non-controlling interests		**-**	-
Total equity		**8,390**	7,574

The Consolidated 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 2018

	Attributable to owners of AGL Energy Limited							
	Issued capital $m	Investment revaluation reserve $m	Employee equity benefits reserve $m	Hedge reserve $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
Balance at 1 July 2017	**6,223**	**-**	**1**	**15**	**1,335**	**7,574**	**-**	**7,574**
Profit for the year	**-**	**-**	**-**	**-**	**1,587**	**1,587**	**-**	**1,587**
Other comprehensive (loss)/income for the year, net of income tax	**-**	**(3)**	**-**	**(111)**	**29**	**(85)**	**-**	**(85)**
Total comprehensive (loss)/income for the year	**-**	**(3)**	**-**	**(111)**	**1,616**	**1,502**	**-**	**1,502**
Transactions with owners in their capacity as owners:								
Payment of dividends	**-**	**-**	**-**	**-**	**(682)**	**(682)**	**-**	**(682)**
Share-based payments	**-**	**-**	**(4)**	**-**	**-**	**(4)**	**-**	**(4)**
Balance at 30 June 2018	**6,223**	**(3)**	**(3)**	**(96)**	**2,269**	**8,390**	**-**	**8,390**
Balance at 1 July 2016	6,696	-	1	(25)	1,243	7,915	11	7,926
Profit for the year	-	-	-	-	539	539	-	539
Other comprehensive income for the year, net of income tax	-	-	-	40	75	115	-	115
Total comprehensive income for the year	-	-	-	40	614	654	-	654
Transactions with owners in their capacity as owners:								
On-market share buy-back	(473)	-	-	-	-	(473)	-	(473)
Payment of dividends	-	-	-	-	(517)	(517)	-	(517)
Share-based payments	-	-	-	-	-	-	-	-
Acquisition of non-controlling interests	-	-	-	-	(5)	(5)	(11)	(16)
Balance at 30 June 2017	6,223	-	1	15	1,335	7,574	-	7,574

The Consolidated 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 2018

	Note	2018 $m	2017 $m
Cash flows from operating activities			
Receipts from customers		**14,157**	13,552
Payments to suppliers and employees		**(11,740)**	(12,216)
Dividends received		**40**	22
Finance income received		**9**	13
Finance costs paid		**(173)**	(188)
Income taxes paid		**(159)**	(292)
Net cash provided by operating activities	37(b)	**2,134**	891
Cash flows from investing activities			
Payments for property, plant and equipment and other assets		**(720)**	(503)
Payments for investments in associates and joint ventures		**(28)**	(13)
Payments for available-for-sale financial assets		**(49)**	(31)
Payments of deferred consideration		**(34)**	(33)
Proceeds from the sale of property, plant and equipment		**29**	278
Proceeds from sale of available-for-sale financial assets		**13**	-
Proceeds from the sale of subsidiaries and businesses, net of cash disposed	31	**160**	-
Net cash used in investing activities		**(629)**	(302)
Cash flows from financing activities			
Payments for buy-back of shares		**-**	(473)
Purchase of shares on-market for equity based remuneration		**(10)**	(7)
Proceeds from borrowings		**730**	1,472
Repayment of borrowings		**(1,234)**	(1,146)
Payments to acquire non-controlling interests		**-**	(16)
Dividends paid	10	**(682)**	(517)
Net cash used in financing activities		**(1,196)**	(687)
Net increase/(decrease) in cash and cash equivalents		**309**	(98)
Cash and cash equivalents at the beginning of the financial year		**154**	252
Cash and cash equivalents at the end of the financial year	37(a)	**463**	154

The Consolidated Statement of Cash Flows should be read in conjunction with the notes to the financial statements.

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

1. Summary of significant accounting policies

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

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

The principal activities of AGL are described in Note 3.

(a) Statement of compliance

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

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

The consolidated financial statements were authorised for issue by the Directors on 9 August 2018.

(b) Basis of preparation

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

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

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

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

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

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

(d) Basis of consolidation

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

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

(e) 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.

(f) 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.

(g) 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.

(h) 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.

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

1. Summary of significant accounting policies (cont.)

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.

(i) Cash and cash equivalents

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

For the purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(j) 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.

(k) 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.

(l) Financial assets

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

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

Financial assets at fair value through profit or loss

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

Available-for-sale financial assets

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

Loans and receivables

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

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indications 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(j).

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

Derecognition of financial assets

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

(m) 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.

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

1. Summary of significant accounting policies (cont.)

(n) 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.

(o) Property, plant and equipment

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

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

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

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

Depreciation is calculated on a straight-line 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

(p) 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 pursuant to finance leases are recognised as receivables at the amount of AGL's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on AGL's net investment outstanding in respect of the leases.

AGL as lessee

Assets held pursuant to 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 pursuant to 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 pursuant to 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.

(q) Intangible assets

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

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

The estimated useful life and amortisation method are reviewed at the end of each annual reporting period.

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 or groups of cash-generating units expected to benefit from the synergies of the combination, and tested for impairment at least annually.

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

1. Summary of significant accounting policies (cont.)

A cash-generating unit or group of cash-generating units 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 or group of cash-generating units is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit(s) and then to the other assets of the unit(s) pro rata based on the carrying amount of each asset in the unit(s). Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

Licences

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

Customer relationships and contracts

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

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

(r) Impairment of non-financial assets excluding goodwill

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

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

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

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

(s) 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.

(t) 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.

(u) Employee benefits

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

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

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

Defined contribution superannuation plans

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

Defined benefit superannuation plans

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

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

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

1. Summary of significant accounting policies (cont.)

(v) Share-based payments

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

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

Pursuant to 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.

(w) 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.

(x) 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.

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

1. Summary of significant accounting policies (cont.)

Derivatives that do not qualify for hedge accounting - economic hedges

AGL has entered into certain derivative instruments for economic hedging purposes in accordance with the Board approved risk management policies which do not satisfy the requirements for hedge accounting pursuant to 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.

(y) Government grants

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

Government grants which require AGL to construct an asset are 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.

(z) 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.

(aa) 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.

(ab) 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.

(ac) Income tax

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

Current tax

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

Deferred tax

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

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

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

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

Current and deferred tax for the period

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

Tax consolidation

The Parent Entity and its wholly-owned Australian resident subsidiaries formed a tax-consolidated group pursuant to 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.

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

1. Summary of significant accounting policies (cont.)

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 'standalone 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.

(ad) Standards and Interpretations on 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 2018. AGL's assessment of the expected impact of these Standards is set out below.

AASB 9 Financial Instruments (AASB 9)

AASB 9 *Financial Instruments* and the related subsequent amendments replaces AASB 139 *Financial Instruments: Recognition and Measurement* (AASB 139) and applies to the classification, measurement and derecognition of financial instruments.

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

AASB 9 is effective for annual reporting periods commencing on or after 1 January 2018, and is therefore first applicable to AGL's 30 June 2019 financial statements.

Overview of assessment activities

In the first half of FY18, management focussed on ascertaining the financial impact of adopting the expected credit loss model and refining hedge accounting policies and processes to align with the requirements of AASB 9.

Management refined the existing segmentation of debt and identified forward-looking factors to apply to those profiles. Some of the key factors considered in the forward-looking information include wholesale electricity forward prices, commodity fuel forward prices, national GDP growth outlook and interest rate forward curves. The financial impact of the expected credit loss adoption model underwent internal scrutiny to ensure robustness. The financial impact was communicated to management, the Audit & Risk Management Committee and AGL's auditors.

A credit loss policy supporting the adoption of this standard has been developed and approved and the impact of adoption of the expected credit loss model included in AGL's forecast financial performance.

Application date and transition approach

AGL will adopt the new standard on the required effective date. The classification of financial instruments will be applied retrospectively to financial instruments recorded at the date of initial application. The measurement requirements to financial instruments, excluding impairment, will be applied from the date of initial application. The impairment requirements of AASB 9 will be applied retrospectively, whilst the hedging requirements will be applied prospectively.

Impact on AGL's financial report

Impairment of amortised cost financial assets

The impact of applying an expected credit loss model will be a restated cumulative retained earnings decrease of $78 million, a restated decrease of profit for the year ended 30 June 2018 of $3 million, a restated decrease in trade and other receivables of $115 million and a restated increase in deferred tax assets of $34 million at 30 June 2018.

The adoption of this standard is not expected to have a material impact on profit or loss for the year ending 30 June 2019.

Classification and measurement

Financial assets and financial liabilities will be classified and measured in accordance with one of the following categories pursuant to AASB 9:

- Amortised cost (AC);
- Fair value through other comprehensive income (that will not be reclassified subsequently to profit or loss) (FVTOCI-NR);
- Fair value through other comprehensive income (FVTOCI); or
- Fair value through profit or loss (FVTPL).

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

1. Summary of significant accounting policies (cont.)

The adoption of this standard will result in the following classification to AGL's financial instruments at 30 June 2018:

		AASB 9 classification			
Account balance	2018 $m	AC $m	FVTOCI-NR $m	FVTOCI $m	FVTPL $m
Trade and other receivables	**1,891**	1,891	-	-	-
Derivatives[1,2]	**369**	-	-	-	369[3]
Available-for-sale financial assets	**64**	-	64	-	-
Trade and other payables	**1,579**	1,579	-	-	-
Borrowings	**2,841**	2,841	-	-	-
Deferred consideration	**211**	211	-	-	-

1. Assets and liabilities are shown net.
2. Includes margin calls.
3. Derivatives designated in a hedge relationship will be deferred through other comprehensive income, to the extent the relationship is considered effective.

Financial instruments listed in the table above are classified pursuant to AASB 139 as follows:

- Trade and other receivables: amortised cost, refer to Note 1(j);
- Derivatives: fair value through profit or loss, refer to Note 1(x). Derivatives designated in a hedge relationship are deferred through other comprehensive income, to the extent the relationship is considered effective;
- Available-for-sale financial assets: fair value through other comprehensive income (that will be reclassified subsequently to profit or loss), refer to Note 1(l);
- Trade and other payables: amortised cost, refer to Note 1(s);
- Borrowings: amortised cost, refer to Note 1(t); and
- Deferred consideration: amortised cost.

There is no cumulative Retained Earnings impact on adoption.

Hedge accounting

The adoption of this standard will not have a material impact on AGL's hedge accounting practices.

AASB 15 Revenue from Contracts with Customers (AASB 15)

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

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

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

AASB 15 is effective for annual reporting periods commencing on or after 1 January 2018, and is therefore first applicable to AGL's 30 June 2019 financial statements.

Overview of assessment activities

A representative sample of contracts in each of AGL's major revenue streams have now been assessed against the requirements of AASB 15, compared to AGL's current accounting policies and practices, and potential differences identified. Key judgements and assumptions have been determined and documented, with a revenue recognition approach and policy approved.

The sampled contract reviews were extrapolated over the remaining contract population with the conclusion reached that the key judgements made with respect to the sampled contracts were applicable to the remaining contract population.

Application date and transition approach

AGL will adopt the new standard on the required effective date. The standard permits two methods of adoption: full retrospective or modified retrospective. AGL has elected to apply the full retrospective method which will result in an adjustment to each prior reporting period presented and recognition of the cumulative effect of initially applying the new requirements at the start of the earliest period presented, which will be 1 July 2017 for AGL.

Impact on AGL's financial report

Based on the assessment of contracts in effect at the date of initial adoption, the application of this standard will not have a material impact on the recognition, timing or measurement of AGL's revenue.

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

AASB 16 Leases (AASB 16)

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

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

1. Summary of significant accounting policies (cont.)

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

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

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

The standard will require lessees and lessors to make more extensive disclosures than required by AASB 117.

Overview of assessment activities

In the first half of FY18, the leases project team continued its review of the in-scope operating lease contracts, to identify the key terms required to calculate the lease liabilities and related ROU assets, and to identify key decisions made pursuant to the existing lease arrangements which may affect the lease calculation. Key assumptions were determined and documented and then reviewed by internal stakeholders.

Subsequent to this, the team calculated the financial impact of adoption of the new standard pursuant to both adoption methodologies. The financial impact was communicated to management, the Audit & Risk Management Committee and AGL's auditors.

An accounting policy supporting the adoption of the new standard has been approved and the impact of adoption of this standard included in AGL's forecast financial performance.

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

Application date and transition approach

AASB 16 is effective for annual reporting periods commencing on or after 1 January 2019, with early application permitted for entities that apply AASB 15. AGL has elected to early apply AASB 16, which means it will be effective for AGL's 30 June 2019 financial statements. The standard permits two methods of adoption: full retrospective or modified retrospective. AGL has elected to apply the full retrospective method which will result in an adjustment to each prior reporting period presented and recognition of the cumulative effect of initially applying the new requirements at the start of the earliest period presented, which will be 1 July 2017.

The grandfathering provision pursuant to AASB 16 will be applied at the date of initial application.

Impact on AGL's financial report

The adoption will result in a restated cumulative retained earnings decrease of $4 million, a restated decrease in profit for the year ended 30 June 2018 of $1 million, a restated increase in property, plant and equipment of $74 million, a restated increase in deferred tax assets of $2 million, a restated decrease in non-current other liabilities of $40 million, a restated increase in current borrowings of $16 million and a restated increase in non-current borrowings of $105 million.

More specifically, the impact to the Consolidated Statement of Profit or Loss will result in a restated increase in depreciation and amortisation of $11 million, restated increase in finance costs of $7 million and a restated decrease in total expenses of $16 million for the year ended 30 June 2018. As a result of the above, tax expense for the year ended 30 June 2018 will decrease by $1 million.

For the year ending 30 June 2019, adoption of AASB 16 is expected to result in an increase in depreciation and amortisation of $12 million, an increase in finance costs of $7 million and a decrease in total expenses of $18 million. As a result of the above, tax expense for the year ending 30 June 2019 is expected to decrease by $1 million.

AGL's existing finance leases (see Note 20) will not be materially impacted by the new standard. The relevant finance lease assets will be presented as ROU assets pursuant to the new 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.

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

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. 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. 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 assessment of impairment indications, and an estimation of the recoverable amount of the cash-generating units, using a value in use discounted methodology, to which the goodwill and intangibles with indefinite useful lives are allocated.

Fair value of financial instruments

Management uses their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. 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 38 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. AGL uses external actuarial experts to determine these assumptions. These assumptions and the related carrying amounts are discussed in Note 34.

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

3. Segment information

Operating Segments

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

On 24 May 2017, AGL announced changes to its segment reporting. The previous Energy Markets operating segment was split into two new segments, one comprising the Wholesale Markets business unit and one comprising the Customer and New Energy Services business units titled Customer Markets. These changes were effective 1 July 2017.

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

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

- **Customer Markets** comprises the Consumer, Business and New Energy Services customer portfolios and is responsible for the retailing of electricity, gas, solar and energy efficiency products and services to residential and business customers. Customer Markets sources its energy from Wholesale Markets at a transfer price based on methodologies that reflect the prevailing wholesale market conditions and other energy costs in each state.
- **Wholesale Markets** comprises Wholesale Electricity, Wholesale Gas and Eco Markets and is responsible for managing the price risk associated with procuring electricity and gas for AGL's customers and for managing AGL's obligations in relation to renewable energy schemes. Wholesale Markets also controls the dispatch of AGL's owned and contracted generation assets and associated portfolio of energy hedging products.
- **Group Operations** comprises AGL's power generation portfolio and other key sites and operating facilities.
- **Investments** comprises AGL's interests in the ActewAGL Retail Partnership, Powering Australian Renewables Fund, Digital Energy Exchange and New Energy Investments: Advanced Microgrid Solutions Inc, Energy Impact Partners' Fund, Activate Capital Partners, Solar Analytics Pty Limited, Sunverge Energy Inc and Ecobee Inc.

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

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

Segment financial results

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

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

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

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

3. Segment information (cont.)

2018	Customer Markets $m	Wholesale Markets $m	Group Operations $m	Investments $m	Other $m	Total $m
Revenue						
Total segment revenue	7,746	8,624	234	-	1	16,605
Inter-segment revenue	(50)	(3,680)	(59)	-	-	(3,789)
External revenue	7,696	4,944	175	-	1	12,816
Underlying earnings before interest, tax, depreciation and amortisation (Underlying EBITDA)	310	2,674	(510)	33	(281)	2,226
Depreciation and amortisation	(102)	(10)	(414)	-	(32)	(558)
Underlying EBIT	208	2,664	(924)	33	(313)	1,668
Net financing costs						(217)
Underlying profit before tax						1,451
Income tax expense						(428)
Underlying profit after tax						1,023
Segment assets	2,806	2,599	7,372	162	208	13,147
Segment liabilities	575	862	862	-	202	2,501
Other segment information						
Share of profits of associates and joint ventures	-	-	1	38	-	39
Investments in associates and joint ventures	-	-	2	98	-	100
Additions to non-current assets	163	17	504	77	99	860
Other non-cash expenses	(94)	-	-	-	(6)	(100)

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

3. Segment information (cont.)

2017	Customer Markets $m	Wholesale Markets $m	Group Operations $m	Investments $m	Other $m	Total $m
Revenue						
Total segment revenue	7,397	8,007	455	-	1	15,860
Inter-segment revenue	(63)	(3,147)	(66)	-	-	(3,276)
External revenue	7,334	4,860	389	-	1	12,584
Underlying earnings before interest, tax, depreciation and amortisation (Underlying EBITDA)	533	1,975	(451)	17	(222)	1,852
Depreciation and amortisation	(87)	(8)	(363)	-	(26)	(484)
Underlying EBIT	446	1,967	(814)	17	(248)	1,368
Net financing costs						(228)
Underlying profit before tax						1,140
Income tax expense						(338)
Underlying profit after tax						802
Segment assets	2,770	2,762	7,399	109	123	13,163
Segment liabilities	548	925	770	1	161	2,405
Other segment information						
Share of profits of associates and joint ventures	-	-	1	18	-	19
Investments in associates and joint ventures	-	-	2	78	-	80
Additions to non-current assets	110	5	534	43	43	735
Other non-cash expenses	(76)	-	-	-	(7)	(83)

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

3. Segment information (cont.)

Segment revenue reconciliation to the Consolidated Statement of Profit or Loss

Reconciliation of segment revenue to total revenue is as follows:

	2018 $m	2017 $m
Total segment revenue for reportable segments	**16,604**	15,859
Elimination of inter-segment revenue	**(3,789)**	(3,276)
Total revenue for reportable segments	**12,815**	12,583
Other	**1**	1
Total revenue	**12,816**	12,584

Revenue from major products and services

The following is an analysis of AGL's revenue from its major products and services:

Electricity	**6,063**	5,822
Gas	**2,379**	2,506
Generation sales to pool	**3,901**	3,602
Other goods and services	**473**	654
Total revenue	**12,816**	12,584

Segment Underlying EBIT reconciliation to the Consolidated Statement of Profit or Loss

Reconciliation of segment Underlying EBIT to profit before tax is as follows:

Underlying EBIT for reportable segments	**1,981**	1,616
Other	**(313)**	(248)
	1,668	1,368
Amounts excluded from underlying results:		
- gain/(loss) in fair value of financial instruments	**803**	(376)
- significant items[1]	**(3)**	-
Finance income included in Underlying EBIT	**(4)**	(4)
Finance income	**10**	13
Finance costs	**(223)**	(237)
Profit before tax	**2,251**	764

1. Further details are contained in the Operating & Financial Review attached to and forming part of the Directors' Report.

Segment assets reconciliation to the Consolidated Statement of Financial Position

Reconciliation of segment assets to total assets is as follows:

Segment assets for reportable segments	**12,939**	13,040
Other	**208**	123
	13,147	13,163
Cash and cash equivalents	**463**	154
Current tax assets	**147**	-
Deferred tax assets	**242**	792
Derivative financial instruments	**640**	349
Total assets	**14,639**	14,458

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

3. Segment information (cont.)

Segment liabilities reconciliation to the Consolidated Statement of Financial Position

Reconciliation of segment liabilities to total liabilities is as follows:

	2018 $m	2017 $m
Segment liabilities for reportable segments	**2,299**	2,244
Other	**202**	161
	2,501	2,405
Borrowings	**2,841**	3,346
Current tax liabilities	**81**	13
Derivative financial instruments	**615**	873
Deferred consideration and other liabilities	**211**	247
Total liabilities	**6,249**	6,884

Geographical information

AGL operates in one principal geographical area being 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 (2017: none).

4. Revenue

Revenue from sale of goods	**12,679**	12,207
Revenue from rendering of services	**137**	152
Other revenue - government grants	**-**	225
	12,816	12,584

5. Other income

	Note		
Net gain on disposal of property, plant and equipment		**6**	-
Gain on disposal of subsidiaries and businesses	31	**25**	-
		31	-

6. Expenses

Cost of sales	**9,070**	9,192
Administrative expenses	**262**	229
Employee benefits expense	**651**	566
Other expenses		
(Gain)/loss on fair value of financial instruments	**(803)**	376
Impairment loss on trade receivables (net of bad debts recovered)	**94**	77
Impairment loss on investment in an associate and other related assets	**28**	-
Net loss on disposal of property, plant and equipment	**-**	199
Operating lease rental expense	**25**	21
Other	**537**	471
	9,864	11,131

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

7. Depreciation and amortisation

	2018 $m	2017 $m
Property, plant and equipment	**533**	464
Intangible assets	**15**	15
Other	**10**	5
	558	484

8. Net financing costs

	2018 $m	2017 $m
Finance income		
Interest income	**10**	13
	10	13
Finance costs		
Interest expense[1]	**158**	173
Unwinding of discounts on provisions and other liabilities	**33**	30
Unwinding of discount on deferred consideration	**24**	25
Other finance costs	**8**	9
	223	237
Net financing costs	**213**	224

1. Interest expense for the year ended 30 June 2018 is presented net of capitalised interest of $11 million (2017: $5 million).

The weighted average capitalisation rate on funds borrowed for finance costs capitalised is 5.64% (2017: 5.66%).

9. Income tax

Income tax recognised in the Consolidated Statement of Profit or Loss

The major components of income tax expense are:

	2018 $m	2017 $m
Current tax		
Current tax expense in respect of the current year	**79**	282
Deferred tax		
Relating to the origination and reversal of temporary differences	**585**	(57)
Total income tax expense	**664**	225

Numerical reconciliation between tax expense and pre-tax accounting profit

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

	2018 $m	2017 $m
Profit before tax	**2,251**	764
Income tax expense calculated at the Australian tax rate of 30% (2017: 30%)	**675**	229
Non-deductible capital losses on disposal and impairment	**8**	-
Non-deductible expenses	**6**	-
Recognition of previously unrecognised capital losses	**(17)**	-
Adjustments in relation to current tax of prior years	**(2)**	(4)
Other	**(6)**	-
	664	225

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

9. Income tax (cont.)

Income tax recognised in other comprehensive income

	2018 $m	2017 $m
Deferred tax		
Cash flow hedges	**(48)**	17
Remeasurement gain on defined benefit plans	**13**	32
	(35)	49

Current tax balances

Current tax assets		
Income tax refund receivable	**147**	-
Current tax liabilities		
Income tax payable	**81**	13

Deferred income tax recognised in the Consolidated Statement of Profit or Loss

Temporary differences		
Allowance for doubtful debts	**(4)**	-
Property, plant and equipment	**40**	57
Defined benefit superannuation plans	**(4)**	-
Provisions, payables and accruals	**(15)**	(9)
Derivative financial instruments	**324**	(103)
Tax losses	**234**	-
Other	**10**	(2)
	585	(57)

Deferred tax balances

Deferred tax assets/(liabilities) arise from the following:		
Allowance for doubtful debts	**35**	31
Property, plant and equipment	**(459)**	(419)
Intangible assets	**(90)**	(90)
Defined benefit superannuation plans	**10**	19
Provisions, payables and accruals	**190**	175
Derivative financial instruments	**2**	278
Tax losses	**544**	778
Other	**10**	20
Net deferred tax assets	**242**	792

Recognised in the Consolidated Statement of Financial Position as follows:		
Deferred tax assets	**242**	792
Deferred tax liabilities	**-**	-
Net deferred tax assets	**242**	792

Deferred tax assets of $30 million (2017: $90 million) remain unrecognised.

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

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

10. Dividends

	2018 $m	2017 $m
Recognised amounts		
Final dividend		
Final dividend for 2017 of 50.0 cents per share, franked to 80%, paid 22 September 2017 (2017: Final dividend for 2016 of 36.0 cents per share, fully franked, paid 22 September 2016)	**328**	243
Interim dividend		
Interim dividend for 2018 of 54.0 cents per share, franked to 80%, paid 26 March 2018 (2017: Interim dividend for 2017 of 41.0 cents per share, franked to 80%, paid 27 March 2017)	**354**	274
Dividends paid as per the Consolidated Statement of Cash Flows	**682**	517

Unrecognised amounts		
Since the end of the financial year, the Directors have declared a final dividend for 2018 of 63.0 cents per share, franked to 80% (2017: 50.0 cents per share, franked to 80%), payable 21 September 2018.	**413**	328

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 2019 financial year.

Dividend reinvestment plan

The AGL Dividend Reinvestment Plan (DRP) will operate in respect of the 2018 final dividend. AGL will acquire shares on market and allot them to DRP participants at no discount to the simple average of the daily weighted average price at which AGL's ordinary shares trade during each of the 10 trading days commencing 27 August 2018. The last date for shareholders to elect to participate in the DRP for the 2018 final dividend is 24 August 2018.

Dividend franking account		
Adjusted franking account balance	**(94)**	63
Impact on franking account balance of dividends proposed after the reporting date but not recognised as a liability	**(142)**	(112)

11. Trade and other receivables

Current		
Trade receivables	**1,004**	1,074
Allowance for doubtful debts	**(116)**	(103)
	888	971
Unbilled revenue	**938**	889
Other receivables	**65**	84
	1,891	1,944

Allowance for doubtful debts		
Movements in the allowance for doubtful debts are detailed below:		
Balance at beginning of financial year	**103**	95
Impairment losses recognised on receivables	**114**	101
Amounts written off as uncollectible	**(101)**	(93)
Balance at end of financial year	**116**	103

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

11. Trade and other receivables (cont.)

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

	2018		2017	
	Total $m	Allowance $m	Total $m	Allowance $m
Not past due	**683**	**(17)**	764	(9)
Past due 31 - 60 days	**62**	**(12)**	62	(10)
Past due 61 - 90 days	**41**	**(12)**	41	(12)
Past 90 days	**218**	**(75)**	207	(72)
	1,004	**(116)**	1,074	(103)

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 $222 million (2017: $216 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.

12. Inventories

	2018 $m	2017 $m
Current		
Raw materials and stores - at cost	**242**	211
Finished goods - at cost	**128**	140
	370	351

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

13. Other financial assets

	2018 $m	2017 $m
Current		
Derivative financial instruments - at fair value		
Interest rate swap contracts - cash flow hedges	**-**	2
Energy derivatives - cash flow hedges	**6**	80
Energy derivatives - economic hedges	**250**	156
	256	238
Futures deposits and margin calls	**344**	506
	600	744

	2018 $m	2017 $m
Non-current		
Derivative financial instruments - at fair value		
Cross currency swap contracts - cash flow and fair value hedges	**72**	75
Interest rate swap contracts - cash flow hedges	**1**	2
Energy derivatives - cash flow hedges	**-**	4
Energy derivatives - economic hedges	**311**	30
	384	111
Available-for-sale financial assets - at fair value		
Unlisted equity securities	**16**	15
Unlisted investment funds	**48**	16
	448	142

14. Other assets

	Note	2018 $m	2017 $m
Current			
Green commodities scheme certificates and instruments		**200**	194
Prepayments		**61**	37
		261	231

	Note	2018 $m	2017 $m
Non-current			
Defined benefit superannuation plan asset	34	**39**	15
Other		**38**	51
		77	66

15. Investments in associates and joint ventures

	2018 $m	2017 $m
Investments in associates - unlisted	**-**	21
Investments in joint ventures - unlisted	**100**	59
	100	80

	2018 $m	2017 $m
Reconciliation of movements in investments in associates and joint ventures		
Balance at beginning of financial year	**80**	70
Additions[1]	**28**	13
Impairment loss recognised in profit or loss	**(20)**	-
Share of profits after income tax	**39**	19
Dividends received	**(40)**	(22)
Other	**13**	-
Balance at end of financial year	**100**	80

1. During the year, AGL made $28 million of capital contributions to the Powering Australian Renewables Fund in accordance with the terms of the Investor Agreement and Commitment Deed.

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

15. Investments in associates and joint ventures (cont.)

Name of entity	Principal activities	Ownership interest 2018 %	Ownership interest 2017 %	Carrying value 2018 $m	Carrying value 2017 $m
Associates					
CSM Energy Limited	Coal mine methane gas extraction	**35**	35	**-**	-
Matter Technology Ltd	Energy management services	**19.9**	19.9	**-**	-
Solar Analytics Pty Ltd	Solar PV monitoring	**37.2**	37.2	**-**	1
Sunverge Energy Inc	Energy storage and management services	**22**	22	**-**	20
Joint ventures					
ActewAGL Retail Partnership	Gas and electricity retailer	**50**	50	**45**	43
Energy Infrastructure Management Pty Ltd	Pipeline management services	**50**	50	**2**	2
Central Queensland Pipeline Pty Ltd	Gas pipeline development	**50**	50	**-**	-
Powering Australian Renewables Fund	Development and owner of renewable energy generation projects	**20**	20	**53**	14
				100	80

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

Aggregate information of joint ventures that are not individually material

	2018 $m	2017 $m
Current assets	**336**	236
Non-current assets	**831**	61
Total assets	**1,167**	297
Current liabilities	**210**	203
Non-current liabilities	**597**	3
Total liabilities	**807**	206
Net assets	**360**	91
Revenue	**852**	771
Expenses	**(774)**	(722)
AGL's share of joint ventures' profit	**39**	25

Commitments and contingent liabilities

AGL's share of commitments and contingent liabilities of associates and joint ventures are disclosed in Notes 26(c) and 27 respectively.

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

16. Property, plant and equipment

Year ended 30 June 2018	Plant and equipment $m	Other $m	Total $m
Balance at 1 July 2017, net of accumulated depreciation and impairment	**6,351**	**96**	**6,447**
Additions	**783**	**-**	**783**
Disposals	**(4)**	**-**	**(4)**
Reclassified as held for sale	**(8)**	**-**	**(8)**
Depreciation expense	**(531)**	**(2)**	**(533)**
Balance at 30 June 2018, net of accumulated depreciation and impairment	**6,591**	**94**	**6,685**
Balance at 1 July 2017			
Cost (gross carrying amount)	**8,584**	**144**	**8,728**
Accumulated depreciation and impairment	**(2,233)**	**(48)**	**(2,281)**
Net carrying amount	**6,351**	**96**	**6,447**
Balance at 30 June 2018			
Cost (gross carrying amount)	**9,052**	**109**	**9,161**
Accumulated depreciation and impairment	**(2,461)**	**(15)**	**(2,476)**
Net carrying amount	**6,591**	**94**	**6,685**
Year ended 30 June 2017			
Balance at 1 July 2016, net of accumulated depreciation and impairment	6,383	99	6,482
Additions	596	-	596
Disposals	(14)	(1)	(15)
Reclassified as held for sale	(152)	-	(152)
Depreciation expense	(462)	(2)	(464)
Balance at 30 June 2017, net of accumulated depreciation and impairment	6,351	96	6,447
Balance at 1 July 2016			
Cost (gross carrying amount)	8,277	147	8,424
Accumulated depreciation and impairment	(1,894)	(48)	(1,942)
Net carrying amount	6,383	99	6,482
Balance at 30 June 2017			
Cost (gross carrying amount)	8,584	144	8,728
Accumulated depreciation and impairment	(2,233)	(48)	(2,281)
Net carrying amount	6,351	96	6,447

Leased plant and equipment

The net carrying amount of plant and equipment disclosed above includes plant and equipment held pursuant to finance leases of $128 million (2017: $131 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 $684 million (2017: $329 million).

Software

The net carrying amount of plant and equipment disclosed above includes software of $45 million (2017: $70 million).

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

17. Intangible assets

Year ended 30 June 2018	Goodwill $m	Licences $m	Other $m	Total $m
Balance at 1 July 2017, net of accumulated amortisation and impairment	**2,881**	**311**	**94**	**3,286**
Amortisation expense	**-**	**-**	**(15)**	**(15)**
Balance at 30 June 2018, net of accumulated amortisation and impairment	**2,881**	**311**	**79**	**3,271**

Balance at 1 July 2017				
Cost (gross carrying amount)	**2,882**	**311**	**448**	**3,641**
Accumulated amortisation and impairment	**(1)**	**-**	**(354)**	**(355)**
Net carrying amount	**2,881**	**311**	**94**	**3,286**

Balance at 30 June 2018				
Cost (gross carrying amount)	**2,882**	**311**	**258**	**3,451**
Accumulated amortisation and impairment	**(1)**	**-**	**(179)**	**(180)**
Net carrying amount	**2,881**	**311**	**79**	**3,271**

Year ended 30 June 2017				
Balance at 1 July 2016, net of accumulated amortisation and impairment	2,791	311	130	3,232
Additions[1]	90	-	-	90
Disposals	-	-	(15)	(15)
Reclassified from held for sale	-	-	(6)	(6)
Amortisation expense	-	-	(15)	(15)
Balance at 30 June 2017, net of accumulated amortisation and impairment	2,881	311	94	3,286

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

Balance at 1 July 2016				
Cost (gross carrying amount)	2,792	311	472	3,575
Accumulated amortisation and impairment	(1)	-	(342)	(343)
Net carrying amount	2,791	311	130	3,232

Balance at 30 June 2017				
Cost (gross carrying amount)	2,882	311	448	3,641
Accumulated amortisation and impairment	(1)	-	(354)	(355)
Net carrying amount	2,881	311	94	3,286

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

17. Intangible assets (cont.)

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:

Year ended 30 June 2018	Goodwill $m	Licences $m	Total intangible assets with indefinite lives $m
Customer Markets	**901**	**-**	**901**
Wholesale Markets	**1,353**	**-**	**1,353**
Group Operations	**627**	**311**	**938**
	2,881	**311**	**3,192**

Year ended 30 June 2017			
Customer Markets	901	-	901
Wholesale Markets	1,353	-	1,353
Group Operations	627	311	938
	2,881	311	3,192

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 Customer Markets, Wholesale Markets and Group Operations

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

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

Cash flow forecasts are based on Board approved budgets and the most recent three-year plan. The terminal value is based on final year free cash flow, except for capital expenditure, which is averaged across the three year period, and then capitalised in perpetuity adjusted for inflation of 2.5% (2017: 2.5%). Discount rates used are the pre-tax equivalent of a post-tax weighted average cost of capital of 8.6% (2017: 9.4%). The terminal value cash flows are also adjusted for material items including known AGL power station closure dates.

No impairment loss has been recognised for the Customer Markets, Wholesale Markets or the Group Operations CGUs for the year ended 30 June 2018 (2017: $nil).

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

18. Assets and liabilities classified as held for sale

	2018 $m	2017 $m
Assets of disposal groups held for sale	**74**	201

Disposal groups held for sale

National Assets portfolio

AGL has agreed to sell its National Assets portfolio within the Distributed Energy Services business of Group Operations to Sustainable Energy Infrastructure, a consortium led by Whitehelm Capital. The assets located throughout Australia include landfill gas, biogas and biomass generation, co-generation and compressed natural gas refuelling ($41 million of receivables and $33 million of property, plant and equipment). The sale is subject to conditions precedent, which were not satisfied at 30 June 2018.

North Queensland gas assets

On 25 August 2017, AGL agreed to sell its North Queensland gas assets to a consortium of Shandong Order Gas Co. Limited and Orient Energy Limited. The sale remains subject to a number of conditions precedent including regulatory approval. The carrying value of non-current assets relating to the North Queensland gas assets is nil (June 2017: nil) primarily due to previous impairment losses.

Disposal groups sold

Active Stream Pty Limited

On 30 November 2017, AGL completed the divestment of 100% of the shares in its digital metering subsidiary, Active Stream Pty Limited, and associated metering assets for consideration of $165 million.

Refer to Note 31 for further information.

19. Trade and other payables

Current		
Trade payables and accrued expenses	**942**	907
Accrued distribution costs	**412**	368
Green commodity scheme obligations	**204**	200
Other	**21**	32
	1,579	1,507

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

20. Borrowings

Current - at amortised cost		
Bank loans - unsecured	**-**	150
CPI bonds - unsecured	**8**	12
Other loans - unsecured	**11**	11
	19	173

Non-current - at amortised cost		
USD senior notes - unsecured	**931**	938
Subordinated notes - unsecured	**650**	650
Medium term notes - unsecured	**598**	598
Bank loans - unsecured	**410**	680
CPI bonds - unsecured	**80**	148
Other loans - unsecured	**133**	144
Finance lease liabilities - secured	**32**	30
Deferred transaction costs	**(12)**	(15)
	2,822	3,173

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

20. Borrowings

Financing facilities

AGL has access to the following committed bank facilities:

	Total facilities		Amounts used	
	2018 $m	2017 $m	2018 $m	2017 $m
USD senior notes - unsecured (after effect of cross currency swaps)	**910**	910	**910**	910
Subordinated notes - unsecured	**650**	650	**650**	650
Medium term notes - unsecured	**598**	598	**598**	598
Bank loans - unsecured	**1,256**	1,585	**410**	830
CPI bonds - unsecured	**88**	160	**88**	160
Other loans - unsecured	**144**	155	**144**	155
Bank guarantees - unsecured	**499**	370	**408**	331
	4,145	4,428	**3,208**	3,634

USD senior notes

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

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

Subordinated notes

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

Medium term notes

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

Bank loans

On 14 February 2014, AGL executed an amendment to its syndicated loan facility to add a $650 million four year term facility. On 8 February 2017, AGL executed a further amendment to its syndicated loan facility to decrease the facility to $150 million, which was then fully repaid in September 2017.

During June 2018, AGL extended its existing $410 million 6.5 year club term loan facility for another four years to mature in June 2025. As at 30 June 2018, this facility was fully utilised.

On 8 October 2015, AGL extended a $150 million revolving facility for a further year until December 2019. As at 30 June 2018, this facility was fully undrawn.

During February 2017, AGL amended and extended the $400 million revolving tranche of the syndicated loan facility to mature in September 2020. The revolving tranche was unutilised as at 30 June 2018.

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

CPI bonds

On 1 December 2017, AGL purchased an additional holding of Loy Yang CPI bonds. CPI bonds rank pari passu with other unsecured debt and will mature in May 2027.

Other loans

On 5 July 2011, AGL entered into a $200 million loan facility with EKF, the Danish export credit agency. Amortising over 18 years, the loan matures in 2031. As at 30 June 2018, the facility was fully utilised.

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

21. Provisions

	2018 $m	2017 $m
Current		
Employee benefits	**189**	156
Environmental restoration	**18**	11
Restructuring	**1**	4
Onerous contracts	**25**	30
	233	201
Non-current		
Employee benefits	**38**	37
Environmental restoration	**308**	296
Onerous contracts	**163**	187
	509	520

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

Year ended 30 June 2018	Environmental restoration $m	Restructuring $m	Onerous contracts $m	Total $m
Balance at beginning of financial year	**307**	**4**	**217**	**528**
Provisions utilised and derecognised	**(8)**	**(3)**	**(35)**	**(46)**
Unwinding of discount	**27**	**-**	**6**	**33**
Balance at end of financial year	**326**	**1**	**188**	**515**

22. Other financial liabilities

	2018 $m	2017 $m
Current		
Derivative financial instruments - at fair value		
Cross currency swap contracts - cash flow and fair value hedges	**4**	3
Interest rate swap contracts - cash flow hedges	**15**	25
Energy derivatives - cash flow hedges	**24**	2
Energy derivatives - economic hedges	**316**	737
	359	767
Deferred consideration	**35**	34
Other liabilities	**-**	26
	394	827
Non-current		
Derivative financial instruments - at fair value		
Cross currency swap contracts - cash flow and fair value hedges	**55**	52
Interest rate swap contracts - cash flow hedges	**28**	37
Energy derivatives - cash flow hedges	**71**	5
Energy derivatives - economic hedges	**102**	12
	256	106
Deferred consideration	**176**	187
	432	293

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

23. Other liabilities

	Note	2018 $m	2017 $m
Current			
Deferred revenue		**2**	10
		2	10
Non-current			
Deferred revenue		**18**	18
Defined benefit superannuation plan liability	34	**76**	77
Other		**84**	72
		178	167

24. Issued capital

	2018	2017
655,825,043 fully-paid ordinary shares (2017: 655,825,043)	**6,223**	6,223

Movement in fully-paid ordinary shares

	2018 Number	2018 $m	2017 Number	2017 $m
Movement in fully-paid ordinary shares				
Balance at beginning of financial year	**655,825,043**	**6,223**	674,712,378	6,696
On-market share buy-back[1]	**-**	**-**	(18,887,335)	(473)
Balance at end of financial year	**655,825,043**	**6,223**	655,825,043	6,223

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

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

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

25. Earnings per share

	2018	2017
Statutory earnings per share		
Basic earnings per share	**242.0 cents**	80.5 cents
Diluted earnings per share	**241.7 cents**	80.4 cents
Underlying earnings per share		
Basic earnings per share	**156.0 cents**	119.8 cents
Diluted earnings per share	**155.8 cents**	119.7 cents

Earnings used in calculating basic and diluted earnings per share

	2018 $m	2017 $m
Profit for the year attributable to owners of AGL Energy Limited	**1,587**	539
Statutory earnings used to calculate basic and diluted EPS	**1,587**	539
Significant income items after income tax	**(2)**	-
(Gain)/loss in fair value of financial instruments after income tax	**(562)**	263
Underlying earnings used to calculate basic and diluted EPS	**1,023**	802

Weighted average number of ordinary shares

	2018 Number	2017 Number
Number of ordinary shares used in the calculation of basic EPS	**655,825,043**	669,299,682
Effect of dilution - LTIP share performance rights	**772,813**	863,519
Number of ordinary shares used in the calculation of diluted EPS	**656,597,856**	670,163,201

26. Commitments

(a) Capital expenditure commitments

Property, plant and equipment

	2018 $m	2017 $m
Not later than one year	**286**	47
Later than one year and not later than five years	**25**	-
Later than five years	**-**	-
	311	47

There are nil (2017: nil) joint operations capital commitments and AGL's share of associates' and joint ventures' capital commitments is nil (2017: $2 million).

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

26. Commitments (cont.)

(b) Lease commitments

Finance lease liabilities

	Note	Minimum lease payments		Present value of minimum lease payments	
		2018 $m	2017 $m	2018 $m	2017 $m
Not later than one year		**-**	-	**-**	-
Later than one year and not later than five years		**1**	1	**1**	-
Later than five years		**196**	196	**31**	30
Minimum future lease payments[1]		**197**	197	**32**	30
Less future finance charges		**(165)**	(167)	**-**	-
Present value of minimum lease payments		**32**	30	**32**	30
Included in the financial statements as:					
Current borrowings	20			**-**	-
Non-current borrowings	20			**32**	30
				32	30

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

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

Operating leases

	2018 $m	2017 $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	**88**	70
Later than five years	**68**	76
	176	165

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

(c) Joint venture commitments

AGL's share of commitments made jointly with other investors relating to its joint ventures are as follows:

Commitments to contribute funds for the acquisition of property, plant and equipment	**60**	33

27. Contingent liabilities

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.

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

28. Remuneration of auditors

Auditor of the Parent Entity

	2018 $000	2017 $000
Audit and review of financial reports	**1,462**	1,393
Other regulatory audit services	**173**	172
Other assurance services	**148**	288
Other services	**-**	241
	1,783	2,094

The auditor of AGL Energy Limited is Deloitte Touche Tohmatsu.

29. Subsidiaries

Name of subsidiary	Note	Country of incorporation	Ownership interest and voting power held 2018 %	2017 %
Active Stream Pty Limited	(d)	Australia	**-**	100
AGL Limited		New Zealand	**100**	100
AGL ACT Retail Investments Pty Limited	(a)	Australia	**100**	100
AGL Barker Inlet Pty Limited	(a), (c)	Australia	**100**	-
AGL Community Legacy Program Pty Limited	(a)	Australia	**100**	100
AGL Corporate Services Pty Limited	(a)	Australia	**100**	100
AGL Electricity (VIC) Pty Limited	(a)	Australia	**100**	100
Victorian Energy Pty Limited	(a)	Australia	**100**	100
AGL Sales Pty Limited	(a)	Australia	**100**	100
AGL Sales (Queensland) Pty Limited	(a)	Australia	**100**	100
AGL Sales (Queensland Electricity) Pty Limited	(a)	Australia	**100**	100
AGL Torrens Island Holdings Pty Limited	(a)	Australia	**100**	100
AGL SA Generation Pty Limited	(a)	Australia	**100**	100
AGL Torrens Island Pty Limited	(a)	Australia	**100**	100
AGL South Australia Pty Limited	(a)	Australia	**100**	100
AGL APG Holdings Pty Limited	(a)	Australia	**100**	100
Australian Power and Gas Company Limited	(a)	Australia	**100**	100
Australian Power and Gas Pty Limited	(a)	Australia	**100**	100
APG Operations Pty Ltd	(a)	Australia	**100**	100
Australian Power and Gas (NSW) Pty Ltd	(a)	Australia	**100**	100
Ignition Energy Pty Ltd	(a)	Australia	**100**	100
Greentricity Pty Limited	(a)	Australia	**100**	100
IQ Energy Services Pty Ltd	(a)	Australia	**100**	100
AGL Energy Limited		New Zealand	**100**	100
AGL Energy Sales & Marketing Limited	(a)	Australia	**100**	100
AGL Energy Services Pty Limited	(a)	Australia	**100**	100
AGL Financial Energy Solutions Pty Limited	(a), (c)	Australia	**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	(b)	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 Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

29. Subsidiaries (cont.)

Name of subsidiary	Note	Country of incorporation	Ownership interest and voting power held 2018 %	2017 %
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
AGL HP1 Pty Limited	(a)	Australia	**100**	100
AGL Hydro Partnership		Australia	**49.5**	49.5
AGL Southern Hydro (NSW) Pty Limited	(a)	Australia	**100**	100
AGL HP2 Pty Limited	(a)	Australia	**100**	100
AGL Hydro Partnership		Australia	**20.0**	20.0
AGL HP3 Pty Limited	(a)	Australia	**100**	100
AGL Hydro Partnership		Australia	**30.5**	30.5
AGL Macquarie Pty Limited	(a)	Australia	**100**	100
AGL New Energy Pty Limited	(a)	Australia	**100**	100
AGL New Energy ACP Pty Limited	(a), (c)	Australia	**100**	-
AGL New Energy EIF Pty Limited	(a)	Australia	**100**	100
AGL New Energy Investments Pty Limited	(a)	Australia	**100**	100
AGL PARF NSW Pty Limited	(a)	Australia	**100**	100
AGL PARF QLD 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
Ben Lomond Wind Farm Pty Ltd	(a)	Australia	**100**	100
Box Hill Wind Farm Pty Limited	(a)	Australia	**100**	100
Crows Nest Wind Farm Pty Ltd	(a)	Australia	**100**	100
Highfields Wind Farm Pty Limited	(a)	Australia	**100**	100
Worlds End Wind Farm Pty Ltd	(a)	Australia	**100**	100
AGL PV Solar Holdings Pty Limited	(a)	Australia	**100**	100
AGL PV Solar Developments Pty Limited	(a)	Australia	**100**	100
AGL Retail Energy Limited	(a)	Australia	**100**	100
AGL Share Plan Pty Limited	(a)	Australia	**100**	100
AGL (SG) (Camden) Operations Pty Limited	(a)	Australia	**100**	100
AGL (SG) (Hunter) Operations Pty Limited	(a)	Australia	**100**	100
AGL (SG) Operations Pty Limited	(a)	Australia	**100**	100
AGL Upstream Gas (Mos) Pty Limited	(a)	Australia	**100**	100
AGL Cooper Basin Pty Ltd	(a)	Australia	**100**	100
AGL Gas Storage Pty Ltd	(a)	Australia	**100**	100

AGL Energy Limited and controlled entities

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29. Subsidiaries (cont.)

Name of subsidiary	Note	Country of incorporation	Ownership interest and voting power held 2018 %	2017 %
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
Barker Inlet Trust	(e)	Australia	**100**	-
Barn Hill Wind Farm Pty Ltd	(a)	Australia	**100**	100
Connect Now Pty Ltd	(a)	Australia	**100**	100
Coopers Gap Wind Farm Pty Ltd	(a)	Australia	**100**	100
Digital Energy Exchange Australia Pty Limited	(a)	Australia	**100**	100
Geogen Victoria Pty Ltd	(a)	Australia	**100**	100
H C Extractions Pty Limited	(a)	Australia	**100**	100
NGSF Asset Pty Limited	(a)	Australia	**100**	100
NGSF Assets Trust		Australia	**100**	100
NGSF Finance Pty Limited	(a)	Australia	**100**	100
NGSF Operations Pty Limited	(a)	Australia	**100**	100
NGSF Operations Trust		Australia	**100**	100
Powerdirect Pty Ltd	(a)	Australia	**100**	100
Silverton Wind Farm Holdings Pty Limited	(a)	Australia	**100**	100
Silverton Wind Farm Developments Pty Limited	(a)	Australia	**100**	100
Silverton Wind Farm Transmission Pty Limited	(a)	Australia	**100**	100
The Australian Gas Light Company	(a)	Australia	**100**	100
Wellington North Solar Farm Pty Limited	(a), (c)	Australia	**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 33.

(b) Parties to a Deed of Cross Guarantee with AGL Generation Proprietary Limited as detailed in Note 33.

(c) Incorporated during the financial year.

(d) Disposed during the financial year.

(e) Trust settled during the financial year.

30. Acquisition of subsidiaries and businesses

There were no acquisitions of subsidiaries and businesses made during the year ended 30 June 2018 and 30 June 2017.

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

31. Disposal of subsidiaries and businesses

2018

Disposal of Active Stream Pty Limited

On 30 November 2017, AGL completed the divestment of 100% of the shares in its digital metering subsidiary, Active Stream Pty Limited, and associated metering assets for consideration of $165 million.

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

	2018 $m	2017 $m
Assets		
Trade and other receivables	**1**	-
Inventories	**18**	-
Property, plant and equipment	**115**	-
Liabilities		
Trade and other payables	**(4)**	-
Net assets disposed	**130**	-
Consideration		
Consideration received in cash	**165**	-
Costs directly attributable to the disposal	**(5)**	-
Liability assumed	**(5)**	-
	155	-
Gain on disposal of subsidiaries and businesses		
Consideration	**155**	-
Net assets disposed	**(130)**	-
	25	-
Net cash inflow on disposal of subsidiaries and businesses		
Consideration received in cash	**165**	-
Costs directly attributable to the disposal paid	**(5)**	-
	160	-

2017

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

AGL Energy Limited and controlled entities

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For the year ended 30 June 2018

32. Joint operations

Joint operation	Principal activities	Interest 2018 %	Interest 2017 %
Bowen Basin - Queensland			
Moranbah Gas Project - PL 191, PL 196, PL 222, PL 223 & PL 224	Gas production and exploration	**50**	50
Spring Gully Project - ATP 592P, PL 195, PL 203 & PL 417	Gas production and exploration	**0.75**	0.75
Spring Gully Project - PL 204	Gas production	**0.0375**	0.0375
Surat Basin - Queensland			
ATP 1190 (Bainbilla Block)	Oil and gas exploration	**75.252**	75.252
ATP 1190 (Spring Grove #2 sole risk)	Oil and gas exploration	**52.752**	52.752
ATP 1190 (Weribone)	Oil and gas exploration	**28.71**	28.71
PL 1 (Cabawin)	Oil production	**15**	15
PL 15	Gas production	**75**	75
PL 30 (Riverslea)	Oil production	**10**	10
PL 74 (Major)	Oil production	**16**	16
Cooper/Eromanga Basin - Queensland			
ATP 934P[1]	Oil and gas exploration	**-**	28.5714
Others			
North Queensland Energy Joint Venture	Sale of gas and electricity	**50**	50
Lytton Joint Venture	Crude oil storage terminal	**33.333**	33.333

1. AGL divested its interest in ATP 934P in January 2018. Consideration received equated to carrying value of disposed assets and liabilities.

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.

	2018 $m	2017 $m
Current assets		
Cash and cash equivalents	**3**	10
Trade and other receivables	**3**	11
Total current assets	**6**	21
Total non-current assets	**-**	-
Total assets	**6**	21

AGL's share of capital expenditure commitments and contingent liabilities of joint operations are disclosed in Notes 26 and 27 respectively.

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

33. Deeds of cross guarantee

The wholly-owned subsidiaries identified in Note 29 have entered into a Deed of Cross Guarantee with AGL in accordance with ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 and are relieved from the Corporations Act 2001 requirement to prepare and lodge an audited financial report and directors' report. The effect of the deed is that each party guarantees the debts of the others.

The following wholly-owned subsidiaries became a party to the Deed of Cross Guarantee by way of an Assumption Deed dated 15 May 2018:

- AGL PARF QLD Pty Limited
- AGL Financial Energy Solutions Pty Limited
- Wellington North Solar Farm Pty Limited
- AGL Barker Inlet Pty Limited
- AGL New Energy ACP Pty Limited

Active Stream Pty Limited is no longer a party to the Deed of Cross Guarantee and was the subject of a Notice of Disposal contemplated by the Deed of Cross Guarantee on 5 December 2017.

Set out below is the 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.

Statement of profit or loss

	AGL Energy Limited		AGL Generation Pty Ltd	
	2018 $m	2017 $m	2018 $m	2017 $m
Revenue	**9,724**	10,676	**4**	4
Other income	**31**	-	**-**	-
Expenses	**(8,738)**	(10,369)	**(4)**	(4)
Share of profits of associates and joint ventures	**39**	19	**1,335**	562
Profit before net financing costs, depreciation and amortisation	**1,056**	326	**1,335**	562
Depreciation and amortisation	**(393)**	(329)	**-**	-
Profit/(loss) before net financing costs	**663**	(3)	**1,335**	562
Finance income	**86**	115	**-**	-
Finance costs	**(203)**	(213)	**(14)**	(13)
Net financing costs	**(117)**	(98)	**(14)**	(13)
Profit/(loss) before tax	**546**	(101)	**1,321**	549
Income tax expense	**(143)**	(24)	**(396)**	(165)
Profit/(loss) for the year	**403**	(125)	**925**	384

Statement of comprehensive income

Profit/(loss) for the year	**403**	(125)	**925**	384
Other comprehensive income				
Items that will not be reclassified subsequently to profit or loss				
Remeasurement gain on defined benefit plans	**15**	58	**20**	36
Income tax relating to items that will not be reclassified subsequently	**(5)**	(17)	**(6)**	(11)
	10	41	**14**	25
Items that may be reclassified subsequently to profit or loss				
Cash flow hedges	**(159)**	57	**-**	-
Available-for-sale financial assets	**(3)**	-	**-**	-
Income tax relating to items that may be reclassified subsequently	**48**	(17)	**-**	-
	(114)	40	**-**	-
Other comprehensive (loss)/income for the year, net of income tax	**(104)**	81	**14**	25
Total comprehensive income/(loss) for the year	**299**	(44)	**939**	409

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

33. Deeds of cross guarantee (cont.)

Statement of financial position

	AGL Energy Limited		AGL Generation Pty Ltd	
	2018 $m	2017 $m	2018 $m	2017 $m
Current assets				
Cash and cash equivalents	**452**	136	**1**	1
Trade and other receivables	**1,638**	1,769	**1**	1
Inventories	**294**	281	**-**	-
Current tax assets	**147**	-	**-**	-
Other financial assets	**922**	431	**-**	-
Other assets	**71**	52	**4**	4
Assets classified as held for sale	**74**	201	**-**	-
Total current assets	**3,598**	2,870	**6**	6
Non-current assets				
Trade and other receivables	**-**	-	**319**	569
Inventories	**10**	20	**-**	-
Other financial assets	**3,459**	4,542	**4,712**	3,353
Investments in associates and joint ventures	**100**	80	**-**	-
Property, plant and equipment	**3,284**	3,089	**-**	-
Intangible assets	**2,343**	2,359	**-**	-
Deferred tax assets	**272**	374	**-**	-
Other assets	**64**	61	**-**	3
Total non-current assets	**9,532**	10,525	**5,031**	3,925
Total assets	**13,130**	13,395	**5,037**	3,931
Current liabilities				
Trade and other payables	**1,348**	1,336	**11**	10
Borrowings	**11**	161	**-**	-
Provisions	**179**	153	**-**	-
Current tax liabilities	**-**	13	**-**	-
Other financial liabilities	**2,014**	1,425	**-**	-
Other liabilities	**2**	9	**-**	-
Total current liabilities	**3,554**	3,097	**11**	10
Non-current liabilities				
Borrowings	**2,710**	2,996	**-**	-
Provisions	**435**	450	**-**	-
Deferred tax liabilities	**-**	-	**358**	206
Other financial liabilities	**259**	293	**151**	137
Other liabilities	**133**	133	**-**	-
Total non-current liabilities	**3,537**	3,872	**509**	343
Total liabilities	**7,091**	6,969	**520**	353
Net assets	**6,039**	6,426	**4,517**	3,578
Equity				
Issued capital	**6,223**	6,223	**2,878**	2,878
Reserves	**(102)**	16	**-**	-
(Accumulated losses)/retained earnings	**(82)**	187	**1,639**	700
Total equity	**6,039**	6,426	**4,517**	3,578

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

33. Deeds of cross guarantee (cont.)

Summary of movements in (accumulated losses)/retained earnings

	AGL Energy Limited		AGL Generation Pty Ltd	
	2018 $m	2017 $m	2018 $m	2017 $m
Retained earnings at beginning of financial year	**187**	775	**700**	291
Profit/(loss) for the year	**403**	(125)	**925**	384
Dividends paid	**(682)**	(517)	**-**	-
Adjustment for entities added to the deed of cross guarantee	**-**	18	**-**	-
Remeasurement gain on defined benefit plans, net of tax	**10**	41	**14**	25
Excess of consideration paid on acquisition of non-controlling interests	**-**	(5)	**-**	-
(Accumulated losses)/retained earnings at end of financial year	**(82)**	187	**1,639**	700

34. Defined benefit superannuation plans

AGL contributes to 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 plans are the Equipsuper Fund (EF), Electricity Industry Superannuation Scheme (EISS), State Superannuation Scheme (SSS), State Authorities Superannuation Scheme (SASS) and the State Authorities Non-contributory Superannuation Scheme (SANCS).

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

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

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

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

Amounts recognised in profit or loss

	2018 $m	2017 $m
Current service cost	**20**	24
Net interest expense	**2**	4
Expense recognised in profit or loss as part of employee benefits expense	**22**	28

Amounts recognised in other comprehensive income

Remeasurements		
Return on plan assets (excluding amounts included in net interest expense)	**(33)**	(43)
Actuarial loss arising from changes in demographic assumptions	**2**	-
Actuarial gain arising from changes in financial assumptions	**(7)**	(49)
Actuarial gain arising from experience	**(4)**	(15)
Remeasurement gain on defined benefit plans recognised in other comprehensive income	**(42)**	(107)

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

34. Defined benefit superannuation plans (cont.)

Amounts included in the Consolidated Statement of Financial Position

	Note	2018 $m	2017 $m
Present value of funded defined benefit obligations		**725**	766
Fair value of plan assets		**(688)**	(704)
Net defined benefit liability		**37**	62
Defined benefit superannuation plan asset	14	**(39)**	(15)
Defined benefit superannuation plan liability	23	**76**	77
Net defined benefit liability		**37**	62
Net liability at beginning of financial year		**62**	155
Expense recognised in profit or loss		**22**	28
Amounts recognised in other comprehensive income		**(42)**	(107)
Employer contributions		**(5)**	(14)
Net liability at end of financial year		**37**	62

Movements in the present value of defined benefit obligations

Opening defined benefit obligations	**766**	856
Current service cost	**20**	24
Interest expense	**28**	27
Contributions by plan participants	**8**	8
Actuarial loss arising from changes in demographic assumptions	**2**	-
Actuarial gain arising from changes in financial assumptions	**(7)**	(49)
Actuarial gain arising from experience	**(4)**	(15)
Benefits paid	**(86)**	(81)
Taxes, premiums and expenses paid	**(2)**	(4)
Closing defined benefit obligations	**725**	766

Movements in the fair value of plan assets

Opening fair value of plan assets	**704**	701
Interest income	**26**	23
Return on plan assets (excluding amounts included in net interest expense)	**33**	43
Employer contributions	**5**	14
Contributions by plan participants	**8**	8
Benefits paid	**(86)**	(81)
Taxes, premiums and expenses paid	**(2)**	(4)
Closing fair value of plan assets	**688**	704

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

34. Defined benefit superannuation plans (cont.)

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:

2018	SSMT %[1]	EF %	EISS %	SSS, SASS, and SANCS %
Australian equities	-	**15**	**24**	**22**
International equities	-	**17**	**22**	**26**
Fixed interest securities	-	**20**	**11**	**8**
Property	-	**8**	**13**	**9**
Cash	-	**17**	**9**	**11**
Alternatives/other	-	**23**	**21**	**24**

1. The defined benefit arrangements of the Super Solutions Master Trust (SSMT) were consolidated into the Equipsuper Superannuation Fund (EF) on 1 November 2017.

2017	SSMT	EF	EISS	SSS, SASS, and SANCS
Australian equities	29	26	24	24
International equities	31	20	23	30
Fixed interest securities	22	11	9	7
Property	6	9	15	9
Cash	8	14	8	8
Alternatives/other	4	20	21	22

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

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

Principal actuarial assumptions

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

2018	SSMT %[1]	EF %	EISS %	SSS, SASS, & SANCS %
Discount rate active members	-	**3.7**	**4.1**	**4.2**
Discount rate pensioners	-	**3.7**	**4.1**	**-**
Expected salary increase rate	-	**2.5 - 5.0**	**2.5 - 3.5**	**2.7 - 3.2**
Expected pension increase rate	-	**2.5**	**2.5**	**-**

1. The defined benefit arrangements of the Super Solutions Master Trust (SSMT) were consolidated into the Equipsuper Superannuation Fund (EF) on 1 November 2017.

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

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

34. Defined benefit superannuation plans (cont.)

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 2018 $m	Decrease 2018 $m	Increase 2017 $m	Decrease 2017 $m
Discount rate (0.5 percentage point movement)	**(40)**	**46**	(42)	49
Expected salary increase rate (0.5 percentage point movement)	**18**	**(17)**	27	(25)
Expected pension increase rate (0.5 percentage point movement)	**9**	**(8)**	9	(9)

The sensitivity analyses 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 analyses from prior years.

Funding arrangements and employer contributions

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

AGL expects to contribute $5 million to the defined benefit plans during the year ended 30 June 2019.

The weighted average duration of the defined benefit obligation as at 30 June 2018 was EF 8 years; EISS 12 years; and SSS, SASS and SANCS 14 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 2018 was $36 million (2017: $27 million).

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

35. Share-based payment plans

AGL operates the following share-based payment plans:

- The share reward plan; and
- The long-term incentive plan.

AGL has the following other equity arrangements:

- The share purchase plan; and
- The restricted equity plan.

Share Reward Plan (SRP)

The SRP is AGL's complying broad-based employee share plan that enables eligible employees to be granted up to $1,000 of ordinary shares in AGL for no consideration each financial year. The SRP is governed by the AGL General Employee Share Plan Rules. The grant of shares is subject to the achievement of performance metrics and can therefore be scaled down in years where all objectives are not met. Shares granted pursuant to the SRP are subject to a trading restriction of the earlier of three years or the participant's cessation of employment.

Eligible participants include all AGL employees with at least 12 months service at the eligibility date (generally 1 September following the financial year end). Participants in the long-term incentive plan are excluded from any SRP grant.

Details of share movements in the SRP during the year are set out below:

Grant date	Balance at 1 July Number	Granted during the year Number	Fair Value per share $	Released during the year Number	Balance at 30 June Number
2018					
29 September 2017	**-**	**106,856**	**$23.10**	**(10,412)**	**96,444**
30 September 2016	**127,351**	**-**	**-**	**(15,533)**	**111,818**
30 September 2015	**136,213**	**-**	**-**	**(15,982)**	**120,231**
30 September 2014	**68,244**	**-**	**-**	**(68,244)**	**-**
	331,808	**106,856**		**(110,171)**	**328,493**
2017					
30 September 2016	-	138,964	$17.31	(11,613)	127,351
30 September 2015	162,016	-	-	(25,803)	136,213
30 September 2014	82,203	-	-	(13,959)	68,244
27 September 2013	94,912	-	-	(94,912)	-
	339,131	138,964		(146,287)	331,808

The expense recognised in profit or loss, as part of employee benefits expense during the year in relation to the SRP, was $2 million (2017: $2 million).

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

35. Share-based payment plans (cont.)

Long-Term Incentive (LTI) Plan

The LTI plan provides for a grant of performance rights to eligible participants subject to AGL's performance against pre-determined metrics over a three-year performance period. The LTI is governed by the AGL Employee Share Plan Rules. Participation is determined annually at the discretion of the Board.

Generally, performance rights are forfeited on cessation of employment. The Board has discretion with reference to the relevant facts and circumstances of the cessation to vest all or part of the balance, or to authorise a portion of the award to be retained and assessed post-employment.

FY18 LTI Plan

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

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

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

ROE measures the amount of underlying profit returned as a percentage of average monthly shareholders equity.

The performance period for the FY18 LTI is three years from 1 July 2017 to 30 June 2020. The number of shares vested are determined by the vesting schedules detailed in the tables below.

Relative TSR vesting schedule

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

ROE vesting schedule

AGL's average ROE	Percentage of performance rights which vest
Below 11.5%	Nil
11.5% - 14%	50 - 100%
At or above 14%	100%

Details of performance rights movements in the FY18 LTI Plan during the year are set out below:

Grant date	Performance hurdle	Balance at 1 July Number	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
2018							
FY18 LTI - 28 Sep 2017	**Relative TSR**	-	**213,320**	**$10.05**	-	**(6,429)**	**206,891**
FY18 LTI - 28 Sep 2017	**ROE**	-	**213,301**	**$20.86**	-	**(6,430)**	**206,871**
		-	**426,621**	**$15.46**	-	**(12,859)**	**413,762**

AGL Energy Limited and controlled entities

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For the year ended 30 June 2018

35. Share-based payment plans (cont.)

FY17 LTI Plan

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

- Relative TSR; and
- ROE.

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

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

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

Relative TSR vesting schedule

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

ROE vesting schedule

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

Details of performance rights movements in the FY17 LTI Plan during the year are set out below:

Grant date	Performance hurdle	Balance at 1 July Number	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
2018							
FY17 LTI - 1 Sep 2016	**Relative TSR**	**174,587**	**-**	**$7.96**	**-**	**(28,240)**	**146,347**
FY17 LTI - 1 Sep 2016	**ROE**	**174,563**	**-**	**$16.72**	**-**	**(28,240)**	**146,323**
FY17 LTI - 29 Sep 2016	**Relative TSR**	**84,565**	**-**	**$9.10**	**-**	**(1,534)**	**83,031**
FY17 LTI - 29 Sep 2016	**ROE**	**84,563**	**-**	**$17.11**	**-**	**(1,533)**	**83,030**
		518,278	**-**	**$12.59**	**-**	**(59,547)**	**458,731**
2017							
FY17 LTI - 1 Sep 2016	Relative TSR	-	174,587	$7.96	-	-	174,587
FY17 LTI - 1 Sep 2016	ROE	-	174,563	$16.72	-	-	174,563
FY17 LTI - 29 Sep 2016	Relative TSR	-	84,565	$9.10	-	-	84,565
FY17 LTI - 29 Sep 2016	ROE	-	84,563	$17.11	-	-	84,563
		-	518,278	$12.59	-	-	518,278

AGL Energy Limited and controlled entities

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For the year ended 30 June 2018

35. Share-based payment plans (cont.)

FY16 LTI Plan

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

- Relative TSR; and
- ROE.

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

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

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

Relative TSR vesting schedule

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

ROE vesting schedule

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

Details of performance rights movements in the FY16 LTI Plan during the year are set out below:

Grant date	Performance hurdle	Balance at 1 July Number	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
2018							
FY16 LTI - 30 Sep 2015	**Relative TSR**	**137,001**	**-**	**$9.00**	**(83,098)**	**(53,903)**	**-**
FY16 LTI - 30 Sep 2015	**ROE**	**136,998**	**-**	**$14.12**	**-**	**(136,998)**	**-**
		273,999	**-**	**$11.56**	**(83,098)**	**(190,901)**	**-**
2017							
FY16 LTI - 30 Sep 2015	Relative TSR	137,001	-	$9.00	-	-	137,001
FY16 LTI - 30 Sep 2015	ROE	136,998	-	$14.12	-	-	136,998
		273,999	-	$11.56	-	-	273,999

LTI Transitional Arrangements

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

- The first transitional share grant ($1.1 million, relating to FY16) was granted in September 2016 and vested in September 2017.
- The second and final transitional share grant ($1.1 million, relating to FY17) was granted in September 2017 and will vest in September 2018.

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

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35. Share-based payment plans (cont.)

Performance rights grant

The fair value of performance rights granted are measured by reference to the fair value. The estimate of the fair value is measured based on the Monte Carlo simulation method. The contractual life of the performance rights is used as an input into this model. Expected volatility is based on the historical share price volatility over the past three years.

	2018 FY18 LTI	2017 FY17 LTI	
Grant date	**28 Sep 2017**	1 Sep 2016	29 Sep 2016
Weighted average fair value at grant date	**$15.46**	$12.34	$13.11
Share price at grant date	**$23.23**	$18.62	$18.99
Expected volatility	**20.0%**	18.0%	18.0%
Expected dividend yield	**3.9%**	3.8%	3.8%
Risk free interest rate (based on government bonds)	**2.1%**	1.4%	1.6%

The expense recognised in profit or loss as part of employee benefits expense during the year in relation to performance rights granted to executives under the LTI Plan was $4 million (2017: $4 million).

Shares purchased on-market

During the financial year ended 30 June 2018, 401,340 (2017: 308,236) AGL shares were purchased on-market at an average price of $23.43 (2017: $18.28) per share, for a total consideration of $9,403,396 (2017: $5,634,554), to satisfy employee entitlements pursuant to the SRP and the LTI Plan.

Other equity arrangements

Share Purchase Plan (SPP)

The SPP is AGL's salary sacrifice plan that enables eligible employees to contribute up to $5,000 per financial year from their ongoing fixed remuneration and/or short-term incentive (STI) award into acquiring ordinary shares in AGL. The SPP is governed under the AGL General Employee Share Plan Rules. Shares granted pursuant to the SPP are subject to a trading restriction of the earlier of four years (from the start of the financial year in which they are acquired) or the participant's cessation of employment. The holding lock is in place to provide for a deferral of income tax for participants.

Eligible participants include all permanent AGL employees. Non-Executive Directors, the Managing Director and Chief Executive Officer, and members of the executive team are excluded from SPP participation.

Details of share movements in the SPP during the year are set out below:

Share movements	Balance at 1 July Number	Granted during the year Number	Fair Value per share $	Released during the year Number	Balance at 30 June Number
2018					
Non-Executive Directors[1]	**19,540**	**-**	**-**	**(19,540)**	**-**
Employees	**91,919**	**70,947**	**$23.48**	**(21,580)**	**141,286**
	111,459	**70,947**		**(41,120)**	**141,286**
2017					
Non-Executive Directors	20,136	44	$19.05	(640)	19,540
Managing Director and Chief Executive Officer[2]	33,510	-	-	(33,510)	-
Employees	175,062	20,604	$22.30	(103,747)	91,919
	228,708	20,648		(137,897)	111,459

1. Non-Executive Directors were invited to participate in the SPP until FY17. Mr Maycock was a previous participant in the SPP, however there are no longer any Non-Executive Directors participating in the SPP.
2. Mr Vesey was granted 33,510 restricted share awards on 25 August 2015 as part of the FY15 performance year STI plan. The restricted shares vested on 25 August 2016.

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

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35. Share-based payment plans (cont.)

Restricted Equity Plan (REP)

The REP provides for a grant of restricted shares, either as the deferral component of STI awards for executives, or for other purposes (for example, sign-on or retention awards). The LTI transitional grants were provided for executives pursuant to the REP. The REP is governed pursuant to the AGL Employee Share Plan Rules.

Generally, restricted shares are forfeited on cessation of employment. The Board has discretion with reference to the relevant facts and circumstances of the cessation to vest all or part of the balance, or to authorise a portion of the award to be retained and vest post-employment.

Details of share movements in the REP during the year are set out below:

Share movements	Balance at 1 July Number	Granted during the year Number	Fair Value per share $	Released during the year Number	Balance at 30 June Number
2018					
Managing Director and Chief Executive Officer[1,2]	**195,452**	**79,692**	**$22.55**	**(122,452)**	**152,692**
Employees	**101,997**	**49,599**	**$22.55**	**(83,630)**	**67,966**
	297,449	**129,291**		**(206,082)**	**220,658**
2017					
Managing Director and Chief Executive Officer[3,4]	73,000	122,452	$18.60	-	195,452
Employees	-	105,880	$19.13	(3,883)	101,997
	73,000	228,332		(3,883)	297,449

1. Mr Vesey was granted 56,415 restricted share awards on 23 August 2017 as part of the FY17 performance year STI plan. The restricted shares vest after a period of twelve months, subject to continued service and forfeiture conditions.
2. Mr Vesey was granted 23,277 restricted share awards on 29 September 2017 as part of the transitional arrangements for closure of the pre-FY16 LTI Plan, to make up for the forgone annual vesting opportunity. The restricted shares vest after a period of twelve months, subject to continued service and forfeiture conditions.
3. Mr Vesey was granted 90,481 restricted share awards on 23 August 2016 as part of the FY16 performance year STI plan. The restricted shares vested on 23 August 2017.
4. Mr Vesey was granted 31,971 restricted share awards on 30 September 2016 as part of the transitional arrangements for closure of the pre-FY16 LTI Plan, to make up for the forgone annual vesting opportunity. The restricted shares vested on 29 September 2017.

Shares purchased on-market

During the financial year ended 30 June 2018, 200,238 (2017: 248,980) AGL shares were purchased on-market at an average price of $22.88 (2017: $19.13) per share, for a total consideration of $4,581,445 (2017: $4,762,987), to satisfy employee entitlements pursuant to the SPP and REP.

AGL Energy Limited and controlled entities

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36. 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:

	2018 $000	2017 $000
Short-term employee benefits	**11,552**	10,827
Post-employment benefits	**229**	208
Termination benefits	**939**	-
Share-based payments	**2,713**	4,316
	15,433	15,351

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

Amounts owing by joint ventures

ActewAGL Retail Partnership	**63,911**	83,026

The amount owing is unsecured, interest free and will be settled in cash. No expense has been recognised in the current or the prior period for bad or doubtful debts in respect of the amounts owed by joint ventures.

Amounts owing to joint ventures

ActewAGL Retail Partnership	**-**	9,359

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. This agreement ceased in January 2017.		
- Net amounts received	**-**	3,981
AGL sold gas and electricity to the ActewAGL Retail Partnership on normal commercial terms and conditions.		
- Net amounts received	**373,070**	305,601
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. This agreement ceased during the year ended 30 June 2018.		
- Net amounts paid	**1,367**	6,007
Powering Australian Renewables Fund		
AGL has entered into electricity and environmental products supply contracts with Powering Australian Renewables Fund (PARF) on normal commercial terms and conditions.		
- Net amounts (paid)/received	**(5,593)**	5,906

AGL Energy Limited and controlled entities

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37. 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:

	2018 $m	2017 $m
Cash at bank and on hand	**163**	154
Short-term deposits	**300**	-
	463	154

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

	2018 $m	2017 $m
Profit for the year	**1,587**	539
Share of profits of associates and joint ventures	**(39)**	(19)
Dividends received from joint ventures	**40**	22
Depreciation and amortisation	**558**	484
Share-based payment expense	**6**	7
(Gain)/loss in fair value of financial instruments	**(803)**	376
Gain on disposal of subsidiaries and businesses	**(25)**	-
Net (gain)/loss on disposal of property, plant and equipment	**(6)**	199
Non-cash finance costs	**64**	59
Capitalised finance costs	**(11)**	(5)
Deferred transaction costs on borrowings	**(2)**	(5)
Impairment of investments in associates	**20**	-
Other non-cash expenses	**8**	-
Changes in assets and liabilities		
Decrease in trade and other receivables	**50**	31
(Increase)/decrease in inventories	**(32)**	73
Decrease in derivative financial instruments	**75**	12
Decrease/(Increase) in other financial assets	**162**	(431)
(Increase)/decrease in other assets	**(27)**	5
Increase/(decrease) in trade and other payables	**29**	(31)
Decrease in provisions	**(23)**	(82)
Decrease in other financial liabilities	**(26)**	(71)
Increase/(decrease) in other liabilities	**23**	(205)
Decrease/(increase) in tax assets and liabilities	**506**	(67)
Net cash provided by operating activities	**2,134**	891

(c) Reconciliation of changes in liabilities arising from financing activities

Year ended 30 June 2018	Balance at beginning of financial year $m	Net repayments $m	Non-cash movements $m	Balance at end of financial year $m
Liabilities arising from financing activities				
USD senior notes	**938**	**-**	**(7)**	**931**
Subordinated notes	**650**	**-**	**-**	**650**
Medium term notes	**598**	**-**	**-**	**598**
Bank loans	**830**	**(420)**	**-**	**410**
CPI bonds	**160**	**(73)**	**1**	**88**
Other loans	**155**	**(11)**	**-**	**144**
Finance lease liabilities	**30**	**-**	**2**	**32**
Deferred transaction costs	**(15)**	**-**	**3**	**(12)**
	3,346	**(504)**	**(1)**	**2,841**

AGL Energy Limited and controlled entities

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For the year ended 30 June 2018

38. 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 2017.

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 hedge reserve plus net debt. The gearing ratio at the end of the reporting period was as follows:

	2018 $m	2017 $m
Current borrowings	**19**	173
Non-current borrowings	**2,822**	3,173
Total borrowings	**2,841**	3,346
Adjustment for cross currency swap hedges and deferred borrowing costs	**(9)**	(14)
Adjusted total borrowings	**2,832**	3,332
Cash and cash equivalents	**(463)**	(154)
Net debt	**2,369**	3,178
Total equity	**8,390**	7,574
Hedge reserve	**96**	(15)
Adjusted equity	**8,486**	7,559
Net debt	**2,369**	3,178
Adjusted total capital	**10,855**	10,737
Gearing ratio	**21.8%**	29.6%

(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 & Risk Management Committee (the Committee), which is responsible for approving AGL's risk management policy and framework for identifying, assessing and managing risk. The Committee is also responsible for reviewing and updating the risk profile, monitoring the effectiveness of the risk management framework and reviewing at least annually the implementation of the risk management policy and framework. The Committee reports regularly to the Board of Directors on its activities.

AGL has written policies covering specific areas, such as interest rate risk, foreign currency risk, energy price risk, credit risk, liquidity risk, and the use of derivative and non-derivative financial instruments. Compliance with policies and exposure limits is reviewed on a continuous basis.

(c) Interest rate risk management

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

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

AGL Energy Limited and controlled entities

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For the year ended 30 June 2018

38. Financial instruments (cont.)

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

Floating rate instruments	2018 $m	2017 $m
Financial assets		
Cash and cash equivalents	**463**	154
	463	154
Financial liabilities		
USD senior notes (after effect of cross currency swaps)	**860**	860
Subordinated notes	**650**	650
Bank loans	**410**	830
Other loans	**144**	155
Interest rate swap contracts	**(1,205)**	(1,395)
	859	1,100

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	2018 %	2017 %	2018 $m	2017 $m	2018 $m	2017 $m
Less than 1 year	**2.57**	3.92	**510**	400	**(2)**	(7)
1 to 2 years	**3.13**	2.57	**340**	510	**(6)**	(6)
2 to 3 years	**4.29**	3.13	**245**	340	**(13)**	(10)
3 to 4 years	**3.41**	4.29	**305**	245	**(7)**	(17)
4 to 5 years	**3.86**	3.41	**170**	305	**(11)**	(5)
5 years or more	**2.92**	3.35	**200**	370	**(3)**	(13)
			1,770	2,170	**(42)**	(58)

The aggregate notional principal amount of the outstanding interest rate swap contracts at 30 June 2018 was $1,770 million (2017: $2,170 million). Included in this amount are $565 million (2017: $775 million) of forward interest rate swap contracts, of which $150 million commences in the 2019 financial year, $225 million commences in the 2020 financial year, $40 million commences in the 2021 financial year and $150 million commences in the 2022 financial year.

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

Interest rate sensitivity

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

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

	Profit/(loss) after tax Increase/(decrease)		Other comprehensive income Increase/(decrease)	
	2018 $m	2017 $m	2018 $m	2017 $m
Interest rates +0.5 percentage points (50 basis points)	**-**	(2)	**(12)**	(11)
Interest rates -0.5 percentage points (50 basis points)	**-**	2	**13**	12

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

38. Financial instruments (cont.)

(d) Foreign currency risk management

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

Forward foreign exchange contracts - cash flow hedges

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

AGL enters into contracts to purchase plant and equipment denominated in foreign currencies. AGL enters into forward foreign exchange contracts to hedge the exchange rate risk arising from these anticipated future purchases, which are designated as cash flow hedges. During the year, no hedges were de-designated and all underlying forecast transactions remain highly probable to occur as per original forecast.

There was $37 million of forward foreign exchange contracts outstanding at the end of the reporting period (2017: $2 million). The fair value of those contracts is not material.

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 2018 was an asset of $13 million (2017: asset of $20 million), of which $71 million (2017: $32 million) is in a cash flow hedge relationship and $(58) million (2017: $(12) 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	
Outstanding contracts	2018 %	2017 %	2018	2017	2018 $m	2017 $m	2018 $m	2017 $m
Buy US dollars								
2 to 5 years	**4.55**	-	**0.888**	-	**186**	-	**38**	-
5 years or more	**4.53**	4.43	**0.787**	0.808	**674**	860	**(25)**	20

(e) Energy price risk management

AGL is exposed to energy price risk associated with the purchase and/or sale of electricity, gas, oil and environmental products. AGL manages energy risk through an established risk management framework consisting of policies to place appropriate risk limits on overall energy market exposures and transaction limits for approved energy commodities, requirements for delegations of authority on trading, regular reporting of exposures and segregation of duties.

It is AGL's policy to actively manage the energy price exposure arising from both forecast energy supply and customer energy load. AGL's risk management policy for energy price risk is to hedge forecast future positions for up to five years into the future.

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

AGL Energy Limited and controlled entities

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38. Financial instruments (cont.)

The following table details the fair value of energy derivatives outstanding at the end of the reporting period:

	2018 $m	2017 $m
Energy derivative financial assets - current		
Energy derivatives - cash flow hedges	**6**	80
Energy derivatives - economic hedges	**250**	156
	256	236
Energy derivative financial assets - non-current		
Energy derivatives - cash flow hedges	**-**	4
Energy derivatives - economic hedges	**311**	30
	311	34
Energy derivative financial liabilities - current		
Energy derivatives - cash flow hedges	**24**	2
Energy derivatives - economic hedges	**316**	737
	340	739
Energy derivative financial liabilities - non-current		
Energy derivatives - cash flow hedges	**71**	5
Energy derivatives - economic hedges	**102**	12
	173	17

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 2018 were 9 million MWh (2017: 3 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.

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 percent higher or lower and all other variables were held constant, AGL's profit after tax and other comprehensive income would have been affected as follows:

	Profit/(loss) after tax Increase/(decrease)		Other comprehensive income Increase/(decrease)	
	2018 $m	2017 $m	2018 $m	2017 $m
Energy forward price +10%	**(304)**	(242)	**44**	14
Energy forward price -10%	**337**	250	**(44)**	(23)

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.

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

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38. Financial instruments (cont.)

(f) Hedging

Cash flow hedges

The following table details the movements in the hedge reserve from cash flow hedges:

Hedge reserve	2018 $m	2017 $m
Balance at beginning of financial year	**15**	(25)
(Loss)/gain in fair value of cash flow hedges	**(103)**	72
Reclassified to cost of sales	**(84)**	(48)
Reclassified to finance costs	**28**	33
Income tax on items taken directly to or transferred from equity	**48**	(17)
Balance at end of financial year	**(96)**	15

(g) Credit risk management

AGL manages its exposure to credit risk using credit risk management policies which provide credit exposure limits and contract maturity limits based on the credit worthiness of counterparties. AGL's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread among approved counterparties.

Trade and other receivables consist of approximately 3.6 million residential, small business and large commercial and industrial customers, in New South Wales, Victoria, South Australia and Queensland. Ongoing credit evaluation is performed on the financial condition of customers and, where appropriate, an allowance for doubtful debts is raised. AGL does not have any significant credit risk exposure to any single customer or any group of customers.

AGL limits its exposure to credit risk by investing surplus funds and entering into derivative financial instruments only with approved financial institutions that have a credit rating of at least A from Standard & Poor's and within credit limits assigned to each financial institution. Derivative counterparties are limited to high creditworthy financial institutions and other organisations in the energy industry. AGL also utilises International Swaps and Derivative Association (ISDA) agreements with derivative counterparties in order to limit exposure to credit risk through the netting of amounts receivable from and amounts payable to individual counterparties.

At the end of the reporting period, there was a significant concentration of credit risk with certain counterparties in relation to energy derivatives undertaken in accordance with the AGL's hedging and risk management activities. The carrying amount of the financial assets recognised in the financial statements, which is net of impairment losses, represents the maximum exposure to credit risk.

AGL does not hold any collateral or other credit enhancements to cover this credit risk.

AGL Energy Limited and controlled entities

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38. Financial instruments (cont.)

(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.

2018	Less than 6 months $m	6 - 12 months $m	1 - 2 years $m	2 - 5 years $m	More than 5 years $m	Total $m
Non-derivative financial liabilities						
Trade and other payables	**1,579**	**-**	**-**	**-**	**-**	**1,579**
USD senior notes	**22**	**22**	**43**	**342**	**955**	**1,384**
Subordinated notes	**19**	**19**	**40**	**136**	**1,699**	**1,913**
Medium term notes	**15**	**15**	**30**	**645**	**-**	**705**
Bank loans	**7**	**7**	**15**	**23**	**471**	**523**
CPI bonds	**6**	**6**	**12**	**38**	**55**	**117**
Other loans	**9**	**8**	**17**	**48**	**108**	**190**
Finance lease liabilities	**-**	**-**	**-**	**1**	**196**	**197**
Deferred consideration	**-**	**35**	**36**	**112**	**163**	**346**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**
	1,657	**112**	**193**	**1,345**	**3,647**	**6,954**

2017	Less than 6 months $m	6 - 12 months $m	1 - 2 years $m	2 - 5 years $m	More than 5 years $m	Total $m
Non-derivative financial liabilities						
Trade and other payables	1,507	-	-	-	-	1,507
USD senior notes	21	21	42	128	1,255	1,467
Subordinated notes	18	18	40	139	1,815	2,030
Medium term notes	15	15	30	675	-	735
Bank loans	280	158	15	443	-	896
CPI bonds	10	10	20	63	116	219
Other loans	9	8	17	50	125	209
Finance lease liabilities	-	-	-	1	196	197
Deferred consideration	-	34	34	110	202	380
Other liabilities	26	-	-	-	-	26
	1,886	264	198	1,609	3,709	7,666

AGL Energy Limited and controlled entities

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38. Financial instruments (cont.)

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.

2018	Less than 6 months $m	6 - 12 months $m	1 - 2 years $m	2 - 5 years $m	More than 5 years $m	Total $m
Derivative financial instruments						
Gross settled						
Cross currency swap contracts - pay leg	**(21)**	**(20)**	**(41)**	**(310)**	**(908)**	**(1,300)**
Cross currency swap contracts - receive leg	**21**	**21**	**41**	**337**	**898**	**1,318**
Net receive/(pay)	**-**	**1**	**-**	**27**	**(10)**	**18**
Net settled						
Interest rate swap contracts	**(8)**	**(8)**	**(13)**	**(17)**	**-**	**(46)**
Energy derivatives	**(218)**	**(113)**	**(120)**	**(83)**	**(136)**	**(670)**
	(226)	**(120)**	**(133)**	**(73)**	**(146)**	**(698)**

2017						
Derivative financial instruments						
Gross settled						
Cross currency swap contracts - pay leg	(19)	(19)	(41)	(136)	(1,146)	(1,361)
Cross currency swap contracts - receive leg	20	20	41	123	1,196	1,400
Net receive/(pay)	1	1	-	(13)	50	39
Net settled						
Interest rate swap contracts	(13)	(12)	(15)	(22)	-	(62)
Energy derivatives	(411)	(295)	(189)	(4)	(6)	(905)
	(423)	(306)	(204)	(39)	44	(928)

AGL Energy Limited and controlled entities

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For the year ended 30 June 2018

38. Financial instruments (cont.)

(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.

2018	Carrying Amount $m	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets					
Available-for-sale financial assets					
Unlisted equity securities	**16**	**-**	**-**	**16**	**16**
Unlisted investment funds	**48**	**-**	**-**	**48**	**48**
Derivative financial instruments					
Cross currency swap contracts - cash flow and fair value hedges	**72**	**-**	**72**	**-**	**72**
Interest rate swap contracts - cash flow hedges	**1**	**-**	**1**	**-**	**1**
Energy derivatives - cash flow hedges	**6**	**-**	**6**	**-**	**6**
Energy derivatives - economic hedges	**561**	**34**	**187**	**340**	**561**
	704	**34**	**266**	**404**	**704**
Financial liabilities					
Derivative financial instruments					
Cross currency swap contracts - cash flow and fair value hedges	**(59)**	**-**	**(59)**	**-**	**(59)**
Interest rate swap contracts - cash flow hedges	**(43)**	**-**	**(43)**	**-**	**(43)**
Energy derivatives - cash flow hedges	**(95)**	**-**	**(95)**	**-**	**(95)**
Energy derivatives - economic hedges	**(418)**	**(159)**	**(70)**	**(189)**	**(418)**
	(615)	**(159)**	**(267)**	**(189)**	**(615)**

2017	Carrying Amount $m	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets					
Available-for-sale financial assets					
Unlisted equity securities	15	-	-	15	15
Unlisted investment funds	16	-	-	16	16
Derivative financial instruments					
Cross currency swap contracts - cash flow and fair value hedges	75	-	75	-	75
Interest rate swap contracts - cash flow hedges	4	-	4	-	4
Energy derivatives - cash flow hedges	84	-	84	-	84
Energy derivatives - economic hedges	186	57	92	37	186
	380	57	255	68	380
Financial liabilities					
Derivative financial instruments					
Cross currency swap contracts - cash flow and fair value hedges	(55)	-	(55)	-	(55)
Interest rate swap contracts - cash flow hedges	(62)	-	(62)	-	(62)
Energy derivatives - cash flow hedges	(7)	-	(7)	-	(7)
Energy derivatives - economic hedges	(749)	(383)	(201)	(165)	(749)
	(873)	(383)	(325)	(165)	(873)

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

38. Financial instruments (cont.)

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.

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments:

1. 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.
2. 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.
3. 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.
4. 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.
5. The fair value of lease liabilities is estimated as the present value of future cash flows discounted where the effect of discounting is material.
6. 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.

	2018 $m	2017 $m
Opening balance	**(97)**	(12)
Total gains or losses recognised in profit or loss		
Settlements during the year	**54**	27
Changes in fair value	**263**	(128)
Premiums	**(41)**	(15)
Purchases	**49**	31
Disposals	**(13)**	-
Closing balance	**215**	(97)

The total gains or losses for the year included a gain of $301 million relating to energy derivative Level 3 contracts held at the end of the reporting period (2017: a loss of $(116) million). Fair value gains or losses on energy derivatives are included in other expenses in the line item '(gain)/loss on fair value of financial instruments' in Note 6.

The sensitivity of Level 3 contracts with significant unobservable inputs, where the inputs are higher by 10 percent is $(253) million and lower by 10 percent is $286 million (profit after tax increase/(decrease)). Input changes were applied to forward prices, cost-based indexes, contract volumes and management assumption of long-term curve used.

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

39. 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.

Financial position

	2018 $m	2017 $m
Assets		
Current assets	**676**	287
Non-current assets	**13,022**	13,726
Total assets	**13,698**	14,013
Liabilities		
Current liabilities	**507**	547
Non-current liabilities	**6,755**	7,147
Total liabilities	**7,262**	7,694
Equity		
Issued capital	**6,223**	6,223
Reserves		
Employee equity benefits	**(3)**	1
Hedge	**(34)**	(44)
Retained earnings	**250**	139
Total equity	**6,436**	6,319

Financial performance

Profit for the year	**791**	654
Other comprehensive loss	**(8)**	(23)
Total comprehensive income for the year	**783**	631

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 29 and 33 respectively.

Contingent liabilities

The Parent Entity is a party to various legal actions and claims which have arisen in the ordinary course of business. The Parent Entity has provided warranties and indemnities to certain third parties in relation to the performance of contracts by various wholly owned subsidiaries.

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

Capital expenditure commitments

As at 30 June 2018, the Parent Entity had commitments for the acquisition of property, plant and equipment of $13 million (2017: nil) and its share of joint operations capital commitments was nil (2017: nil).

AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

40. Subsequent events

There has not been any other matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of AGL, the results of those operations, or the state of affairs of AGL in future financial periods other than:

Final dividend

On 9 August 2018, the Directors of AGL resolved to pay a final dividend of 63.0 cents per share, franked to 80% (the unfranked portion will be paid from conduit foreign income). The record date for the final dividend is 23 August 2018 with payment to be made on 21 September 2018. Shares will commence trading ex-dividend on 22 August 2018.

The AGL Dividend Reinvestment Plan (DRP) will operate in respect of the 2018 final dividend. AGL will acquire shares on market and allot them to DRP participants at no discount to the simple average of the daily weighted average price at which AGL's ordinary shares trade during each of the 10 trading days commencing 27 August 2018. The last date for shareholders to elect to participate in the DRP for the 2018 final dividend is 24 August 2018.

Directors' Declaration

For the year ended 30 June 2018

In accordance with a resolution of the Directors of AGL Energy Limited, the Directors declare that:

(a) in their opinion, there are reasonable grounds to believe that AGL Energy Limited will be able to pay its debts as and when they fall due and payable;

(b) 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 consolidated entity's financial position and performance for the year ended 30 June 2018;

(d) there are reasonable grounds to believe that the AGL Energy Limited and the subsidiaries identified in Note 29 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee between the Parent Entity and those subsidiaries pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785; and

(e) the Directors have received the declarations required by s.295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer for the year ended 30 June 2018.

Signed on behalf of the Board.

Graeme Hunt

Chairman

Sydney, 9 August 2018

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

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Sydney NSW 2000
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The Board of Directors
AGL Energy Limited
200 George Street
Sydney NSW 2000

9 August 2018

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 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Jason Thorne
Partner
Chartered Accountants

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

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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 2018, the Consolidated Statement of Profit or Loss, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows for the year then ended, notes to the financial statements including a summary of significant accounting policies and the directors' declaration.

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 2018 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of this report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the "Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th>Key Audit Matter</th><th>How the scope of our audit responded to the Key Audit Matter</th></tr>
<tr><td>Unbilled revenue

Unbilled revenue of $938 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.

Significant management judgment is required 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.</td><td>Our procedures included, but were not limited to:
obtaining an understanding of the process flows of 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 unbilled revenue by:
on a sample basis agreeing 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.
in conjunction with our data analytics experts, calculating an independent estimate of the expected unbilled revenue on an individual meter basis using AGL's purchase volumes and pricing data, and comparing our independent estimate to AGL's reported unbilled revenue.
We also assessed the appropriateness of the disclosures in Notes 2 and 11 to the financial statements.</td></tr>
<tr><td>Unbilled distribution costs

Management estimates energy consumption between the date of the last invoice from the distributor to AGL and the end of the reporting period when estimating distribution costs for the financial year. Detailed financial models utilising estimates of the electricity and gas consumption of AGL's customers and applicable distribution tariff rates are used to determine the estimated unbilled distribution costs accrual of $412 million as disclosed in Note 19.

Significant management judgement is required to estimate consumption between the last invoice date from the individual distributors</td><td>Our procedures included, but were not limited to:
obtaining an understanding of the process flows of 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 unbilled distribution costs accrual by:
on a sample basis agreeing data underlying the calculation of the estimated volumes into purchases,</td></tr>
</table>

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<table>
<tr><th>Key Audit Matter</th><th>How the scope of our audit responded to the Key Audit Matter</th></tr>
<tr><td>and the end of the reporting period to determine distribution costs payable at the reporting date.</td><td>sales and other systems having performed sample testing of the key controls in those systems; and
o comparing the prices applied by individual distributors with current tariff tables.
• in conjunction with our data analytics experts, assessing the appropriateness of AGL's unbilled distribution costs accrual at 30 June 2018 by calculating an independent expectation of the accrual on an individual meter basis utilising information supplied to AGL by individual distributors, and comparing our independent estimate to AGL's reported distribution costs payable.

We also assessed the appropriateness of the disclosures in Notes 2 and 19 to the financial statements.</td></tr>
<tr><td>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 2018, derivative financial assets totaled $640 million (current assets of $256 million and non-current assets of $384 million as disclosed in Note 13) and derivative financial liabilities totaled $615 million (current liabilities of $359 million and non-current liabilities of $256 million as disclosed in Note 22). These financial instruments are recorded at fair value as required by the relevant accounting standard.

Significant judgement is required in the valuation and accounting for these financial instruments including:
• understanding and application of contract terms,
• forecasting future prices; and
• applying discount rates.</td><td>Our procedures included, but were not limited to:
• obtaining an understanding of the internal risk management process, and the systems and controls associated with the origination and maintenance of complete and accurate information relating to derivative contracts;
• obtaining an understanding of key financial instrument contract terms to assess the appropriateness of the relevant accounting applied in the financial statements.
• in conjunction with our treasury experts, testing on a sample basis the existence and valuation of derivative contracts as at 30 June 2018. Our audit procedures included:
o evaluating the integrity of the derivative valuation models, and
o assessing the incorporation of the contract terms and the key assumptions, including future price assumptions and discount rates.

We have also assessed the appropriateness of the disclosures included in Note 38 to the financial statements.</td></tr>
</table>

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Other Information

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

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.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial

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report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 42 to 63 of the Directors' Report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of AGL Energy Limited, for the year ended 30 June 2018 complies with section 300A of the *Corporations Act 2001.*

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Jason Thorne
Partner
Chartered Accountants

Sydney, 9 August 2018

Shareholding Information

The following information is provided regarding the Issued Capital of AGL as at 30 June 2018:

1. The Issued Capital consisted of 655,825,043 fully-paid ordinary shares. AGL's fully paid ordinary shares are listed on the Australian Securities Exchange under the code "AGL". Holders of AGL's fully paid ordinary shares have, at general meetings, one vote on a show of hands and, upon a poll, one vote for each fully paid ordinary share held by them.
2. There were 117,275 holders of ordinary shares.
3. There were 2,338 holders of less than a marketable parcel of 22 shares.

Distribution Schedule of Ordinary Shares

	No. of Holders	%
100,001 and Over	92	0.08
10,001 to 100,000	3,166	2.70
5,001 to 10,000	6,435	5.49
1,001 to 5,000	46,143	39.35
1 to 1,000	61,439	52.38
Total	**117,275**	**100.00**

Substantial Shareholders of AGL

In a substantial holding notice dated 15 March 2017, BlackRock Group advised that as of 27 February 2017 it had an interest in 40,935,468 ordinary shares, which represented 6.09% of AGL's ordinary shares at this time.

In a substantial holding notice dated 14 June 2018, The Vanguard Group, Inc advised that as at 12 June 2018 it had an interest in 32,944,083 ordinary shares which represented 5.023% of AGL's ordinary shares at this time.

Shareholdings by Geographic Region

	Securities	%	No. of Holders	%
Australia	645,002,706	98.35	114,162	97.34
Hong Kong	109,465	0.02	50	0.04
New Zealand	9,654,277	1.47	2,143	1.83
United Kingdom	413,966	0.06	291	0.25
USA and Canada	412,574	0.06	452	0.39
Others	232,055	0.04	177	0.15
	655,825,043	**100.00**	**117,275**	**100.00**

Shareholding Information

20 Largest Holders of Ordinary Shares

Twenty Largest Holders as at 30 June 2018	Fully-Paid Ordinary Shares	% of Total Issued Shares
HSBC Custody Nominees (Australia) Limited	182,495,889	27.83
J P Morgan Nominees Australia Limited	86,103,999	13.13
Citicorp Nominees Pty Limited	49,897,074	7.61
National Nominees Limited	26,418,392	4.03
BNP Paribas Nominees Pty Ltd	9,998,039	1.52
BNP Paribas Noms Pty Ltd	7,768,040	1.18
Citicorp Nominees Pty Limited	4,843,618	0.74
Australian Foundation Investment Company Limited	4,305,000	0.66
Custodial Services Limited	4,232,142	0.65
Argo Investments Limited	3,642,000	0.56
HSBC Custody Nominees (Australia) Limited	3,334,992	0.51
Milton Corporation Limited	3,060,000	0.47
UBS Nominees Pty Ltd	2,056,514	0.31
AMP Life Limited	1,959,147	0.30
Pacific Custodians Pty Limited	1,651,224	0.25
Carlton Hotel Limited	1,378,556	0.21
Netwealth Investments Limited	1,287,357	0.20
Gwynvill Investments Pty Limited	1,263,150	0.19
BKI Investment Company Limited	1,250,708	0.19
The Senior Master Of The Supreme Court	1,162,613	0.18
	398,108,454	**60.72**

Subordinated Note Holding Information

The following information is provided regarding the Subordinated Notes of AGL as at 30 June 2018:

1. There were 6,500,00 Subordinated Notes. Holders of Subordinated Notes do not have any rights to vote at general meetings of AGL.
2. There were 10,321 holders of Subordinated Notes.
3. There were three holders of less than a marketable parcel of five Subordinated Notes.

Distribution Schedule of Subordinated Notes

	No. of Holders	%
100,001 and Over	7	0.07
10,001 to 100,000	16	0.16
5,001 to 10,000	32	0.31
1,001 to 5,000	591	5.73
1 to 1,000	9,675	93.73
Total	**10,321**	**100.00**

Holdings by Geographic Region

	Securities	%	No. of Holders	%
Australia	6,443,837	99.13	10,242	99.23
Hong Kong	6,248	0.10	7	0.07
New Zealand	31,998	0.49	38	0.37
United Kingdom	3,236	0.05	6	0.06
USA	3,651	0.06	11	0.11
Others	11,030	0.17	17	0.16
	6,500,000	**100.00**	**10,321**	**100.00**

20 Largest Holders of Subordinated Notes

Twenty Largest Holders as at 30 June 2018	Subordinated Notes	% of Total Notes
Citicorp Nominees Pty Limited	524,431	8.07
HSBC Custody Nominees (Australia) Limited	452,469	6.96
IOOF Investment Management Limited	227,680	3.50
National Nominees Limited	221,758	3.41
Australian Executor Trustees Limited	128,969	1.98
BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd Drp	127,394	1.96
BNP Paribas Noms Pty Ltd	113,766	1.75
Navigator Australia Ltd	65,682	1.01
J P Morgan Nominees Australia Limited	58,234	0.90
Nulis Nominees (Australia) Limited	52,755	0.81
HSBC Custody Nominees (Australia) Limited - A/C 2	49,896	0.77
IOOF Investment Management Limited	45,840	0.71
Longhurst Management Services Pty Ltd	36,000	0.55
Netwealth Investments Limited	31,155	0.48
St Hedwig Village	20,229	0.31
Sellers Holdings Pty Limited	17,290	0.27
Waterloo Medical Centre Pty Ltd	15,000	0.23
Fibora Pty Ltd	14,393	0.22
Netwealth Investments Limited	13,768	0.21
Trustees Of Church Property For The Diocese Of Newcastle	12,876	0.20
	2,229,585	**34.30**

Investor Information

Website Access

AGL's Investor Centre is available online at **agl.com.au/investors**. The Investor Centre provides you with easy access to important information about AGL's performance, including annual reports, investor presentations, share price graphs and general security holder information.

The Shareholder Services section in our Investor Centre also provides access to update your details with the Share Registry, Link Market Services, including:

- Checking your holding balance;
- Viewing, saving or printing interest payment summaries, transaction summaries and dividend statements for Shareholders;
- Updating or amending your bank account or DRP Instructions for Shareholders;
- Electing to receive communications electronically; and
- Downloading a variety of forms

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

Share Registry

Share and Note holders with enquiries about their share and note holdings can also contact AGL's Share Registry:
Link Market Services Limited
1A Homebush Drive
Rhodes NSW 2138
Postal Address: Locked Bag A14, Sydney South NSW 1235

Telephone:	+61 1800 824 513 (free call within Australia)
Facsimile:	+61 2 9287 0309
Email:	aglenergy@linkmarketservices.com.au
Website:	linkmarketservices.com.au

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

Final Share Dividend

The final dividend of 63.0 cents per share, 80% franked, will be paid on 21 September 2018. As the final dividend will only be paid via direct credit, Australian and New Zealand Shareholders need to nominate a bank, building society or credit union account within these jurisdictions. Payments are electronically credited on the dividend payment date and confirmed by a mailed or electronic payment advice. Payment instructions can either be lodged online or an appropriate form can be downloaded from Link Market Service's website.

Dividend Reinvestment Plan

AGL offers Shareholders the opportunity to participate in the Dividend Reinvestment Plan. Shares are allocated under the Plan, free of transaction costs. The rate of discount, if any, applied to shares allocated under the Plan will be determined by the Directors at the time each dividend is declared. A zero discount was applied to the 2018 interim dividend and the same will apply to the 2018 final dividend.

Subordinated Note Interest Payments

Subordinated Notes are paid on or about the 8th of September, December, March and June of each year. Dates and payment rates are available at AGL's online Investor Centre.

On-Market Share Buy-back and Shares Purchased on-market

AGL is not currently conducting an on market buy-back of its shares. During the financial year ended 30 June 2018, 601,578 AGL shares were purchased on-market at an average price of $23.25 per share to satisfy employee entitlements under the AGL Share Reward Plan, AGL Share Purchase Plan, AGL Restricted Equity Plan and the AGL Long-Term Incentive Plan.

Reporting to Shareholders

The *Corporations Act* requires AGL to provide Shareholders with access to this Annual Report on AGL's website, unless a shareholder has specifically requested to be sent a printed or electronic copy. Shareholders seeking a copy of the Annual Report should subscribe online or contact the Share Registry. The Annual Report is also available on AGL's website.

Change of Name, Address or Banking Details

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

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

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

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

Consolidation of Shareholdings

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

Company Secretaries

John Fitzgerald BA MA LLB
Melinda Hunter BCom LLB

Corporate Directory and Financial Calendar

Directory

AGL Energy Limited

Registered Office

Level 24, 200 George St
Sydney NSW 2000
Australia

Mailing address:
Locked Bag 3013
Australia Square NSW 1215

Telephone: +61 2 9921 2999

Fax: +61 2 9921 2999

Web: agl.com.au

Financial Calendar

9 August 2018
Full Year result and final dividend announced

23 August 2018
Record date of final dividend

24 August 2018
Record date of final DRP

21 September 2018
Payment date of final dividend

26 September 2018
Annual General Meeting

7 February 2019
Interim result and interim dividend announced (indicative)

8 August 2019
Full year result and final dividend announced (indicative)