AGL Energy Limited
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ASX & Media Release

AGL – Results for Announcement to the Market

12 August 2021

Attached are the following documents relating to AGL Energy Limited's results for the year ended 30 June 2021:

- Appendix 4E
- AGL Energy Limited 2021 Annual Report

John Fitzgerald

Company Secretary

Authorised for release by AGL's Board of Directors

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About AGL

Proudly Australian for more than 180 years, AGL supplies around 4.5 million energy and telecommunications customer services[1]. We're committed to becoming a leading multi-product retailer, making energy and other essential services simple, fair and transparent. AGL operates Australia's largest private electricity generation portfolio within the National Electricity Market, comprising coal and gas-fired generation, renewable energy sources such as wind, hydro and solar, batteries and other firming technology, and gas production and storage assets. We are building on our history as Australia's leading private investor in renewable energy to now lead the business of transition to a low emissions, affordable and smart energy future in line with the goals of our Climate Statement. We have a passionate belief in progress and a relentless determination to make things better for our communities, customers, the Australian economy and our planet.

[1] Services to customers number is as at 31 December 2020 and includes Click Energy and 100% of approximately 300,000 services to customers of ActewAGL, in which AGL owns a 50% equity stake of the retail operations.

Appendix 4E

AGL Energy Limited

ABN 74 115 061 375

Preliminary Final Report

Results for announcement to the market
for the year ended 30 June 2021

				30 June 2021 $A million	30 June 2020 (Restated) $A million
Revenue	**Down**	**10.0%**	to	**10,942**	12,160
Statutory (Loss)/profit after tax attributable to shareholders	**Down**	**304.4%**	to	**(2,058)**	1,007
Underlying Profit after tax attributable to shareholders	**Down**	**33.5%**	to	**537**	808

				30 June 2021 cents	30 June 2020 (Restated) cents
Statutory Earnings per share	**Down**	**310.1%**	to	**(330.3)**	157.2
Underlying Earnings per share	**Down**	**31.6%**	to	**86.2**	126.1

				30 June 2021 $A	30 June 2020 (Restated) $A
Net tangible asset backing per share	**Down**	**49.1%**	to	**3.54**	6.96

	Amount cents	Franked amount cents
Final dividend per ordinary share	34.0	0.0
Interim dividend per ordinary share	41.0	0.0

Record date for determining entitlements to the final dividend:
26 August 2021 and payable 29 September 2021.

Dividend reinvestment plan:
The AGL Dividend Reinvestment Plan (DRP) will operate in respect of the 2021 final dividend. AGL will issue shares and allot them to DRP participants at 1.5% discount to the simple average of the daily weighted average price at which AGL's ordinary shares trade during each of the 20 trading days commencing 30 August 2021. The last date for shareholders to elect to participate in the DRP for the 2021 final dividend is 27 August 2021.

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

Statutory Loss after tax of $2,058 million included a loss of $2,929 million after tax treated as significant items and a gain of $334 million after tax from the changes in the fair value of financial instruments. Excluding these items, the Underlying Profit after tax was $537 million, 33.5% down on the restated prior corresponding period.

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

Prior year restatement:

Following clarifying guidance from the International Financial Reporting Interpretations Committee (IFRIC), AGL adopted a change in accounting policy in relation to the treatment of configuration and customisation costs related to cloud computing arrangements, commonly referred to as Software as a Service (SaaS). Under the revised accounting policy, costs that would have been previously capitalised are treated as operating expenditure where the entity cannot demonstrate the ability to control the relevant software. In accordance with Australian Accounting Standards, the change in accounting policy has been adopted retrospectively and prior comparative periods have been restated. For more details, please refer to Note 38 within the Consolidated Financial Statements.

This report should be read in conjunction with the AGL Directors' Report incorporating the Operating and Financial Review and the 2021 Annual Report released to the market on 12 August 2021.

Annual Report 2021

Progress for life

Table of Contents

About this Report

Report structure

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 ASIC Regulatory Guide 247, are covered on pages 9 to 88. Commentary on AGL Energy's financial performance specifically is contained on pages 9 to 53 and references information reported in the Financial Report (pages 89 to 183). The Financial Report includes AGL Energy Limited (the Company or Parent Entity) and the entities it controlled at the end of, or during, the year ended 30 June 2021. Throughout the report, the consolidated entity is referred to as AGL Energy or the Group.

The Directors' Declaration forms part of the Financial Report under the Corporations Act.

Voluntary reporting frameworks

This report has been prepared with reference to the International Integrated Reporting Council's (IIRC) International Integrated Reporting Framework, as we believe it provides a useful basis for disclosing how we create sustainable value for our shareholders and other stakeholders over time. We have used the framework to demonstrate how consideration of risks and opportunities (both those arising from our business and those that exist in a broader operational context), our purpose and our values drive our strategy. We have also considered how the execution of our strategy creates value, applying a lens that is broader than financial performance alone.

AGL Energy follows the guidance provided by the Financial Stability Board's Task Force on Climate-Related Financial Disclosures voluntary disclosure framework (TCFD Framework). 'Accelerating Our Transition', our FY21 TCFD report which accompanies the Annual Report, details how we consider governance, risk management, strategy, and metrics and targets in relation to climate change. A summary of the TCFD disclosures is also included on page 16.

AGL Energy has aligned our disclosures to the Sustainability Accounting Standards Board (SASB) standards for 'Electrical Utilities and Power Generators' and 'Gas Utilities'. A SASB index is included in the **ESG Data Centre** on our website which identifies the extent to which each SASB disclosure requirement has been applied. In addition, AGL Energy has continued to prepare our disclosures in accordance with the GRI Standards: Core option. The ESG Data Centre includes a GRI index that outlines which topic-specific GRI standards have been used in the preparation of this report.

Assurance

The Remuneration Report (page 63 to 86) and the Financial Report (page 89 to 183) have been audited by Deloitte. Deloitte was also engaged to undertake limited assurance of selected Key Performance Indicators included in the Business Value Driver scorecards (page 21 to 28) in accordance with the Australian Standard on Assurance Engagements ASAE 3000 Assurance Engagements other than Audits or Reviews of Historical Financial Information issued by the Australian Auditing and Assurance Standards Board (ASAE 3000). The Key Performance Indicators are to be read in conjunction with the definitions in the Glossary (page 187). Full details of the assurance scope, process and outcome are included in the assurance statement on page 181.

Business Value Drivers

The International Integrated Reporting Framework describes six forms of capital (financial, manufactured, intellectual, human, social and relationship and natural) but encourages organisations to adopt a categorisation and terminology appropriate to their business.

In this report, AGL has grouped and defined these capitals into the seven distinct Business Value Drivers outlined below.

CUSTOMERS
Social and relationship capital
Effective and trusted relationships with residential, business and wholesale customers.

COMMUNITIES & RELATIONSHIPS
Social and relationship capital
The strength of working relationships and trust with key stakeholders; brand and reputation.

PEOPLE
Human capital
The competencies, experience, behaviours, engagement and wellbeing of AGL's people.

ENVIRONMENT
Natural capital
Access to and stewardship and use of scarce natural resources, and AGL's impact on the natural environment, both directly and as a result of the products and services provided.

INFRASTRUCTURE
Manufactured capital
Effective and efficient use of assets throughout the value chain that AGL uses, owns or has control of, to enable delivery of energy to the market and to customers.

SYSTEMS & PROCESSES
Intellectual capital
Availability and development of processes, knowledge, insights, systems and data, including energy portfolio management and customer analytics, to support and enhance business activities.

FINANCE
Financial capital
Access to and management of financial capital to support execution of strategy and investment in growth opportunities through retaining financial market support.

Information about performance in relation to each Business Value Driver is included in Section 3.2 of this report.

Forward looking statements

This report includes information about AGL Energy's performance for the period 1 July 2020 to 30 June 2021. Any forward-looking statements are based on AGL Energy's current expectations, best estimates and assumptions as at the date of preparation, many of which are beyond AGL Energy's control. These forward-looking statements are not guarantees or predictions of future performance, and involve known and unknown risks, which may cause actual results to differ materially from those expressed in the report.

Sustainable Development Goals

The United Nations Sustainable Development Goals (SDGs) are a set of 17 interconnected goals that form a global benchmark for achieving a sustainable future for all. While many of the SDGs intersect with AGL Energy's operations, the three SDGs that are most material to our strategy and operations comprise SDG 13 – Climate Action; SDG 7 – Affordable and Clean Energy; and SDG 9 – Industry, Innovation and Infrastructure.

SDG	Business Value Driver			
13 CLIMATE ACTION	Page 24			
7 AFFORDABLE AND CLEAN ENERGY	Page 26	Page 24	Page 21	Page 22
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	Page 26	Page 28	Page 29	

Letter from the Chairman

"It was a great honour for me to be appointed as Chairman of AGL Energy Limited (AGL Energy) in April 2021. I am pleased to present AGL Energy's Annual Report for the financial year ended 30 June 2021 (FY21)."

Peter Botten
Chairman

A year of continued evolution

FY21 was extremely challenging for AGL Energy. There has been continued uncertainty regarding energy policy and an acceleration of the market forces that determine our strategy: customer demand, community expectations and advances in technology. This has included increasing pressure for energy companies and society as a whole to take accelerated action on climate change. At the same time, AGL Energy has responded to the challenges presented by the COVID-19 pandemic as our customers and the broader community grapples with these unprecedented circumstances.

Our financial results for FY21 reflect these ongoing challenging market and operating conditions facing the energy industry, as well as the impact of the decline in wholesale electricity prices that has occurred over the past two years.

Amid these conditions, we remained focused on keeping our people safe and on delivering for our customers, who are at the centre of everything we do. I would like to thank our people for all they have done over the last year to ensure that we continued to keep the lights on and to support our customers.

I am pleased to report that we continued to grow customer numbers, reduce rates of customer churn and improved our Net Promoter Score over the course of the year.

Proposed Demerger

On 30 June this year, we announced AGL Energy's intention to undertake a demerger having regard to these challenging market conditions and the accelerating transition of the energy industry. The proposed demerger would result in two leading energy businesses with separate listings on the Australian Securities Exchange:

- AGL Energy will become **Accel Energy Limited (Accel Energy).** Accel Energy will be Australia's largest baseload electricity supplier via the Loy Yang A, Macquarie Generation and Torrens Island sites, which will prioritise the responsible operation of these sites and facilitate their accelerated transition to low-carbon industrial energy hubs. Accel Energy will also be Australia's largest operator and offtaker of wind energy via the Macarthur, Hallett, Wattle Point and Oaklands Hill wind farms, with the potential to develop 1,600 MW of new wind projects.
- **AGL Australia Limited (AGL Australia)** will be demerged as a new business. AGL Australia will be Australia's largest energy-led multi-product retailer of essential energy services to households and businesses. AGL Australia will also own and operate Australia's largest private hydro fleet as well as fast-start gas-fired power stations and a growing battery development portfolio, with capabilities across wholesale and decentralised electricity and gas trading, storage and supply. AGL Australia will also own AGL Energy's 20% equity interest in Powering Australian Renewables (**PowAR**).

As one of Australia's oldest businesses, AGL Energy has a proud heritage of leading change in the energy industry.

This leadership has created significant value for shareholders in prior years, including via the integration of our strong retail footprint with a baseload energy generation business. However, after careful consideration, the Board considers AGL Energy's current business structure needs to evolve in order to respond to recent changes in energy policy settings and market conditions, and that we should move forward with the demerger to protect shareholder value and enable each business to focus more effectively on their respective strategic opportunities and challenges presented by the accelerating energy transition.

Having the right leadership team in place for each entity was something the Board considered a priority. The identification of the Managing Director & CEOs for each entity followed an extensive search process that considered both internal and external candidates using external search firms. It is a testament to the depth of experience already within AGL Energy that the Board was able to identify Graeme Hunt and Christine Corbett as the executive leaders of Accel Energy and AGL Australia, respectively.

Graeme, in the Accel Energy Managing Director & CEO role on a fixed-term basis, will provide vital continuity of leadership amid this time of great change for our company and in the energy sector, as well as deep experience and know-how in running capital intensive industrial businesses in a complex multi-stakeholder environment.

Patricia McKenzie's appointment as Chair of the Board of AGL Australia will provide the new business an unrivalled level of knowledge and experience in energy market design, governance and regulation. Christine's elevation to the role of Managing Director & CEO reflects her outstanding performance in stabilising and growing our customer business since joining us two years ago. She will bring a passionate customer focus to the leadership of AGL Australia while also providing important continuity.

> The Board plans to put a demerger resolution to shareholders at shareholder meetings to be held in the fourth quarter of FY22.

Shareholders will receive a demerger booklet setting out the rationale for this proposal in detail during the first half of 2022.

Leading the business of transition

In early August 2021, the Intergovernmental Panel on Climate Change (IPCC) released the first instalment of the Sixth Assessment Report (AR6) which demonstrates the important role that industry, regulators and governments play in driving Australia's energy transition. The separation of the two businesses will allow both Accel Energy and AGL Australia to pursue their response to climate change and the energy transition in a more focused manner, building upon the commitments we made in AGL Energy's Climate Statement in June 2020.

> Both companies will pursue strategies linked to the decarbonisation of their operations.

As Australia's largest emitter of greenhouse gases and largest electricity generation company, Accel Energy will embrace the responsibility and opportunities the energy transition brings to reinvent its business. Accel Energy will have a unique opportunity to drive the accelerating transition while creating a sustainable future for its business and the communities in which we operate beyond the life of coal-fired power. We have committed to Accel publishing a detailed climate change roadmap including specific decarbonisation targets showing clear progress relative to AGL Energy's existing emissions reduction trajectory.

AGL Australia will be carbon neutral for scope 1 and scope 2 emissions following the demerger, offsetting the emissions it generates directly with high quality accredited instruments. AGL Australia will have a clear pathway toward carbon neutrality for its sourced electricity over time via its support of renewables developments and further offsets.

AGL Energy has a proven track record of market leading disclosures. To ensure this legacy of transparency continues, the shareholders of both new entities will be provided with an opportunity to have their say on the climate reporting for both proposed demerged entities.

> Accel Energy and AGL Australia each intend to put their respective climate reporting to a non-binding, advisory vote of shareholders at their first Annual General Meetings.

If the demerger does not proceed, AGL Energy will put its climate reporting to a non-binding, advisory vote of shareholders at its 2022 Annual General Meeting.

Capital management

We are committed to, and confident of achieving, investment grade credit ratings for both Accel Energy and AGL Australia. In light of this, and as part of our preparation for the proposed demerger, we announced on 30 June 2021 that we would undertake the following capital management initiatives:

- cease the Special Dividend Program, meaning AGL Energy no longer intends to pay out an additional 25 percent of Underlying Profit after tax for the FY21 final dividend or in FY22; and
- intention to underwrite the Dividend Reinvestment Plan (DRP) for the FY21 final and FY22 interim ordinary dividends.

In practice, this means we intend for AGL Energy to continue to pay ordinary dividends at 75% of Underlying Profit after tax for its remaining dividends and that shareholders will continue to have the option of subscribing under the DRP to receive shares in lieu of a cash dividend. These new shares will be available at a discount of 1.5% to the arithmetic average of the daily volume weighted average price of AGL shares in ordinary trading on ASX over a 20 trading day period commencing 30 August 2021. In addition, through the DRP underwrite program, AGL Energy will appoint Macquarie Capital (Australia) Limited to underwrite an amount equal to the total dividend payment. Any shortfall in subscriptions from AGL Energy shareholders for new shares under the DRP will then be issued to the underwriter. The underwriter will arrange for the sale of any shortfall volume on market. This process will enable AGL Energy to retain cash within the business equal to the total value of each dividend during the period it operates.

The Board acknowledges the impact upon shareholders of the loss of the proposed Special Dividend and the dilution caused by the issuance of new shares via the DRP underwrite program. However, these are prudent steps to take in the interests of protecting long-term shareholder value by supporting Accel Energy and AGL Australia in retaining strong and flexible balance sheets after the demerger.

Remuneration

A key focus of the Board during FY21 was responding to the "first strike" that AGL Energy received against its remuneration report at last year's AGM. Details of how we have listened and responded to the concerns raised by investors and proxy advisors are set out in the Remuneration Report.

Some of the changes we have made to better align our remuneration structure with company performance, drive long term shareholder value and provide enhanced transparency include:

- enhanced disclosure in relation to Short-Term Incentive targets;
- removal of the Return on Equity metric from the Long-Term Incentive Plan for FY22, with 75% of the outcome to be determined against relative TSR performance and 25% against carbon transition performance metrics.

The Board acknowledges the vote against the remuneration report at the 2020 AGM and will consider that context in the structure of the remuneration and benefits within the new businesses, balanced with the need to attract and retain key talent to successfully execute the strategy in a complex and highly challenging environment.

Board renewal and succession planning

This year we will farewell our former Managing Director & CEO, Brett Redman, following his decision to leave AGL. The Board is grateful for everything Brett Redman delivered in his 15-year career with AGL.

Following Brett's resignation in April, the Board appointed Graeme Hunt as Interim Managing Director & CEO given Graeme Hunt's deep experience with AGL – nine years on the Board and three as Chairman – coupled with his experience as a CEO and executive in industrial organisations over many years. The Board confirmed Graeme's permanent appointment as Managing Director and CEO of AGL, with effect from 1 July 2021.

The appointment of Graeme Hunt as interim-CEO in April resulted in my appointment to the role of Chairman in his place, which I have accepted with full knowledge of the strength of the Board and the Executive and the strategy we are delivering.

This year, we also farewell John Stanhope, who has served on the Board for over 12 years and will retire from the Board at the upcoming AGM. On behalf of the Board, I wish to convey our gratitude to John for his esteemed knowledge and participation on the Board, including having acted as Chair of the Audit & Risk Management Committee during his tenure. Mark Bloom has been appointed Chair of the Audit & Risk Management Committee, with effect from John's retirement.

The Board is currently undertaking a process to consider additional appointments to the Board of AGL in FY22, including the appointment of a Director with expertise in climate change risk, ESG governance and industry transition. The proposed demerger of AGL Energy will require the consideration of the composition of the Boards of each company to ensure that each Board (and each Board committee) has the skills and experience to fulfil their responsibilities on implementation of the demerger. The Board is working carefully through a structured process to identify Directors with skills and experience in climate change risk and ESG, energy markets, environmental issues, digital retail, technology, customer markets and other relevant skills and experience that will be required for the demerged entities.

AGM

This year our AGM will be held on Wednesday, 22 September 2021. In light of the continued uncertainty and potential health risks associated with the COVID-19 pandemic, we will hold an online AGM.

> Shareholders will have the ability to participate remotely via an online platform or by lodging a directed proxy or direct vote in advance of the meeting.

In addition to the usual items of business, shareholders will be asked to consider three resolutions proposed by small groups of shareholders. The Board respects the right of shareholders to put forward resolutions. However, the Board does not consider these resolutions to be in the best interests of the company as a whole for the reasons detailed in the Notice of Meeting.

Looking to the future

Despite being a challenging year for AGL Energy, I am optimistic about the future for AGL Energy and its shareholders – and the prospects of the proposed demerger creating a fresh platform for the business to address the challenges and opportunities to come.

The short-term outlook remains challenging as our financial performance in FY22 continues to reflect the material falls in wholesale electricity prices that have occurred in recent years, and we are taking action to strengthen our financial position.

> The Board is taking action focused on long-term value for our shareholders and believes the proposed demerger will position us best to meet the existing and future challenges facing the company.

On behalf of the Board, I would like to thank AGL Energy's shareholders for their continued support.

Managing Director & CEO's Report

Graeme Hunt
Managing Director & CEO

The 2021 financial year was one of delivering our strategy against a backdrop of continuing uncertainty. We have navigated the unpredictable nature of working and living in the time of the COVID-19 pandemic, alongside the effects on our business of severe reductions in wholesale electricity prices, and the changes to policy settings over recent years.

AGL Energy is taking decisive action via the proposed demerger of AGL Australia from Accel Energy. Stepping into the role of Managing Director & CEO at this time has been a rewarding experience for me personally, as we seek to set up the business to emerge stronger from this period and to reposition AGL via our proposed demerger in order to protect and grow shareholder value in the future.

> Despite this challenging environment, I am proud of the way the AGL Energy team has continued to ensure our customers, our communities and our people are at the centre of everything we do.

In FY21, there was an overall improvement in AGL Energy's Health, Safety & Environment performance, illustrated by a reduction in the Total Injury Frequency Rate to 2.3 per million hours worked. However, the operation of power stations is an inherently high-risk activity. Unfortunately, in December 2020, one of our people was seriously injured in an incident at our Liddell Power Station. We are all thankful this worker is recovering well, but an incident like this is an important reminder of the dangerous work many of our employees face every day. We have since conducted a review of high-risk tasks and have implemented further enhancements designed to prevent similar incidents happening again.

Putting customers at the centre

As we adjusted to a new normal of living with the pandemic and lockdowns, we have remained committed to continuing to support our customers by providing financial aids such as payment plans and disconnection relief.

It is pleasing that we continue to grow customer numbers and improve the customer experience, reducing the rate of customer churn, and maintaining an improved net promoter score.

Offering our customers more services has been another priority as we diversify our product offerings, becoming Australia's largest energy-led multi-product retailer.

Following the launch of carbon neutral across electricity products in 2020, we have now expanded our carbon neutral offering across all AGL products, with over 260,000 carbon neutral services now in place.

Customers can now also access new solar battery bundles and our innovative electric vehicle subscription service.

> As customers become increasingly connected, we want to be at the forefront of that transition. This year we expanded our offering to telecommunications, launching AGL broadband and mobile services.

We are looking to the future, by bringing world-class technology and innovation to Australia through our partnership with Ovo Energy, the UK's leading independent energy retailer. Ovo's customer platform technology presents an exciting opportunity to engage with customers more effectively in a multi-product environment.

FY21 result

The financial result for FY21 reflected the significant market and operating headwinds as the impact of sustained falls in FY21 wholesale electricity prices and changes to energy market policy settings have flowed through to our results. This has driven a reduction in Underlying Profit after tax of 33.5 percent to $537 million and a corresponding reduction in dividends for the year to 75 cents per share, including the 10 cent special dividend paid in March.

AGL Energy has a strongly competitive cost position in electricity generation. However, the lower wholesale electricity price environment has put pressure on the profitability of all generators, at the same time as government policy continues to stimulate the development of new supply capacity ahead of market demand. Coupled with changes to our provisions for long-term environmental restoration obligations, this sustained pressure on wholesale prices led us during the year to recognised impairments of $3.6 billion against our wholesale electricity fleet.

Although there has been some recent recovery in wholesale electricity prices to more economically sustainable levels, we expect further margin pressure from this period of sustained lower prices in in FY22.

Conditions also remain challenging in our wholesale gas business as long-term, low-cost supply contracts continue to mature, translating to lower margins. Following the withdrawal of our proposal for a liquified natural gas (LNG) import jetty at Crib Point, we have incurred total charges of $124 million associated with costs incurred on the development. We have a highly flexible gas portfolio and a supply strategy which will enable customer demand to be met from existing and new domestic supply sources and proposed third party regasification projects, leveraging LNG supply options which we had developed for the Crib Point proposal.

In the context of this challenging environment, we announced a number of initiatives over the course of the year designed to preserve cash and ensure we have the strongest possible financial position as we pursue the proposed separation into Accel Energy and AGL Australia over the course of FY22.

These measures include a commitment to reduce real operating expenditure by $150 million in FY22, and a commitment to reduce sustaining capital expenditure by $100 million by FY23, complemented by targeted sales of non-core assets.

Delivering on our strategy

Notwithstanding the market conditions and ongoing complexities presented by the pandemic, we made good progress over the course of FY21 to deliver on growth and transformation objectives.

Customer services achieved both organic and inorganic growth.

We acquired Click Energy and have ensured a smooth transition, welcoming Click Energy's 215,000 customers.

The acquisitions of both Epho and Solgen complement and strengthen our existing solar capabilities, enabling AGL Energy to deliver more tailored and innovative energy solutions for businesses.

> We are now Australia's largest supplier of commercial solar with the systems and technologies in place to deliver more than 70 MW of commercial solar each year.

We were proud to announce 850 MW of grid-scale battery projects at our thermal generation sites across Australia by FY24, a key deliverable of our Climate Statement commitments. The 250 MW battery at Torrens Island is scheduled to be the first to commence construction. We're excited to see these plans begin to come to life; energy storage technology is critical in creating cleaner and smarter distributed energy infrastructure.

We continued our legacy as one of the largest private investors in renewable energy via our 20 percent interest in PowAR, which has recently completed the acquisition of Tilt Renewables. Our access to this platform reinforces our progress in the energy transition, supporting our orderly transition away from coal-fired power and responding to our customers' increasing appetite for clean energy.

For AGL Energy, participating in these acquisitions aligns with the commitments set out one year ago in our Climate Statement, representing the next steps in our decarbonisation journey.

We have made significant progress in each of our five Climate Statement commitment areas, helping us on the path to net zero emissions by 2050.

Leading into a new future

The proposed demerger of AGL Australia from the new Accel Energy is an exciting milestone in AGL's 187-year history. It will position both businesses to focus on their part in Australia's accelerating energy transition. For AGL Australia, this means executing on a customer-led, multi-product strategy backed by a flexible trading, supply and storage position. For Accel Energy, it means ensuring the safe and efficient running of our thermal generation asset base as required by the market, engaging actively on policy matters pertaining to the transition and partnering to transform our operational sites to low-carbon industrial energy hubs.

> I am excited for the opportunities ahead as we continue to execute on our strategy and undertake the demerger.

Our operating environment will continue to test our resilience as an organisation, but I am confident that the changes we are making today will enable us to protect value for our shareholders as we create two leading organisations and prepare for a cleaner, more sustainable energy future.

Thank you for reading this report.

Five Year Summary

Key financial metrics

		FY21	FY20[1]	FY19	FY18[2]	FY17
Income						
Revenue	$m	10,942	12,160	13,246	12,816	12,584
Underlying EBITDA	$m	1,666	2,026	2,285	2,236	1,852
Underlying EBIT	$m	959	1,306	1,660	1,668	1,368
Statutory Profit/(Loss) after tax	$m	(2,058)	1,007	905	1,582	539
Underlying Profit after tax	$m	537	808	1,040	1,018	802
Financial position						
Total assets	$m	15,450	14,607	14,821	14,633	14,458
Net debt	$m	2,997	2,723	2,600	2,491	3,178
Gearing (net debt/net debt + equity)	%	35.1	25.3	23.5	22.9	29.6
Cash flow						
Capital expenditure	$m	707	685	939	778	518
Operating cash flow before interest, tax and significant items	$m	1,606	2,476	2,013	2,474	1,362
Cash conversion	%	96	122	88	111	74
Shareholder value						
Statutory earnings per share	cents	(330.3)	157.2	138.0	241.2	80.5
Underlying earnings per share	cents	86.2	126.1	158.6	155.2	119.8
Dividends declared	cents	75.0	98.0	119.0	117.0	91.0
Payout ratio	%	87.0	75.0	75.0	75.0	75.0
Return on capital invested	%	7.6	8.6	10.7	10.6	8.7
Return on equity	%	8.1	10.0	12.5	13.1	10.2

1. Comparatives have been restated for the impact of change in accounting policy in relation to the treatment of configuration and customisation costs related to cloud computing arrangements.
2. Comparatives have been restated for the adoption of AASB 9 Financial Instruments and AASB 16 Leases.

Key operating metrics

		FY21	FY20[1]	FY19	FY18[2]	FY17
Total services to customers	million	4.208	3.954	3.708	3.641	3.653
Customer churn	%	14.3	14.3	17.6	18.9	16.4
Pool generation volume	GWh	41,137	43,828	43,723	43,065	43,099
Customer demand: Electricity	TWh	40.6	40.3	39.2	39.2	39.7
Customer demand: Gas	PJ	158.4	155.5	167.1	180.0	229.8
Wholesale electricity prices (realised spot price)	$/MWh	58.0	75.2	103.1	90.1	83.0
Fuel costs	$/MWh	(20.8)	(23.1)	(24.3)	(21.8)	(17.6)
Operating costs and capital expenditure	$m	(2,326)	(2,336)	(2,487)	(2,337)	(1,882)

1. Comparatives have been restated for the impact of change in accounting policy in relation to the treatment of configuration and customisation costs related to cloud computing arrangements.
2. Comparatives have been restated for the adoption of AASB 9 Financial Instruments and AASB 16 Leases.

Five Year Summary

Business Value Driver key performance indicators

For more information about each key performance indicator, refer to the scorecards in Section 3.2. The key performance indicators should also be read in conjunction with the Glossary to the Business Value Drivers on page 187.

		FY21	FY20	FY19	FY18	FY17
Customers						
Net Promoter Score (NPS)		+4.9	+2.3	-11.1	-22.5	-18.1
Ombudsman complaints		5,973	7,731	11,138	11,413	12,277
Number of customers on Staying Connected		26,263	28,051	30,083	26,657	31,463
Average level of debt of customers on Staying Connected	$	2,768	2,293	2,301	2,502	2,171
Total average debt across mass market customer portfolio	$	292	319	331	501	438
Communities & Relationships						
RepTrak score		66.7	68.3	61.4	61.4	58.4
Community contribution	$m	5.2	4.3	4.5	4.3	3.5
Underlying effective tax rate	%	27.0	28.3	29.1	29.5	29.6
People						
TIFR employees		1.7	2.6	2.1	1.2	2.0
TIFR (employees + contractors)		2.3	3.3	3.6	2.4	3.1
Fatalities (employees + contractors)		0	0	0	0	0
High potential near miss: recordable incident ratio		1.1:1	0.9:1	0.9:1	Not reported	Not reported
Employee engagement	%	62	73	68	Not measured[1]	Not measured
Gender mix in SLP	% female	36	38	38	42	38
Material breaches of Code of Conduct		0	0	0	Not reported	Not reported
Attrition (total workforce)	%	10	9	12	11	9
Key talent retention	%	95	98	80	81	93
Environment						
Operated scope 1 + 2 emissions	$MtCO_2e$	40.8	42.7	43.2	43.6	43.9
Controlled generation intensity	tCO_2e/MWh	0.95	0.93	0.95	0.96	0.97
Controlled renewable and battery capacity	%	23.0	22.5	19.6	18.4	18.4
Emissions intensity of total revenue	$ktCO_2e/\$m$	3.7	3.5	3.3	3.4	3.5
Revenue from green energy and carbon neutral products	%	13.4	11.5	10.8	Not reported	Not reported
Environmental Regulatory Reportable incidents		11	9	12	14	10
Infrastructure						
Equivalent Availability Factor	%	73.7	76.9	78.4	79.6	84.9
Systems & Processes						
Major IT incidents		52	33	47	84	105
Reportable privacy incidents		0	1	0	Not reported	Not reported

1. No engagement survey was undertaken in FY18, however an engagement pulse survey was undertaken in early FY19, measuring engagement at 62%. This is considered a reflection of FY18 employee sentiment.

Operating & Financial Review

For the year ended 30 June 2021

1. About AGL Energy

Proudly Australian for more than 185 years, AGL Energy supplies energy and other essential services to residential, small and large businesses and wholesale customers. AGL Energy is committed to making energy, alongside other essential services, simple, fair and transparent.

AGL Energy's purpose - Progress for life - recognises our proud history of delivering innovative outcomes for customers, as well as how we are continuing to evolve how Australians produce, share and consume energy. To us, progress means helping customers achieve better ways of living day-to-day by enabling them to take greater control over their energy and other essential services. It also means investing in new ideas, partnerships and infrastructure – renewing and expanding our portfolio of energy sources and other products to make them more sustainable, reliable, affordable and useful. At an enterprise level, AGL Energy's purpose provides our company, the Directors and our employees and contractors with the foundations for actions and, together with our values, guides our thinking and decision-making.

OUR VALUES

- **Care in every action:** physical and psychological safety first; responsible and sustainable in all our actions; always considering our environment; putting yourself in other people's shoes.
- **Integrity always:** doing the right thing; being open and accountable; having courageous conversations; keeping our promise.
- **Better together:** breaking down silos; being respectful and inclusive of all; seeking out diverse perspectives; building collaborative partnerships.
- **Deliver your best:** going the extra mile for our customers; constantly looking to improve; staying resilient when setbacks happen; making excellence part of every day.
- **Shape tomorrow:** having courage to explore new possibilities; embracing opportunities to grow; approaching challenges with a can-do attitude; keeping the future in focus.

The principal activities of AGL Energy as of the reporting date comprised the operation of energy businesses and investments, including electricity generation, gas storage, the sale of electricity and gas to residential, business and wholesale customers and the retailing of broadband and mobile services.

On 30 September 2020, AGL Energy completed the acquisition of Click Energy Group Holdings Pty Ltd (Click Energy), a wholly owned subsidiary of ASX-listed amaysim Australia Limited, adding more than 215,000 services to customers across New South Wales, Victoria, Queensland and South Australia. On 31 March 2021, AGL Energy became Australia's leading commercial solar provider, following the acquisition of Epho Holdings Pty Ltd (Epho) and Solgen Energy Group (Solgen) in March 2021. In April 2021 AGL acquired 51% stake in Ovo Energy Australia (OEA) from OVO Energy, a UK digital energy retailer and developer of Kaluza, a new energy retail technology platform.

AGL Energy manages its business in three key operating segments:

- **Customer Markets** – Customer Markets is responsible for the retailing of electricity, gas, telecommunications (broadband/ mobile/voice), solar and energy efficiency products and services to residential, small and large business customers.
- **Integrated Energy** – Integrated Energy operates AGL Energy's power generation portfolio and other key assets, including coal, gas and renewable generation facilities, natural gas storage and production facilities, and development projects. The Trading and Origination component of Integrated Energy manages price risk associated with procuring electricity and gas for AGL Energy's customers, manages AGL Energy's obligations in relation to renewable energy schemes, and controls the dispatch of AGL Energy's owned and contracted generation assets, third party gas agreements and associated portfolio of energy hedging products.
- **Investments** – Investments comprises AGL Energy's interests in the ActewAGL Retail Partnership, Powering Australian Renewables (PowAR) (previously known as Powering Australian Renewables Fund (PARF)), Energy Impact Partners' Fund, Energy Impact Partners' Fund SCSp, Activate Capital Partners, Solar Analytics Pty Limited, Sunverge Energy Inc, Ecobee Inc, RayGen Resources Pty Ltd, Honey Insurance Pty Ltd and Ovo Energy Australia Pty Ltd.

Refer to Section 5 for further details and financial performance information for each operating segment.

Operating & Financial Review

For the year ended 30 June 2021

1.1 Our operations

The map below shows the energy assets which we operate or invest in, including key projects from our development pipeline.

4.2m
Total services to customers (excluding ActewAGL)

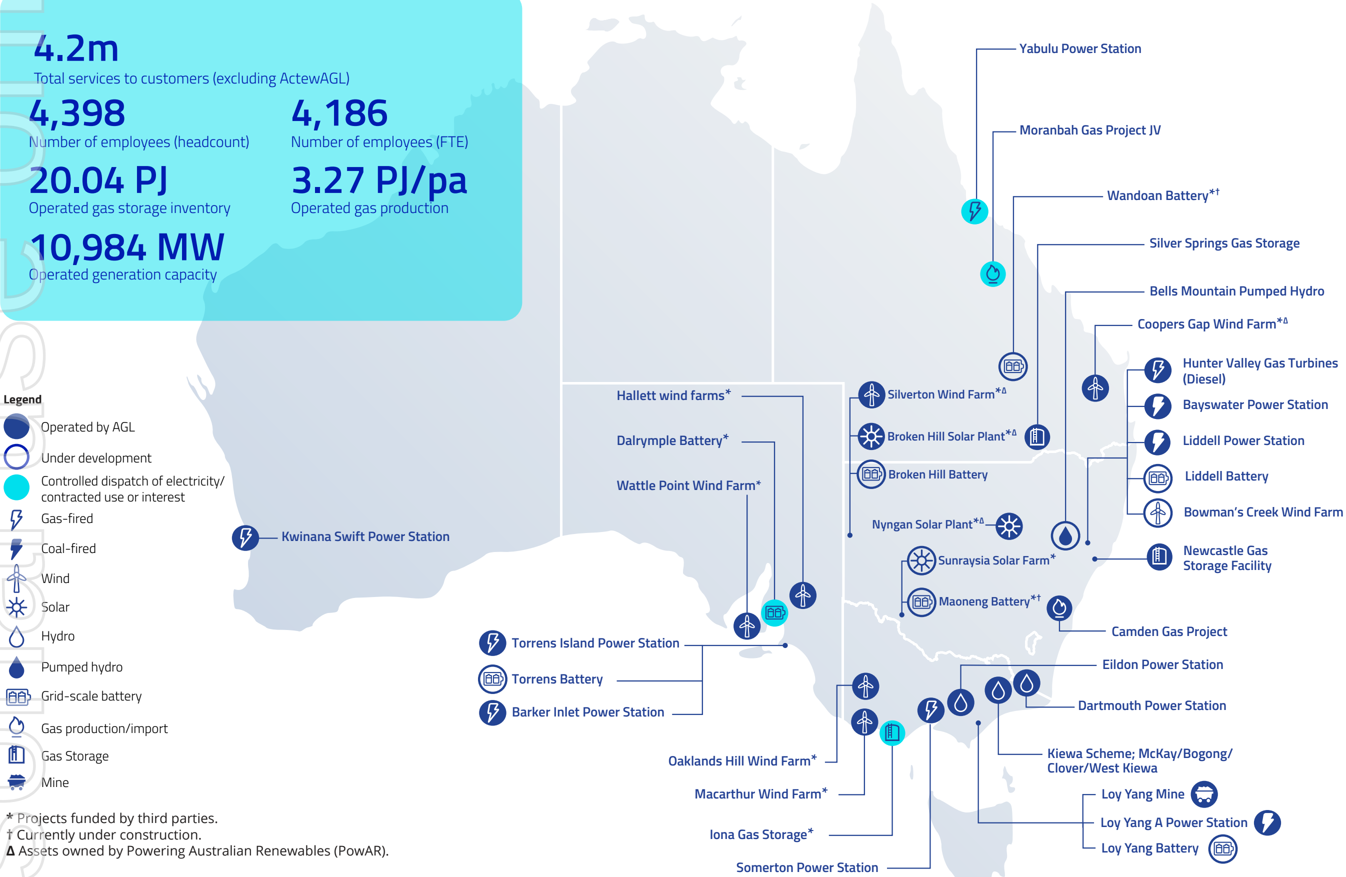
4,398
Number of employees (headcount)

4,186
Number of employees (FTE)

20.04 PJ
Operated gas storage inventory

3.27 PJ/pa
Operated gas production

10,984 MW
Operated generation capacity



* Projects funded by third parties.
† Currently under construction.
Δ Assets owned by Powering Australian Renewables (PowAR).

Generation assets operated or controlled by AGL which have an installed capacity of less than 50 MW are not shown on this map.

1.2 How we create value

AGL Energy's value creation model depicts how the business creates value through seven Business Value Drivers, by identifying key inputs, core activities, and the resulting outputs and outcomes in terms of value creation.

Inputs

We use a range of resources and relationships (or 'capitals') to create value and deliver on our strategy and business purpose. These are grouped under seven Business Value Drivers, and the inputs are summarised as follows:

CUSTOMERS
Customer accounts and relationship quality

COMMUNITY & RELATIONSHIPS
Brand and reputation and quality of relationships with stakeholders

PEOPLE
Culture, leadership, capability, diversity and inclusion and safety

ENVIRONMENT
Black and brown coal, gas, water and land

INFRASTRUCTURE
Operated electricity generation assets, gas storage assets and other gas infrastructure

SYSTEMS & PROCESSES
Processes, innovation, knowledge, insights and systems, and energy supply contracts

FINANCE
Liquid assets (cash, investments), debt facilities, credit rating, shareholders and the ability to raise equity

Activities

BROWN COAL | BLACK COAL | GAS | RENEWABLES AND STORAGE | DECENTRALISED ENERGY | ENERGY AND OTHER ESSENTIAL SERVICES

Outputs

We generate over 40 TWh of energy annually, and in turn supply over 40 TWh of electricity and over 150 PJ of natural gas as well as telecommunication and energy-related products and services to residential, small and large business and wholesale customers.

Value creation outcomes

We maximise the value created for shareholders and other stakeholders by operating our business and assets efficiently and effectively; managing risks; investing in people, systems and processes; securing efficient financing; minimising our environmental footprint; developing and delivering the right products and services; engaging with stakeholders and ensuring we maintain our licence to operate. These outcomes are disclosed on each Business Value Driver scorecard.

2. Strategy

The accelerating pace of the climate transition, along with the shaping forces of customers, the community and technology, has led to significant changes to the landscape in which AGL Energy operates. Customers are increasingly demanding distributed energy and carbon neutral products and services; there have been changes in the approach of governments to drive the climate change transition; and rapidly falling renewable generation and energy storage costs have driven increased supply ahead of demand. Further, social and community expectations surrounding climate change, and the pace of the energy transition, have increased significantly. These changes have necessitated a reconsideration of the vertically integrated strategy and operating model that AGL Energy has successfully adopted for many years.

2.1 Proposed demerger

In June 2021, AGL Energy announced its intention to undertake a demerger to create two leading energy businesses with separate listings on the Australian Securities Exchange. Under the demerger proposal, AGL Energy will become Accel Energy Limited (**Accel Energy**), an electricity generation business focused on the accelerating energy transition. Accel Energy will demerge a new entity, AGL Australia Limited (**AGL Australia**), a multi-product energy-led retailing and flexible energy trading, storage and supply business.

AGL Energy sees the demerger as a mechanism to allow both leading businesses to focus on their different but important roles within Australia's transition to a low carbon future. The clarity of purpose for each separate company created by this proposed demerger will protect shareholder value, enabling each business to focus on their respective strategic opportunities and challenges presented by the accelerating energy transition.

		DEMERGER RATIONALE
CUSTOMER	• Demand for distributed energy services accelerating rapidly • Demand for carbon neutral products and services • Continued role of baseload supply to meet industrial demand	• Energy requirements of consumer and business users increasingly different from industrial customers • AGL Australia energy needs are aligned with increasing customer demand for distributed energy and carbon neutral products • Accel Energy empowered to contract directly with large energy users, industrial partners in energy hub projects
COMMUNITY	• Government intervention via default retail offers and underwriting of generation • Demand for accelerated action on climate change • Need for adequate compensation for providing system security	• Reducing benefits of integration of retail with baseload generation relative to costs and complexity • AGL Australia able to use customer scale to underwrite flexible generation and new renewables projects • Accel Energy to focus on vital role of assets in providing system security, repurposing of sites as energy hubs
TECHNOLOGY	• Rapidly falling costs for renewables and storage driving policy action to increase supply ahead of demand • Strong funding support for renewables and storage development from non-industry capital providers • Risk/return expectations for new generation development structurally lower than in the past	• New entities with different funding sources able to attract and deploy capital in more targeted manner • AGL Australia more attractive to capital providers • Accel Energy opportunity to repurpose sites using new technology attractive for transition capital providers

Accel Energy

Accel Energy will be committed to the acceleration of Australia's decarbonisation while ensuring that energy remains stable and affordable. It will focus on the transition of its existing electricity generation assets and investment in the long-term rejuvenation of its valuable operating sites as low-carbon industrial energy hubs. It will also operate Australia's largest wind portfolio and develop future wind projects. Accel Energy's assets will continue to be required for network stability and capacity in the coming years, while supporting reliability, affordability and the livelihoods of our people and the communities in which they work. It will continue to operate these assets safely and efficiently while alternative sources of energy storage and supply are fully developed.

AGL Australia

AGL Australia will have an important role to play in supporting the development of renewable generation in Australia. AGL Australia will focus on being Australia's leading multi-product energy retailing business while investing in flexible energy trading, storage and supply and decentralised energy services. AGL Australia will be carbon neutral for scope 1 and scope 2 emissions following the demerger, offsetting the emissions it generates directly with high quality accredited instruments, and will have a clear pathway to full carbon neutrality for its sourced electricity over time via its support for renewables development and further offsets.

Operating & Financial Review

For the year ended 30 June 2021

Asset allocation

The allocation of AGL Energy's assets, as set out below, has been determined to enable both entities to execute on their respective strategies, and operate with focus.

Accel Energy

Generation portfolio
- Loy Yang A
- Macquarie – Bayswater
- Macquarie – Liddell
- Torrens Island Power Station

Gas assets and related contracts
- 50% interest in Moranbah Gas Project JV and North Queensland Energy JV (including Yabulu PPA)
- Camden
- Silver Springs Gas Storage*
- Newcastle Gas Storage Facility*

Renewable and storage power purchase agreements
- South Australian wind farms (Hallett, Hallett Hill, North Brown Hill, The Bluff, Wattle Point)
- Victorian wind farms (Macarthur, Oaklands Hill)
- Dalrymple battery

Development pipeline
- Loy Yang battery
- Liddell battery
- Bells Mountain pumped hydro
- 1,600 MW pipeline of wind development projects

Investments
- RayGen

* *Identified for sale*

agl

Multi product retailing
- 4.5 million[1] customer services in electricity, gas, broadband and mobile
- Perth Energy, Southern Phone, Click Energy
- Commercial Solar including Solgen and Epho

Flexible generation, storage and demand response
- Hydro assets
  - Victoria (Kiewa scheme, Dartmouth scheme, Eildon, Rubicon scheme, Yarrawonga)
  - NSW (Glenbawn, Copeton, Pindari, Burrendong)
- Barker Inlet Power Station
- Somerton Power Station
- Kwinana Swift Power Station
- AGL's virtual power plant and Distributed Energy Resources services

Gas contracting
- Wholesale gas contracts relating to supply, sale, storage and haulage

Renewable and storage power purchase agreements
- PowAR agreements (Broken Hill and Nyngan solar farms, Silverton and Coopers Gap wind farms)
- Sunraysia and Midgar solar farm
- Wandoan battery
- Maoneng battery

Development pipeline
- Torrens Island battery development project

Investments
- Ovo Energy Australia 51% interest
- ActewAGL 50% interest in retail operations
- PowAR 20% interest (including Tilt Renewables)
- Venture capital investments

[1] Services to customers number includes Click Energy and 100% of approximately 300,000 services to customers of ActewAGL, in which AGL owns a 50% equity stake of the retail operations.

Climate positioning

Climate transition statements for each proposed business recognise that the need to take action on climate change is intensifying. These statements signal our intention for the new businesses to deliver detailed carbon reduction roadmaps with specific decarbonisation targets.

As Australia's largest electricity generator and largest emitter of greenhouse gases, Accel Energy would embrace the responsibility and opportunities this brings to reinvent its business as the community's reliance on thermal power reduces and, ultimately, ends. It is intended that Accel Energy would work with governments and other key stakeholders and policy decision-makers to advocate for the establishment of effective frameworks to enable an accelerated energy transition that protects affordability and system security, as well as the fair economic interests of its workforce and capital providers. Accel Energy would have a unique opportunity to drive the accelerating transition while creating a sustainable future for its business and the communities in which it operates beyond the life of coal-fired power.

AGL Australia would be Australia's largest multi-product energy retailer, and would lead the transition to a low carbon future. AGL Australia would be carbon neutral for scope 1 and 2 emissions, with a clear pathway to carbon neutrality for all electricity supply following the cessation in the late 2020s of the initial electricity offtake arrangements it proposes to establish with Accel Energy. AGL Australia would work with stakeholders to advocate for reforms that drive the continued uptake and integration of decentralised energy services, electric vehicles, broader demand-side participation, and the development of new flexible generation.

2.2 Update on FY24 Strategic Priorities

Over the course of FY21, AGL Energy continued to pursue its three strategic priorities: Growth, Transformation and Social Licence.

- **Growth** reflected the need for AGL Energy to accelerate investment in new opportunities to meet evolving customer needs. This is especially important as traditional sources of value such as thermal electricity generation decline and will ultimately need to be replaced altogether.
- **Transformation** reflected AGL Energy's need to reposition, refresh and reinvigorate the business in a changing world, especially as digital technology continues to alter customers' expectations.
- **Social Licence** reflected the need to meet and exceed rising community expectations at a time when we need to rebuild fallen levels of trust in large institutions.

Operating & Financial Review

For the year ended 30 June 2021

At the end of FY20, AGL Energy set five strategic targets for FY24. Progress made against these targets over FY21 is summarised below.

Focus area	FY24 Target	FY21		FY20
Total services to customers	4.5m	4.2m[1]	The majority of energy customer services growth was driven by the acquisition of 198.3k Click Energy customers, with 26.5k attributed to underlying growth. AGL Energy's telecommunication services (AGL Energy and Southern Phone) have increased by 16.7% to 196,301 from 168,237 in FY20, with 11.1% largely driven by AGL Energy branded telecommunication services in operation, and 5.6% attributable to Southern Phone.	3.954m
Services per customer	1.6	1.5	Services per customer increased by 0.1 to 1.5, due to growth in dual fuel energy customers as well as growth in the number of customers with bundled energy and telecommunication services.	1.4
RepTrak score	>70	66.7	AGL Energy's RepTrak score was 66.7. While this is a 1.4pt decline from the FY20 reported outcome, it does represent an overall positive trend in reputation since FY18. This has been achieved despite the ongoing impacts of COVID-19 as well as significant events during FY21 including the announcement of the proposed demerger, leadership changes, and the recent Greenpeace Australia campaign. Of note, over the last 12 months we have seen increases in key drivers of reputation such as 'governance' and 'leadership'.	68.3
Grid-scale batteries installed and managed	850 MW	30 MW	While the capacity of grid-scale batteries currently installed and managed remains at 30 MW, development activities for several grid-scale batteries are underway, including plans for batteries at AGL Loy Yang, AGL Torrens and at the Liddell Power Station site. This is in addition to the Wandoan and Maoneng battery deals completed in FY20.	30 MW
Decentralised assets under orchestration	350 MW	130 MW	Our multi-asset virtual power plant (VPP) is made up of residential and business customer assets including batteries, demand response and back-up generation. The majority of this capacity reflects curtailable load and diesel generators at our commercial and industrial customer sites and was primarily contracted for the peak summer period to assist managing the AGL Energy position. Over the FY21 period the multi-asset VPP provided over 1 GWh of flexible energy across 50+ events.	72 MW

1. Excluding ActewAGL customers.

While the establishment and pursuit of these strategic priorities have served AGL Energy well, the significant changes that AGL Energy is facing in its operating environment have led to the proposed demerger of AGL Energy, as outlined above. Separation of AGL Energy into two distinct organisations will enable each business to set and execute its own strategy at a time of great change in the energy industry.

2.3 Risk management

AGL Energy's comprehensive, enterprise-wide risk management program, which is aligned with the principles and requirements of the international standard for risk management (ISO 31000), is detailed in the 2021 Corporate Governance Statement at **agl.com.au/coporategovernance**.

Through this framework, we identify factors that are critical to the successful delivery of our strategy and our ability to create value into the future.

2.3.1 FY21 Tier 1 Strategic Risks

We undertake a comprehensive annual process to assess the key risks to achieving our strategic priorities over the medium term. We define these as Tier 1 Strategic Risks. The Tier 1 Strategic Risks for FY21 are summarised below.

Risk mitigation strategies are in place for each of these risks, and the risks have been monitored throughout FY21 by the Audit & Risk Management Committee.

AGL Energy's risk profile has seen many of its key risks intensify across FY21. Sustained decreases in wholesale electricity pricing, significant state and federal government energy policy announcements, and an acceleration of the forces impacting AGL Energy's response to climate change have significantly impacted AGL Energy's strategic, financial and operational risk profiles. These interrelated forces have been shaping the business risk profile for some time and continue to intensify.

In addition, and partly as a consequence of these risks, the Board has indicated its intent to separate the business, which will allow the newly formed entities to better address the external threats in the medium term, but may also introduce risk in the short term. Mitigation planning and delivery is ongoing.

The broad changes identified in AGL Energy's strategic risk profile over FY21 are as follows:

- There have been increases in risks related to climate change (**climate change response** and **government intervention**) as key forces impacting the speed of AGL Energy's climate change response, including customer demand, community expectations and technology change, in addition to federal and state intervention in the electricity market, have all significantly affected AGL Energy's operating landscape.
- The medium-term outlook for wholesale electricity pricing remains low in comparison to historical averages (**wholesale market pricing and volatility**) due to general market conditions, including the impact of increasing renewables, and the above-mentioned government interventions in the electricity market. Planned market design rule changes may further impact on electricity pricing and margins going forward.
- If approved, the separation of AGL Energy into Accel Energy and AGL Australia has the potential to increase risk (**separation execution** and **organisational culture and capability**) in the period up to the demerger due to the complexity of the execution, and in the period post-demerger as the businesses transition.

Tier 1 Strategic Risk	Risk level over FY21	Relevant Business Value Driver
Wholesale market pricing and volatility: AGL is unable to effectively manage the impact of wholesale price changes and market volatility.		
Government intervention: AGL is not able to effectively anticipate, plan or respond to increasing uncertainty regarding government policy.		
Climate change response[1]: AGL is unable to meet expectations and/or deliver on its commitments to transition to a low carbon future within an acceptable timeframe.		
Regulatory intervention: AGL is not able to effectively anticipate or plan for regulatory intervention, or added restrictions and diversion of resource puts wider business objectives at risk.		
Resilience of generation/critical infrastructure[1]: AGL is unable to generate and maintain a resilient energy supply from generation assets and related critical infrastructure.		
Organisational culture and capability[1]: AGL is unable to foster a resilient, agile organisation that is built on strong and ethical behaviours, talented people, a focus on safety, and a customer-centric mindset.		
Market disruption: AGL does not (or cannot) adequately or appropriately respond to changing customer expectations and preferences regarding energy sources, prices and related products and services.		
Stakeholder trust: AGL's strategy to deliver on its social licence to all stakeholders is unclear, inconsistent, and/or poorly executed.		
Access to gas: AGL is unable to source sufficient quantities of gas to meet its future demand.		
Cybersecurity and resilience[1]: AGL's critical systems, platforms and technology infrastructure are compromised by a cyber, vendor or internal event.		
Investment planning and execution[1]: AGL's major investment decisions do not deliver on their intended benefits or outcomes for shareholders, customers and the community.		
Compliance and privacy[1]: AGL fails to comply with laws, regulations or other commitments made, including its privacy obligations.		

1. Risk name/definition has been updated slightly since FY20.

Legend

Significant increase in risk level compared to FY20

Increase in risk level compared to FY20

Stable risk level compared to FY20

In addition to the 12 Tier 1 risks under management set out above, AGL Energy identified two additional new/emerging risks over FY21, being the risks of **COVID-19 Operational Response** (described as the failure to manage the operational impacts of the COVID-19 pandemic and recovery) and **Separation Execution** (described as the inability to deliver transactional demerger of the business or deliver the functional separation of the business successfully).

2.3.2 Climate-related risks

AGL Energy has used the Task Force on Climate-related Financial Disclosures (TCFD) framework since 2018 to report on governance, strategy, risks and opportunities and performance in relation to climate change. Our FY21 TCFD Report 'Accelerating Our Transition' (available at **agl.com.au/specialreports**) provides a comprehensive breakdown of transition and physical risks and how those risks translate to the proposed Accel Energy and AGL Australia businesses, and includes a high-level assessment of the physical risks to our operated electricity generation assets arising from a warming climate.

Following the proposed separation, the climate risk profile for AGL Australia is expected to improve. The most material transition risk to remain for AGL Australia is expected to be increasing reputational risk posed by changing customer and other stakeholder sentiment. AGL Australia would be better positioned to manage this risk through the offsetting of its scope 1 and scope 2 emissions, continuing investment in and contracting of renewable energy, and by offering carbon neutral and green products to its customers. The transition to becoming a carbon neutral business could occur faster for AGL Australia than under AGL Energy's current structure.

For Accel Energy, the material transition risks would be similar to those of AGL Energy, apart from not being directly exposed to reputational risk from retail customer expectations. The remaining risks tend to arise from the rapid transition of the electricity market in Australia, and particularly are attached to the large emissions sources that will form part of Accel Energy's asset base. Being independent from a direct retail customer base and brand would allow Accel Energy to engage effectively with markets and policy makers to ensure a stable operating environment for its assets which supports the accelerated energy transition and also protects affordability and system security.

One of the key transition risks facing our thermal generation portfolio relates to rehabilitation provisions: faster decarbonisation could see asset closures brought forward, which may result in rehabilitation obligations occurring sooner. In FY21 AGL Energy undertook asset rehabilitation scenario analysis, in the context of the proposed demerger. It is anticipated that Accel Energy would face greater risk than AGL Energy arising from earlier closure scenarios, however the capital structure being considered for Accel Energy is specifically designed to mitigate the risks presented by the potential for earlier occurrence of rehabilitation obligations, especially in the case of early closure scenarios.

The TCFD Report also includes a more detailed assessment of physical climate risks and their impact upon the National Electricity Market (NEM) as well as location-specific risks across our generation portfolio. This analysis found that AGL Energy's asset portfolio is resilient to direct physical risks in part through its geographic distribution, and also through its technological diversity, which provides increased resilience to the impact of temperature increases on generation efficiency.

The key direct physical risks faced by AGL Energy's thermal coal fleet are consistent across all assets and include increasing frequency of extreme heat and fire events, as well as water security. The increasing duration and magnitude of heatwaves can reduce generator and network capacity as well as increase failure rates and maintenance costs. As thermal plant capacity decreases under all scenarios, it is anticipated that portfolio growth for both Accel Energy and AGL Australia will be in various renewable and storage technologies thus reducing the impacts of lowered thermal efficiencies to the portfolio.

Water security at thermal coal assets is also an increasing risk. Thermal coal assets use considerable quantities of water and as droughts increase with rising temperatures, water availability and security become increasing risks. AGL Energy's thermal assets have the benefit of a water supply licenced either in perpetuity or while electricity is being generated at the facility. The risk of these licences changing or being withdrawn is assessed as minimal.

All wind farms in AGL Energy's portfolio tend to face similar physical impacts, however their geographical separation would likely result in impacts not affecting all assets at the same time. Wind generation is also sensitive to any reduction in average wind speed as well as to increases in the frequency and magnitude of destructive gusts. AGL Energy has faced wind-related derating (i.e. decrease in available capacity) from both wind drought and extreme winds in the past, and we consider our broad geographical range of assets to be an effective mitigation strategy for this risk.

The hydro assets also face water security issues. The changing climate has caused a reduction in average rainfall across much of the NEM, reducing water available for hydro generation and thermal generation cooling consumption as well as increasing power requirements for desalination. At the same time, extreme rainfall events and flooding have increased. In addition to extensive operational expertise, the geographic distribution and diverse water sourcing strategies across the hydro portfolio provide resilience.

These risks are not unique to AGL Energy and are faced across the energy sector. As the sector continues to transition, the physical impacts of climate change resulting from the effects of existing greenhouse gas emissions will continue to increase. Over the coming decades, all businesses in the sector will need to continue to adapt to and mitigate these physical impacts.

3. Key Operating Metrics and Business Value Drivers

The following sections summarise the performance of AGL Energy's business over FY21. Performance is considered through two dimensions:

- **Key Operating Metrics** – These performance measures have a direct influence on AGL Energy's FY21 financial performance. The six key operating metrics comprise:
  - Customer numbers and churn;
  - Customer energy demand;
  - Wholesale electricity prices;
  - Generation volumes;
  - Fuel costs; and
  - Operating costs and capital expenditure.
- **Business Value Drivers** – These performance measures are critical to long-term value creation, however may have a less direct relationship to annual performance, and/or may influence financial performance over the longer term. For example, improved customer service, measured through fewer Ombudsman complaints and improved Net Promoter Score (NPS), could lead to higher customer retention and contribute to growth in customer numbers, contributing to future financial performance. The performance measures are divided into scorecards for each of AGL Energy's identified Business Value Drivers.

3.1 Key Operating Metrics performance

A summary of performance in relation to the six key operating metrics over FY21 is provided in the following sections.

3.1.1 Customer numbers

Total services to customers increased 6.4% to 4.208 million, from 3.954 million as at 30 June 2020. This increase was largely driven by the acquisition of Click Energy in September 2020, as well as continued organic customer growth through targeted marketing campaigns and the launch of AGL Energy's broadband and mobile phone services.

Consumer Electricity services increased by 162,000 through growth in Victoria, New South Wales and Queensland. Consumer Gas services increased by 64,000 through growth in New South Wales, Victoria and Western Australia.

Total broadband, mobile and phone services increased 16.7% to 196,000 following the launch of AGL-branded NBN and mobile offerings.

Services to customers	FY21 ('000)	FY20 ('000)
Consumer Electricity	**2,465**	2,303
New South Wales	**916**	861
Victoria	**759**	704
South Australia	**369**	363
Queensland	**421**	375
Consumer Gas	**1,530**	1,466
New South Wales	**634**	622
Victoria	**601**	559
South Australia	**136**	132
Queensland	**86**	86
Western Australia	**73**	67
Total Consumer energy services	**3,995**	3,769
Dual fuel services	**2,249**	2,118
Average consumer energy services	**3,947**	3,734
Total Large Business energy services	**17**	17
Total energy services	**4,012**	3,786
Total broadband, mobile and phone services	**196**	168
Total AGL Energy services to customers[1]	**4,208**	3,954

1. Excluding ActewAGL customers

AGL Energy churn was 14.3%, flat to the prior year at 30 June 2020. Rest of Market churn increased 0.3 ppts to 19.7% from 19.4% reported at 30 June 2020. Overall market churn has increased as the number of customers changing their energy provider has normalised to levels more consistent with before the start of the COVID-19 pandemic. The gap between AGL Energy and the rest of the market was 5.4 ppts, up from 5.1 ppts at 30 June 2020, reflecting alignment of targeted marketing strategy and market conditions, with increased retentions from movers and fewer customers switching.

3.1.2 Customer energy demand

Total electricity customer sales volumes were 40,567 GWh, up 218 GWh or 0.5%.

- Consumer customer electricity sales volumes were 14,608 GWh, up 768 GWh or 5.5%, largely due to the acquisition of Click Energy customers and growth in solar exports from AGL Energy customers.
- Large Business customer electricity sales volumes were 10,207 GWh, down 357 GWh or 3.4% due to increased competition and the impact of COVID-19 on demand, partly offset by a full year of Perth Energy volumes.
- Wholesale customer electricity sales volumes were 15,752 GWh, down 193 GWh or 1.2%, driven by lower consumption from AGL Energy's existing customer base.

Customer energy demand	FY21 GWh	FY20 GWh
Consumer customers electricity sales	**14,608**	13,840
Large Business customers electricity sales	**10,207**	10,564
Wholesale customers electricity sales	**15,752**	15,945
Total customer electricity sales volume	**40,567**	40,349

Total gas customer sales volumes were 158.4 PJ, up 2.9 PJ or 1.9%.

- Consumer customer gas sales volumes were 55.9 PJ, down 2.3 PJ or 4.0%, due to milder weather and reduction in small business demand, partly offset by an increase in residential customer market share and the inclusion of Click Energy customer volumes in the year.
- Large Business customer gas sales volumes were 19.4 PJ, up 3.6 PJ or 22.8%, driven by increased consumption from new customers, a full year of Perth Energy volumes and strong acquisition and retention performance.
- Wholesale customer gas sales and internal gas volumes for power generation were 83.1 PJ, up 1.6 PJ or 2.0%, driven by new customers and higher volumes from existing customers, offset by lower internal gas volumes used for power generation in South Australia due to lower generation in response to lower pool prices.

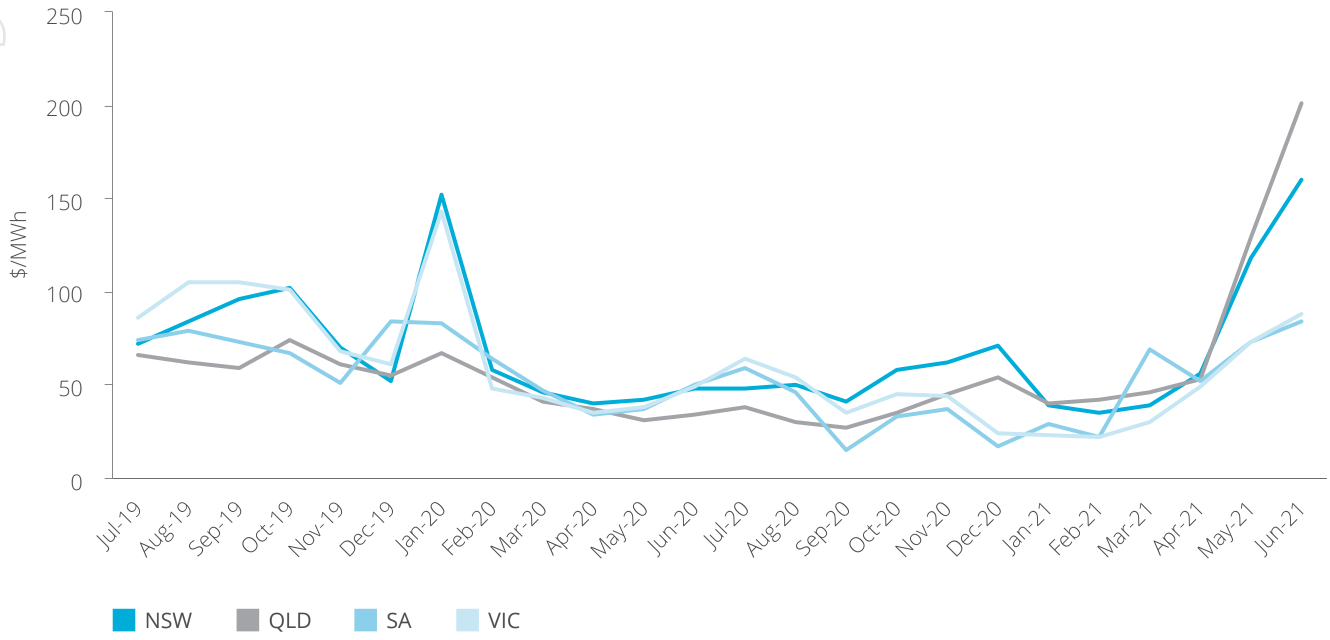
	FY21 PJ	FY20 PJ
Consumer customers gas sales	**55.9**	58.2
Large Business customers gas sales	**19.4**	15.8
Wholesale customers gas sales and generation	**83.1**	81.5
Total customer gas sales volume	**158.4**	155.5

3.1.3 Wholesale electricity prices

Wholesale electricity spot prices were lower across all states compared with the previous year. Industry supply increased, driven by increased grid-scale and rooftop renewable energy generation, and the deferral of major planned power station outages due to the COVID-19 pandemic. System customer demand decreased, due to mild weather, particularly in summer, and the ongoing impact of the COVID-19 pandemic. May and June 2021 had multiple periods of very high electricity prices across New South Wales and Queensland, driven by a combination of high winter demand and lower supply due to multiple planned and unplanned power station outages.

AGL Energy was largely hedged against these electricity spot prices, through its customer load, generation fleet and financial derivatives. Despite the largely hedged position, the average wholesale prices contracted for FY21 were lower than the prior year. AGL Energy's practice of signing contracts on a rolling two to three year forward time frame means that today's lower wholesale prices will translate into lower contracted prices in the future.

Wholesale electricity prices (AEMO spot prices)



3.1.4 Generation volumes

Generation sold to the pool decreased by 6.1%, driven by lower coal-fired generation at AGL Macquarie due to higher planned and unplanned outages, and lower gas-fired generation at AGL Torrens in response to lower pool prices. Higher generation from AGL Energy's wind assets was driven by Coopers Gap Wind Farm in Queensland coming on line, partly offset by lower availability from Victorian wind farms largely due to unplanned outages. AGL Loy Yang Unit 2 operated at normal levels during the period, following the prolonged outage over FY19 and FY20.

Pool generation volumes	FY21 GWh	FY20 GWh
AGL Macquarie (Bayswater Power Station)	**13,056**	14,330
AGL Loy Yang Power Station	**14,626**	13,037
AGL Macquarie (Liddell Power Station)	**6,610**	9,581
Gas Generation	**2,159**	2,582
Renewable generation	**4,686**	4,298
Total pool generation volumes	**41,137**	43,828

3.1.5 Fuel costs

Total fuel costs for the electricity generation portfolio were $(857) million, down 15.4%.

- Coal costs were $(627) million, down 16.1%, driven by lower generation volumes. On a per MWh basis, costs decreased by $1.9 per MWh or 9.4%. This was driven by a higher proportion of coal delivered from legacy contracts, as well as access to lower spot coal prices due to trade embargoes from China making this coal available to domestic markets.
- Gas fuel costs were $(230) million, down 13.5%, due to lower generation volumes in response to lower pool prices. On a per MWh basis, costs increased by $3.5 per MWh or 3.4%. This was driven by the impact of legacy lower cost supply contracts maturing and increases in gas transportation costs.

Generation fuel costs	FY21 $m	FY20 $m	FY21 $/MWh	FY20 $/MWh
Coal	**(627)**	(747)	**(18.3)**	(20.2)
Gas	**(230)**	(266)	**(106.5)**	(103.0)
Total generation fuel costs	**(857)**	(1,013)	**(20.8)**	(23.1)

Total wholesale gas costs were $(1,314) million, up 4.5% largely due to higher transportation and storage costs due to an increase in gas stored at Iona, and an increase in volumes purchased on shorter supply contracts. On a per GJ basis, costs increased by $0.2 per GJ or 2.5%, driven by increases in fixed haulage and storage costs. The impact on gas purchases of legacy supply contracts maturing was offset by lower oil prices, with most of AGL Energy's mid- to long-term contracts indexed to oil.

Total wholesale gas costs	FY21 $m	FY20 $m	FY21 $/GJ	FY20 $/GJ
Gas purchases	**(967)**	(950)	**(6.1)**	(6.1)
Haulage, storage & other	**(347)**	(308)	**(2.2)**	(2.0)
Total wholesale gas costs	**(1,314)**	(1,258)	**(8.3)**	(8.1)

3.1.6 Operating costs and capital expenditure

Total operating costs (excluding depreciation and amortisation) were $(1,619) million, down 1.9%. There were a number of cost increases specific to the year, including the full year impact of Southern Phone Company, step up in costs from the AGL Telecommunications growth and launch, and newly acquired businesses ($47 million), incremental COVID-19 related net bad debt expense, reflecting heightened repayment risk relating to COVID-19, and other customer support initiatives ($9 million), COVID-19 driven reductions in leave taken ($6 million), and expenditure on fully impaired assets that would have historically been treated as capital ($17 million - see Section 4.1.2).

Excluding these specific cost increases**,** total operating costs were $(1,540) million, down 6.7%. Cost savings were driven by prior year investment in digital transformation initiatives, as the benefit of these initiatives were reflected in the results and the amount of further investment in FY21 was significantly reduced (by $31 million) in addition to further cost out initiatives ($91 million). These savings were partly offset by Enterprise Agreement cost increases ($11 million).

Operating costs	FY21 $m	Restated FY20 $m
Customer Markets	**(517)**	(527)
Integrated Energy	**(790)**	(765)
Investments	**(2)**[1]	–
Centrally Managed Expenses	**(310)**	(359)
Total operating costs (excluding depreciation and amortisation)	**(1,619)**	(1,651)

1. Investments includes $(1) million operating costs attributable to non-controlling interests

Total capital expenditure was $707 million, an increase of $22 million:

- Sustaining capital expenditure was $534 million, an increase of $27 million. This comprised $363 million of expenditure on AGL Energy's coal-fired plants, up $20 million, driven by deferred outages from FY20 occurring in FY21 at AGL Macquarie, partly offset by the deferral of outage work from FY21 into FY22 at AGL Loy Yang due to COVID-19 related personnel restrictions on site. Other sustaining capital expenditure was $171 million, up $7 million, due to a deferred outage from FY20 occurring in FY21 for Gas Generation.
- Growth and transformation capital expenditure was $173 million, a decrease of $5 million. In the current year, there was increased spend on systems to support AGL Energy's expansion into the provision of telecommunications services and development of the cancelled LNG import jetty at Crib Point. More than offsetting these increases was the non-recurrence from the prior year of the $62 million completion of construction on the Barker Inlet Power Station.

Capital expenditure	FY21 $m	Restated FY20 $m
Customer Markets	**87**	69
Integrated Energy	**556**	563
Centrally Managed Expenses	**64**	53
Total capital expenditure	**707**	685
Sustaining	**534**	507
Growth and transformation	**173**	178
Total capital expenditure	**707**	685

3.2 Business Value Driver performance

A summary of our performance in relation to each of AGL Energy's Business Value Drivers is provided in the following sections. Time series data for the Business Value Driver key performance indicator

s as well as performance data for an extended range of non-financial metrics is available in the FY21 **ESG Data Centre.** The key performance indicators included in each scorecard should be read in conjunction with the Glossary to the Business Value Drivers on page 187.

Targets for FY21 which were set in the FY20 Annual Report have been noted for relevant key performance indicators, with the assessment of performance against the target indicated according to the legend below. Performance against the FY24 strategic targets which were set in FY20 is also noted. Key performance indicators that are linked to the FY21 remuneration outcomes for the CEO and Key Management Personnel are also identified as outlined in the legend below.

Legend

● (green)	Performance meets FY21 target / Performance is on track to meet FY24 target	● (red)	Performance does not meet FY21 target / Performance is significantly off track compared to FY24 target
(coin stack)	KPI linked to FY20 remuneration outcomes for CEO and Key Management Personnel	● (orange)	Performance is off track compared to FY24 target

3.2.1 Customer scorecard

Customers

Over FY21, AGL Energy's total services to customers grew to 4.2 million[1], continuing our expansion as Australia's largest multi-product energy retailer. Energy consumer churn was 14.3%, below the rest of market at 19.7%. Refer to Section 3.1.1 for more details.

Building trusted customer relationships

As well as growing services to customers, strong momentum was maintained on the key customer advocacy measure of NPS, reflecting an ongoing commitment to ensuring we put the customer at the centre of everything we do. FY21 saw further growth in strategic NPS of +2.6 points, finishing the year with a score of +4.9, a positive result given the challenges evident in the market throughout the year.

Customer First, a focused, three-year program to reduce Ombudsman complaints by 50% against FY18 volumes by the end of FY22 delivered significant uplifts to systems, data capture and processes. Direct benefits have flowed through to improve customer experience and reduce complaints, contributing to improved event NPS scores and a 23% reduction in Ombudsman complaints for FY21 compared to FY20 and a 48% reduction against FY18 volumes, nearing our target one year ahead of schedule.

		Targets		FY21	FY20
Net Promoter Score (NPS)	(coin stack)	FY21: Targeting continued positive trend in NPS	● (green)	+4.9	+2.3
Ombudsman complaints		FY21: ≤ 7,731	● (green)	5,973	7,731

Energy affordability and supporting customers experiencing vulnerability

FY21 commenced with close to 40,000 residential and small business customers being supported by our COVID-19 Support Program and regulatory restrictions on collections activities given the AER's Statement of Expectations for all energy retailers and ESC's written guidance to customers. The recommencement of collections activity (in August for National Energy Customer Framework states and in February 2021 for Victoria) drove an increase in customers seeking support but with higher average arrears given the delay in onboarding to our Staying Connected program. During FY21, over $17 million in debt relief and payment matching was applied to the accounts of customers participating in our Staying Connected program and the net number of customers remained consistent.

AGL Energy's Energy Literacy program dedicated $6 million over three years (FY19-FY21) to initiatives aimed at improving energy education and supporting customers experiencing vulnerability. Through 32 targeted initiatives, AGL Energy has established enduring funding models to help subsidise the cost of energy for the most disadvantaged, provided energy efficiency upgrades and home energy audits for customers on low incomes, installed solar on community housing, helped concession holders complete paperwork to access grants and rebates and commenced a program of work to provide more accessible communications for customers including being the first energy retailer to translate materials into Easy English.

1. Excluding ActewAGL customers.

	FY21	FY20
Number of customers on Staying Connected	26,263	28,051
Average level of debt of customers on Staying Connected	$2,768	$2,293
Total average debt across mass market customer portfolio	$292	$319

Carbon neutral

Through AGL Energy's Climate Statement, we committed to offering our customers carbon neutral options across all of our products. We have delivered on this commitment by meeting these key milestones:

- On 1 July 2020, we launched our flagship product, carbon neutral electricity certified by Climate Active. In FY21, 47,000 customers chose to offset the greenhouse gas emissions associated with their electricity use.
- On 25 November 2020, we expanded carbon neutral options to gas. In FY21, 18,000 customers chose to offset the greenhouse gas emissions associated with their gas use.
- By the end of June 2021, carbon neutral options were available on all AGL Energy products, including Climate Active certified mobile, telco, solar, batteries and business energy solutions. This includes over 195,000 mobile, internet and home phone services where the greenhouse gas emissions associated with these services are offset for no extra cost.

AGL Energy now has over 260,000 carbon neutral services, including more than 65,000 carbon neutral energy services and 35 commercial and industrial customers. Our carbon neutral customers help support offset projects that reduce or remove greenhouse gas emissions. From reforestation in New South Wales to energy efficiency projects in Cambodia, the projects we have chosen provide benefits to local communities in a range of other ways, including employment opportunities, reduced pollution, improved health and financial wellbeing.

3.2.2 Communities & Relationships scorecard

Communities & Relationships

Brand and reputation

AGL Energy's FY21 RepTrak score was 66.7, which was 1.4 points lower than AGL Energy's highest ever recorded reputation score of 68.3 for the same time last year. Overall, AGL Energy has maintained the increase in reputation achieved since FY18 despite the ongoing impacts of COVID-19 as well as significant events during FY21 including the announcement of the proposed demerger, leadership changes, and the recent Greenpeace Australia campaign. Of note, over the last 12 months we have seen increases in key drivers of reputation such as 'governance' and 'leadership'.

In May 2021 AGL Energy brought legal action against Greenpeace in the Federal Court to stop the use of AGL Energy branding on Greenpeace's ad campaigns which called for the early closure of our coal generators. AGL Energy was granted an injunction relating to some instances of unauthorised use of our logo, and while only partially successful, we maintain that it is reasonable to ask that any third-party use of our logo respects our intellectual property rights. We will continue to engage in constructive dialogue with Greenpeace and all other organisations who play a role in holding government and companies to account as part of the transition to a clean energy future. We welcome the opportunity to be part of the public debate and play a leadership role in the clean energy transition.

	Target	FY21	FY20
RepTrak score	FY24: >70	66.7	68.3

Transparent policy and industry engagement

It is important to our stakeholders that our involvement in public policy development is undertaken transparently and consistently. Submissions to government processes are published on AGL Energy's online channel, **the Hub**. Further, the community expects that corporations should not have an undue level of influence on government policy by providing financial contributions to political parties that could result in, or could be perceived to result in, preferential treatment. We adopted a Political Donations Policy in August 2015, which prohibits AGL Energy from making political donations. No political donations (monetary or in-kind) were made during FY21, nor were any political donations made through third parties.

AGL Energy has an Industry Association Membership Policy which formalises our commitments to monitor the policy positions and public advocacy of industry associations of which we are a member and to disclose all memberships, membership fees, and areas where AGL Energy's policy positions differ materially from the associations of which we are a member. These disclosures are available in the **ESG Data Centre**.

We continue to engage with all levels of government as we progress plans for both the closure of Liddell Power Station and the potential redevelopment of the site. In addition, AGL Macquarie has a Community Dialogue Group consisting of stakeholders from local councils, business and industry groups, Traditional Owners and local residents, to ensure there is a formal voice for the community during the Liddell transition.

Community contribution and investment

We invest in the communities in which we operate through a structured program of community investment. During FY21, we commenced a review of these investments as part of our Social Impact Framework development. The aim of the review is to align our investment more closely to AGL's core purpose, capabilities and stakeholder expectations, focusing on fewer areas of investment so we can have greater impact.

Overall community contributions for FY21 were $5.2 million. During FY21, we made improvements to the way in which we account for community contributions, to provide further alignment with the Business for Societal Impact's (B4Si) framework, a recognised global standard for measuring and managing social impact. Aspects of the Energy Literacy Program (refer to Section 3.2.1) as well as the value of Defence Force and Emergency Services volunteering undertaken by our employees have been included in the FY21 data following improvements made to the processes for identifying and gathering social investment data across the organisation. Approximately $1.6 million of management costs are also included, which have not been accounted for in prior years[2]. Naming rights retail sponsorships which were historically included as part of AGL Energy's community contribution are no longer included from FY21 to provide greater alignment with the B4Si framework.

We continue to engage proactively with the communities where we operate, and have increased our engagement with the Traditional Owners of lands where our sites are located. In FY21, AGL received conditional endorsement for its inaugural Innovate Reconciliation Action Plan (RAP) from Reconciliation Australia and we expect to publicly launch our RAP later in 2021. The RAP brings together our vision and commitments for reconciliation into one framework with 59 commitments to be delivered over a two-year period (FY22-FY23), with a focus on the reconciliation pillars determined by Reconciliation Australia: Relationships, Respect and Opportunities.

We are committed to meeting all our tax compliance obligations, and to providing our stakeholders with information about the taxes we pay. In this regard we have adopted the Board of Taxation's voluntary **Tax Transparency Code**. Our effective tax rate on Underlying Profit is broadly in line with the Australian corporate tax rate of 30%. The effective tax rate has declined for FY21 due to prior year adjustments.

	FY21	FY20
Community contribution	$5.2 m	$4.3 m
Underlying effective tax rate	27.0%	29.1%

3.2.3 People scorecard

People

Safety and wellbeing

TIFR for employees and contractors decreased by 30% compared to FY20, however we recognise that there is still more to do to drive our safety performance to zero injuries. Key contributing factors to the injuries sustained included inadequate identification and control of hazards, mind on task/distraction issues and incorrect techniques and work methods used for routine tasks. Based on near-miss incident data, we are also focused on dropped/falling objects, contact with electricity, and uncontrolled release of energy/isolation procedures.

Contractor performance has significantly improved in FY21 due to an increased focus on active engagement prior to and during major outages across our operations.

	Targets	FY21	FY20
TIFR employees	-	1.7	2.6
TIFR (employees + contractors)	FY21: ≤ 3.4, always aiming for zero injuries	2.3	3.3
Fatalities (employees + contractors)	FY21: 0	0	0
High potential near miss: recordable incident ratio	FY21: ≥ 0.9:1	1.1: 1	0.9:1

Culture and values

AGL Energy's FY21 engagement score was 62%, down 11 percentage points from 73% in FY20. The decline in employee engagement is reflective of the challenging operating context throughout the year and the uncertainty experienced by our people in relation to the proposed demerger.

The proportion of females in AGL Energy's senior leadership pipeline (SLP) was 36%, down from 38% last year. There have been numerous restructures and acquisitions that have impacted the overall composition of our workforce. Over the last 12 months we have reviewed gender pay equity twice and the average pay gap for like-for-like roles is 0%.

2. Management costs for FY20 were around $2.1 million. These costs were not included in the community contribution of $4.3 million for FY20.

We have maintained our focus on building a diverse and inclusive workplace, concentrating on six key dimensions: gender; LGBTQ+ inclusion; families and carers; family and domestic violence; disability; and cultural identity. During FY21 we launched a pilot of the Australian Network on Disability's 'PACE Mentoring Program' at AGL Energy. This involves five mentors from our Disability Working Group volunteering for four months to mentor job seekers and students who identify with disability.

For the second consecutive year and for the fourth time, in May 2021 AGL Energy was recognised as one of the most inclusive workplaces for LGBTQ+ people in Australia, receiving Gold Employer Status in the 2021 Australian Workplace Equality Index. Executive Sponsor of our employee network 'AGL Shine', Christine Corbett, also received Executive Leader of the Year at the Australian LGBTQ Inclusion Awards.

	Targets	FY21	FY20
Employee engagement	FY21: ≥ 73%	62%	73%
Gender mix in SLP (% female)	FY23: Meet gender diversity objectives outlined in AGL's Corporate Governance Statement	36%	38%
Material breaches of Code of Conduct	FY21: 0	0	0

Talent and leadership

Our focus on developing leaders at all levels continued throughout the year, with programs in place for critical management skills, building adaptive leadership capacity, along with executive level coaching and advisory support. Key talent retention was strong throughout FY21, and is reflective of overall retention. However, the uncertainty caused by the proposed demerger and the general negative outlook across the energy industry is currently challenging retention of key senior capabilities and employees across the business.

AGL Macquarie is committed to having no forced employee redundancies as a result of the closure of the Liddell Power Station. We have established the Liddell Transition Team and executive-led functional working groups to support AGL Energy's goals for the transition of the Liddell site and workforce. We have also established the 'Future U Hub' on site at Liddell, from which all employee and contractor support and advice services are delivered, including training and development services; financial planning support; personal, family and career counselling; and individual transition planning such as career transition and outplacement services.

	Targets	FY21	FY20
Attrition (total workforce)	-	10%	9%
Key talent retention	FY21: >80%	95%	98%

3.2.4 Environment scorecard

Environment

AGL Energy is committed to reporting in line with the Task Force on Climate-related Financial Disclosures (TCFD) framework. AGL Energy's FY21 TCFD Report, 'Accelerating Our Transition', is available at **agl.com.au/specialreports**. A summary of our approach to climate-related risks is also included in Section 2.3.2 of this report.

AGL Energy's climate commitments are documented through the AGL Climate Statement, released in June 2020. The Climate Statement, which builds upon AGL Energy's Greenhouse Gas Policy (2015), includes our goal of achieving net zero emissions by 2050 and sets out five key climate commitments. A summary of the progress which AGL Energy has made against each commitment during FY21 is available in our FY21 TCFD Report.

As discussed in Section 2.1, climate transition statements for Accel Energy and AGL Australia have been developed, both of which recognise that the need to take action on climate change is intensifying. These statements, which can be found in the FY21 TCFD Report, signal our intention for the new businesses to deliver detailed climate change roadmaps with specific decarbonisation targets. Transparency remains a central tenet, with both businesses maintaining commitments to continue leading practice in terms of reporting and openly engaging with stakeholders on their transition journeys. To further reinforce this commitment, we recently announced that shareholders will be provided with an opportunity to have their say on the climate reporting for both Accel Energy and AGL Australia at the first Annual General Meeting for each organisation. AGL Energy has a proven track record of market leading disclosure and this commitment ensures that this legacy of transparency and engagement will be a foundation of both new entities.

In our FY20 TCFD Report 'Pathways to 2050', we provided detailed scenario analysis of potential future carbon reduction pathways to understand the long-term implications for AGL Energy's generation fleet, customers, and the NEM more broadly.

During FY21, we examined the FY20 scenario analysis in the context of the rapidly changing market environment. The four scenarios that were modelled remain relevant, however changes arising from lower wholesale electricity prices, government policy directions and the COVID-19 pandemic over FY21 indicate that a faster climate transition pathway is now becoming the most dominant scenario.

During FY21 we also considered the implications of the FY20 scenario analysis for the proposed Accel Energy and AGL Australia businesses. The emissions trajectories under the modelled scenarios remain materially similar for AGL Energy and the proposed Accel Energy business, while AGL Australia's emissions would be significantly reduced and largely a function of more variable peaking generation assets.

Greenhouse gas emissions

AGL Energy's total greenhouse gas emissions decreased in FY21, primarily due to reduced generation from Liddell and Bayswater power stations resulting from increased outages. This was partly offset by increased generation from AGL Loy Yang relative to FY20 when the major outage of Unit 2 constrained output. Generation from AGL Torrens also decreased, due to the mothballing of its A2 and A4 units as Barker Inlet Power Station had its first full year of operation. While renewable generation also increased, the overall emissions intensity of generation increased due to the increased output from AGL Loy Yang which has the highest emissions intensity of AGL Energy's assets.

The mothballing of two units at AGL Torrens contributed to a slight increase in the proportion of AGL Energy's controlled generation capacity that is renewable or electricity storage, however several grid-scale batteries are under development (refer to Section 3.2.5 for more details).

The emissions intensity of total revenue has increased as a result of declining revenue in FY21. The increase in revenue from green energy and carbon neutral products is driven by residential solar revenue and carbon neutral products, partly offset by decreased pool revenue from renewable generation in FY21. Further information in relation to carbon neutral products is available in Section 3.2.1.

	Targets	FY21	FY20
Operated scope 1 & 2 emissions ($MtCO_2e$)	FY50: Net zero	40.8	42.7
Controlled generation intensity (tCO_2e/MWh)	FY21: Improvement on FY20, consistent with objectives of the FY21 LTI FY24: 0.845	0.951	0.931
Controlled renewable and battery capacity (%)	FY21: Improvement on FY20, consistent with objectives of the FY21 LTI FY24: 34%	23.0	22.5
Emissions intensity of total revenue ($ktCO_2e/\$m$)	-	3.7	3.5
Revenue from green energy and carbon neutral products (%)	FY21: Improvement on FY20, consistent with objectives of the FY21 LTI FY24: 20%	13.4	11.5

Rehabilitation

AGL Energy is committed to providing ongoing, transparent disclosure in relation to our approach to the progressive and final rehabilitation of assets at the end of their operational lives. AGL Energy has recently completed a review of our long-term rehabilitation obligations, in line with commitments made in the 2017 Rehabilitation Report. At the same time, the discount rate used to derive the present value of the estimated cash flows was reduced from 10% to 3%, consistent with standard accounting practice. The review resulted in an increase in the provision for environmental restoration of $1,112 million, which was reflected in AGL Energy's financial statements for the period ended 31 December 2020.

AGL Energy currently undertakes progressive rehabilitation activities across a number of operational sites. These progressive rehabilitation activities cover AGL Energy's obligations to:

- progressively rehabilitate the parts of the Loy Yang Mine that do not impact ongoing production;
- manage and progressively cap ash dams and voids at AGL Macquarie; and
- progressively decommission gas wells that have ceased production in the upstream gas portfolio.

The updated provision accounts for an increase in the scope and cost of the above progressive rehabilitation activities. Further, additional works are now required to meet AGL Energy's end-state compliance obligations, which have increased due to a combination of both updated regulatory requirements and the establishment of formal closure plans as some assets approach end of life. These additional works will result in an increase in the cost to deliver AGL Energy's rehabilitation program. The key drivers of increases in the estimated costs are as follows:

- an increase in the lake level, shoreline and associated mine battering for the Loy Yang Mine, in line with AGL Energy's latest rehabilitation plan and the Latrobe Valley Regional Rehabilitation Strategy;
- an increase in the estimated area and restoration efforts required for both the Liddell ash dam and Ravensworth void at AGL Macquarie in line with committed rehabilitation plans;
- an increase in the estimated work required to decommission gas wells at both Camden and in the Surat Basin, aligning to Codes of Practice in NSW and Queensland; and
- inclusion of additional project management costs to align with an owner-led delivery model, ensuring that AGL Energy oversees delivery of its obligations.

A more granular breakdown of the forecast costs and updated provision amount as at 30 June 2021 is provided below, for each major generation site and AGL Energy's upstream gas portfolio. For completeness, other smaller assets in the portfolio, as well as joint venture assets, have been included as "Other".

Asset	Planned closure date	Provision amount ($m)	Rehabilitation costs Nominal FY21 ($m)	Rehabilitation costs Real FY21 ($m)
AGL Loy Yang	2048	404	1,053	465
AGL Macquarie (Liddell and Bayswater)	2022 - 2035	663	947	702
AGL Torrens	2035	68	122	74
Upstream Gas Assets	2023 - 2033	180	252	192
Other	Various	137	223	145
		1,452	**2,597**	**1,578**

Provisions for environmental restorations are detailed in Note 19 to the Consolidated Financial Statements. Progressive rehabilitation of ash dams and mines associated with AGL Energy's coal generation assets, as well as decommissioning and rehabilitation of gas production wells undertaken in FY21, is outlined in the **ESG Data Centre**.

Other environmental risks

The number of environmental regulatory reportable (ERR) incidents in FY21 increased to 11 from nine in FY20. Four of the 11 ERR events in FY21 were community complaints in relation to visible dust at Loy Yang Mine during periods of very high winds.

AGL Energy received two official cautions and two penalty infringement notices (PINs) for events that occurred in FY21. AGL Energy also entered into an Enforceable Undertaking with the NSW Environmental Protection Authority (EPA) for an event that occurred on 4 September 2019 (FY20). Further details relating to these PINs, as well as other EPA matters, are included in the Environmental regulation section.

The New South Wales and Victorian EPAs have now completed their reviews of the Environmental Protection Licences (EPL) for all coal-fired power stations in Victoria and New South Wales.

- **Bayswater Power Station and Liddell Power Station** - The review includes several changes, including reductions to the emissions limits for Sulphur Oxides, Nitrogen Oxides and Particulates, the addition of continuous monitoring for particulate matter and additional quality assurance requirements associated with emission monitoring systems.
- **Loy Yang A Power Station** – the Victorian EPA has concluded its review of Loy Yang's EPL and issued the amended licence on 5 March 2021. Key changes include reduction of emission limits for existing parameters, introduction of limits for mercury and fine particulate matter (PM_{10} and $PM_{2.5}$), introduction of daily and monthly public reporting of air emissions data, requirements to complete 12-month monitoring programs for Class 3 Indicators (hazardous pollutants) and fine particulate matter, and requirements to develop additional monitoring and management plans. The amended limits took effect on 1 June 2021 and an implementation program is in place to ensure all new licence conditions are complied with by the required dates.

		FY21	FY20
Environmental Regulatory Reportable incidents	-	11	9

3.2.5 Infrastructure scorecard

Infrastructure

AGL's operated generation capacity as of 30 June 2021 was 10,984 MW. A map of AGL Energy's assets is available in Section 1.1. The output from our electricity generation portfolio is outlined in Section 3.1.4.

Generation efficiency and availability

AGL Energy's Equivalent Availability Factor in FY21 was lower than in FY20 as a result of an extensive planned outage program, led by the largest maintenance outage works ever undertaken at Bayswater Power Station. Accompanying this was good operational performance across other parts of AGL Energy's fleet. For example, Loy Yang A Power Station delivered its strongest availability result in the past five years. Bayswater Power Station had significantly lower boiler tube leak downtime as a result of the implementation of a boiler tube leak reduction program. Liddell Power Station's overall output was lower compared to last year, primarily due to a generator transformer issue that caused an extended outage. We are continuing to focus on maintaining predictable performance at Liddell Power Station in FY22 throughout transition to retirement.

Programmed energy efficiency uplifts have been delivered at Bayswater Power Station as part of the FY21 planned outage schedule. This has included plant design modifications to enable online maintenance of feedwater heaters, ensuring generation performance and minimising site emissions intensity. Work has also been performed on improving coal boiler efficiency thus further reducing plant emissions intensity. In FY22 similarly scoped programs are being deployed on adjacent Bayswater units.

	FY21	FY20
Equivalent Availability Factor (EAF)[1]	73.7%	76.9%

1. Equivalent Availability Factor is strongly linked to commercial availability, which is currently a targeted remuneration outcome for some Key Management Personnel.

Market transformation and development

As reflected in our Climate Statement, AGL Energy is committed to continuing to invest in new sources of electricity supply through direct investment and offtake agreements. During FY21 we continued our strong track record of investing in renewable and peaking generation as well as energy storage projects:

- Through our investment in Powering Australian Renewables (PowAR), we contributed $357.6 million to fund the acquisition of Tilt Renewables' Australian business. The acquisition was completed in August 2021.
- Development activities for several grid-scale batteries are underway, including plans for batteries at AGL Loy Yang, AGL Torrens and at the Liddell Power Station site. This is in addition to the two major battery deals that were completed in FY20, comprising a 15-year agreement with Vena Energy for full operational dispatch rights for the 100 MW Wandoan Battery in Queensland commencing in October 2021, and an innovative derivative agreement with the Maoneng Group to secure capacity on four 50 MW batteries in New South Wales which will be operational from 2023.
- We have made a $5 million equity investment in RayGen. RayGen is an Australian solar power and renewable energy storage company that aims to develop Australia's largest, most innovative and lowest-cost renewable energy storage project. RayGen is in the construction phase of its first project at Carwarp in Victoria and AGL has agreed to be the offtaker and dispatcher of the plant's output and storage. In addition, we are undertaking a pre-feasibility to locate a project on the Liddell Power Station site.

We also continue to invest in our orchestration platform for the management of decentralised assets. Our multi-asset virtual power plant (VPP) is made up of residential and business customer assets including batteries, demand response and back-up generation. The majority of this capacity reflects curtailable load and diesel generators at our commercial and industrial customer sites and was primarily contracted for the peak summer period to assist managing our position. Over the FY21 period the multi-asset VPP provided over 1 GWh of flexible energy across 50+ events. Decentralised assets under orchestration rose from 72 MW in FY20 to 130 MW in FY21, on track to meeting a target of 350 MW in FY24.

	Targets	FY21	FY20
Grid-scale batteries installed and managed	FY24: 850 MW	30 MW	30 MW
Decentralised assets under orchestration	FY24: 350 MW	130 MW	72 MW

In May 2021, AGL Energy confirmed that we would cease any further development of the proposed liquified natural gas import jetty at Crib Point. This followed the Independent Advisory Committee findings and the Victorian Planning Minister's determination in March 2021 that the project would have unacceptable environmental impacts. AGL Energy has a highly flexible gas portfolio and a supply strategy which will enable customer demand to be met from existing and new domestic supply sources and proposed third party regasification projects, leveraging LNG supply options that were developed for the original Crib Point project.

Liddell Power Station transition

We remain committed to not extending the technical life of our coal-fired power plants and have made a strong commitment to driving the decarbonisation of the energy sector and the continued investment in new renewable and near-zero emissions technologies. The first of our coal-fired power stations to close will be Liddell Power Station, which will close units progressively in FY22 and FY23. As we enter the final two years of operations at Liddell, we are progressing with decoupling shared infrastructure and controls that support both the Liddell and Bayswater power station operations and continue to detail unit retirement and Liddell decommissioning plans. We have commenced detailed closure, demolition and rehabilitation scoping that supports the submission of our Station Closure and Ash Dam Closure plans.

AGL Energy is currently undertaking transition planning to support the redevelopment of the Liddell precinct into an Energy Hub following the closure of the power station. AGL Energy also plans to develop a 500 MW grid-scale battery at the site, which is part of the 850 MW multi-site integrated battery system that AGL Energy aims to develop by FY24. Our focus continues to be on supporting our people and local communities through this change (refer to Sections 3.2.2 and 3.2.3).

AGL Energy is working with Delta Group on the first stage of closure planning, decommissioning and demolition methodology scoping. AGL Energy's transition program is about ensuring the safety of our people and preparing other sources of generation to continue delivering reliable electricity. We are continuing to work on a number of plans for the Liddell site as we develop an Energy Hub which include options such as battery storage, waste to energy, solar thermal and storage, an energy industrial park, and a logistics and rail hub.

3.2.6 Systems & Processes scorecard

Systems & Processes

Analytics

AGL Energy collects data across its generation, trading, retail, and commercial businesses which constitutes a significant and substantial data asset. We have developed a leading data and analytics ecosystem that connects millions of distributed assets and data points, ensuring our data is trusted, protected and readily accessible. Advanced solutions provide deeper insights across AGL Energy, enabling optimised generation performance, new customer experiences and products.

One example is the machine learning capabilities embedded at our thermal assets to improve reliability and availability, including the installation of algorithms to optimise asset performance. We have also prototyped predictive algorithms to scan operating conditions and detect non-optimised performance to prevent plant constraints. In addition, automated data processes were implemented to comply with the new EPA General Environmental Duty, introduced in June.

We are also innovating and investing in new digital data led services for customers, recently launching performance monitoring for solar customers which flags potential faults and offers troubleshooting via the app and web.

System capabilities to optimise experience

AGL Energy has undertaken a number of initiatives to increase the percentage of Digital Active customers, including: optimising existing and new customer communications to have a digital focus; launching nbn and mobile functionality within the AGL app and MyAccount; integrating systems to allow the smooth flow of customer information between SAP and our digital service assets; creating new, and enhancing existing, campaigns to increase awareness of our online channels and their features; introducing new payment support features within MyAccount and the AGL app; and successfully onboarding Click Energy customers to AGL Energy's digital service assets.

We have also invested to transform the large commercial and industrial customer digital experience, launching the Business Customer Portal and enhancing our digital progressive purchasing product. With over 4,500 registered enterprises representing more than 180,000 sites, the digital platform enables customers to seamlessly interact with their account to manage and access site information, billing, usage and enhanced reporting data.

Even with the variable environment of COVID-19 and working from home, IT system stability was good throughout FY21. However, the increased rate of change and increased service complexity, driven in part by the introduction of new products and services such as NBN/Telco, have driven a corresponding increase in the number of major IT incidents. Investments in FY21 have focused on transformation of applications into cloud to improve cybersecurity, reduce end-of-life risk and leverage the flexibility of the public cloud. The cloud transformation has been underpinned by a broad skills uplift through AGL Energy's internal Cloud Academy training programme.

	Targets	FY21	FY20
Major IT incidents	-	52	33
Digitally active energy services to customers	FY24: 65%	50.4%	43.7%

Data security and process governance

AGL Energy collects large volumes of data from and about our customers to provide our products and services and to comply with the law. We recognise that customer data protection and privacy is critical to both our customers and our operations, and our **Privacy Policy** is designed to drive consistency to ensure that privacy is at the forefront of everything we do. We have targeted improvements in privacy and data management over the last 12 months, including a focus on data governance, classification and retention to better integrate the management of data and technology through a lens of customer privacy.

During FY21 we had no notifiable data breaches under the Privacy Act 1988 Mandatory Data Breach Reporting regime.

	Targets	FY21	FY20
Reportable privacy incidents	FY21: 0	0	1

Modern Slavery

In December 2020, AGL Energy published our first Modern Slavery Act Statement for FY20, detailing AGL Energy's modern slavery governance framework, a summary of AGL Energy's modern slavery risks inherent within our operations and supply chains, and various mitigation and remediation strategies. Our Modern Slavery Act Statement for FY21 will be available on our website later in 2021.

4. Group Financial Performance and Position

4.1 Group results summary

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

Statutory Loss after tax was $(2,058) million, down $(3,065) million compared with the prior year. This included two items excluded from Underlying Profit:

- Significant items of $(2,929) million from asset impairment losses, onerous contracts, costs associated with acquisitions, restructuring and separation costs and costs associated with the cessation of the LNG import jetty at Crib Point project. See Section 4.1.2 for more detail.
- A movement in the fair value of financial instruments of $334 million compared with $216 million in the prior year. This net gain reflected a positive fair value movement in AGL Energy's net sold electricity derivative contracts as a result of lower electricity forward prices and a positive fair value movement in net purchased oil and coal derivative contracts as a result of higher oil and coal forward prices. See Section 4.1.6 for more detail.

Underlying Profit after tax was $537 million, down 33.5% from the prior year. A description of the factors driving Underlying Profit is included in Section 4.1.5.

	FY21 $m	Restated FY20 $m
Statutory (Loss)/Profit after tax attributable to AGL Energy shareholders	**(2,058)**	1,007
Adjust for:		
Significant items after tax	**2,929**	17
(Profit) on fair value of financial instruments after tax	**(334)**	(216)
Underlying Profit after tax	**537**	808
Earnings per share on Statutory (Loss)/Profit	**(330.3) cents**	157.2 cents
Earnings per share on Underlying Profit	**86.2 cents**	126.1 cents

Earnings per share (EPS) calculations have been based upon a weighted average number of ordinary shares of 623,047,222 (30 June 2020: 640,653,780). The weighted average number of ordinary shares was 17,606,558 lower than the prior year due to the cancellation of 32,791,252 shares under the share buy-back program completed in August 2020.

4.1.2 Significant items

	FY21 $m		FY20 $m	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Impairment losses	**(1,817)**	**(1,477)**	(14)	(10)
Onerous contracts recognised	**(1,931)**	**(1,348)**	–	–
Contract termination payments	**(55)**	**(55)**	–	–
Acquisitions and integration costs	**(46)**	**(35)**	(7)	(7)
Restructuring and separation costs	**(20)**	**(14)**	–	–
Total significant items	**(3,869)**	**(2,929)**	(21)	(17)

FY21

During the year AGL Energy:

- Recognised a pre-tax impairment of $1,817 million ($1,477 million post-tax) relating to the carrying value of the AGL Energy Generation Fleet cash-generating unit, including goodwill, inventories and natural gas assets including Newcastle Gas Storage Facility, Silver Springs and Camden.
- Recognised a $1,931 million pre-tax ($1,348 million post-tax) onerous contract provision related to various out of the money renewable asset Power Purchase Agreements (PPAs).
- Recognised $55 million in contract termination payments related to the cancelled LNG import jetty at Crib Point. This was treated as a non-temporary capital loss.
- Acquired 100% of the outstanding share capital of Click Energy Holdings Pty Ltd, SEGH Pty Limited, Epho Holdings Pty Limited and 51% of the outstanding share capital of OVO Energy Pty Limited. As a result of these acquisitions and other growth projects, AGL Energy incurred pre-tax $46 million of acquisition, integration and other project costs ($35 million post-tax).
- Recognised pre-tax $20 million ($14 million post-tax) in restructuring, redundancy and separation costs. Costs related to reorganising and preparing for the proposed demerger of AGL Energy's retail business along with redundancy costs to deliver cost reduction initiatives.

FY20

During the prior year, AGL Energy:

- Partially impaired the carrying value of its investment interest in Powering Australian Renewables (PowAR), reflecting revised market pricing and generation output assumptions for operations sites. A post-tax impairment loss of $10 million was recognised as a Significant Item in the year.
- On 2 September 2019, completed the purchase of 100% of the outstanding share capital of Perth Energy Holdings Pty Ltd. Acquisition related transaction costs of $7 million post-tax were recognised as a Significant Item in the year.

4.1.3 Change in accounting policy

Following clarifying guidance from the International Financial Reporting Interpretations Committee (IFRIC), AGL Energy adopted a change in accounting policy in relation to the treatment of configuration and customisation costs related to cloud computing arrangements, commonly referred to as Software as a Service. Under the revised accounting policy, costs that would have been previously capitalised are treated as operating expenditure where the entity cannot demonstrate the ability to control the relevant software. In accordance with Australian Accounting Standards the change in accounting policy has been adopted retrospectively and prior comparative periods have been restated. The tables below show the effect of the change in accounting policy on previously reported financial results.

Segmental operating costs

	FY20 $m	Policy change	Restated FY20 $m
Customer Markets	(500)	(27)	**(527)**
Integrated Energy	(765)	–	**(765)**
Investments	–	–	**–**
Centrally Managed Expenses	(342)	(17)	**(359)**
Operating costs (excluding depreciation and amortisation)	(1,607)	(44)	**(1,651)**

Segmental depreciation and amortisation

	FY20 $m	Policy change	Restated FY20 $m
Customer Markets	(132)	15	**(117)**
Integrated Energy	(550)	3	**(547)**
Investments	–	–	**–**
Centrally Managed Expenses	(71)	15	**(56)**
Depreciation and amortisation	(753)	33	**(720)**

4.1.4 Earnings Before Interest and Tax (EBIT)

	FY21 $m	Restated FY20 $m
Statutory EBIT	**(2,433)**	1,593
Significant items	**3,869**	21
(Gain) on fair value of financial instruments	**(477)**	(308)
Underlying EBIT	**959**	1,306

Effective 1 July 2020, AGL Energy formed the Integrated Energy operating segment. Integrated Energy reflects the consolidation of the previous Wholesale Markets and Group Operations operating segments, adjusted for any intra-segment transactions.

Revised and previous structure from 1 July 2020

AGL Energy Group	FY21 $m	Restated FY20 $m
Revised Structure:		
Customer Markets	**203**	174
Integrated Energy	**1,119**	1,529
Investments	**9**	18
Centrally Managed Expenses	**(372)**	(415)
Underlying EBIT	**959**	1,306
Previous Structure:		
Customer Markets	**203**	174
Wholesale Markets	**2,197**	2,614
Group Operations	**(1,078)**	(1,085)
Investments	**9**	18
Centrally Managed Expenses	**(372)**	(415)
Underlying EBIT	**959**	1,306

4.1.5 Group financial performance

Underlying Profit after tax attributable to AGL Energy shareholders was $537 million, down 33.5%. The principal drivers of the decrease were lower electricity and large-scale generation certificates (LGC) prices, the impact of unplanned outages on availability at AGL Macquarie, and compressed gas margins driven by the impact of legacy supply contracts maturing, and increases in haulage and storage costs. This was partly offset by increased generation at AGL Loy Yang as a result of the Unit 2 extended outage in the prior year and related $125 million of insurance proceeds recognised in the period.

	FY21 $m	Restated FY20 $m
Revenue	**10,942**	12,160
Cost of sales	**(7,788)**	(8,492)
Other income	**131**	9
Gross margin	**3,285**	3,677
Operating costs (excluding depreciation and amortisation)	**(1,619)**	(1,651)
Underlying EBITDA	**1,666**	2,026
Depreciation and amortisation	**(707)**	(720)
Underlying EBIT	**959**	1,306
Net finance costs	**(224)**	(179)
Underlying Profit before tax	**735**	1,127
Income tax expense	**(199)**	(319)
Underlying Profit after tax	**536**	808
Non-controlling interests[1]	**1**	–
Underlying Profit after tax attributable to AGL Energy shareholders	**537**	808

1. Relates to the 49% attributable to non-controlling interests.

Refer to Section 5 for further analysis on the movement in gross margin for each operating segment and Section 3.1.6 for commentary on group operating costs.

Depreciation and amortisation of $(707) million was down 1.8%, driven by a $39 million reduction attributable to asset impairments recorded during the year (see Section 4.1.2 for further details).

Excluding asset impairment impacts, depreciation and amortisation increased $26 million, or 3.6%. This was largely driven by a full year of depreciation of FY20 Customer Markets capital expenditure on digital uplift and regulatory system upgrades, and an increase attributable to AGL Energy's capitalisation of costs relating to an exit of applications out of data centres and migration into cloud.

Net finance costs were $(224) million, up 25.1% largely driven by the embedded interest cost unwinding from the onerous contracts and rehabilitation provisions recognised at 31 December 2020.

The impacts to Underlying Profit before tax were partially offset by a 37.6% reduction in Underlying tax expense to $199 million, primarily reflecting the decrease in profit. The underlying effective tax rate was 27.1%, a decrease of 1.2 ppts.

4.1.6 Change in fair value of financial instruments

Approach to hedging

AGL Energy's approach to managing energy price risks, through physical ownership of energy generation, contracting for energy supply and financial hedging, reflects the need to provide pricing certainty to customers and limit exposure to adverse wholesale market outcomes. AGL Energy generates electricity or has contracted gas supply in excess of its customers' demand in some states. In other states, AGL Energy has sources of supply less than its customers' demand.

AGL Energy uses certain financial instruments (derivatives) to manage these energy price risks and to manage its exposure to interest and foreign exchange rates arising in the normal course of business, provided the overall AGL Energy risk appetite is not exceeded. 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 the net differential being settled with the counterparty. AGL Energy is exposed to price volatility on the sale and purchase of energy-related commodities in the normal course of business, and therefore enters into contracts that minimise the price risk to AGL Energy on both sold and purchased forecast exposures.

AGL Energy 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 Energy's risks related to wholesale markets energy risk. The policy allows for commercial optimisation of the portfolio provided that AGL Energy adheres to overall earnings-at-risk limits that reflect its risk appetite.

Energy price risk

Certain purchased contracts traded prior to 1 July 2019 are designated as hedge relationships when they can be matched to forecast transactions with sufficient probability of the forecast transaction occurring. Derivative instruments assigned to an effective hedge relationship have movements in fair value deferred to an equity hedge reserve until the transactions to which those instruments are matched occur. Derivative instruments not assigned to an effective hedge relationship have movements in fair value recognised in profit or loss.

AGL Energy's energy-related derivatives assigned to hedge relationships are purchased derivative contracts, where AGL Energy pays a fixed price in exchange for a floating price received from the counterparty. The energy-related derivatives recognised in profit or loss are net-sold positions, where AGL Energy receives a fixed price from a counterparty in exchange for a floating price paid to the counterparty.

AGL Energy is required to make margin payments in respect of futures contracts traded through the Australian Securities Exchange (ASX). Initial margin call payments are made at the time contracts are entered in order to manage intra-day credit exposure. The quantum of initial margin depends on the volume traded, the expected market volatility as well as forward electricity prices at the time. The initial margin call can move subsequently as forward prices move. AGL Energy also receives or makes payments known as variation margin calls, which cover mark to market movements of AGL Energy's open futures position. These typically reverse through future earnings as contract positions roll off.

Treasury related risk

AGL Energy's treasury related risk primarily relates to interest and foreign currency rate fluctuations. Contracts to minimise the exposure to market-based fluctuations are executed pursuant to AGL Energy's treasury risk management policy. These contracts primarily result in fixed interest and foreign currency rates. These contracts are designated in hedge relationships when they can be matched to forecast transactions with sufficient probability of the forecast transaction occurring.

In addition to the above, AGL Energy is counterparty to cross-currency interest rate swap arrangements to convert its fixed interest rate US dollar private placement borrowing instruments to floating interest rate Australian dollar equivalent borrowing instruments. The cross-currency interest rate swap arrangements are designated as fair value and cash flow hedge relationships.

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. A reconciliation of the movements in financial instruments carried at fair value for FY21 is presented in the following table.

Operating & Financial Review

For the year ended 30 June 2021

Net assets/(Liabilities)	FY21 $m	FY20 $m	Change $m
Energy derivative contracts	**711**	239	472
Cross currency and interest rate swap derivative contracts	**72**	177	(105)
Total net assets for financial instruments	**783**	416	367
Change in net assets	**367**		
Derivatives from Click Energy acquisition	**18**		
Premiums paid	**(54)**		
Premium roll off	**43**		
Equity accounted fair value	**1**		
Total change in fair value	**375**		
Recognised in equity hedge and other reserve	**70**		
Recognised in borrowings	**(145)**		
Recognised in profit or loss – pre-tax	**450**		
Total change in fair value	**375**		

The movement in net derivative assets in the period of $367 million is expanded on in the table below.

			Unrealised fair value recognised in:					
	FY20 $m	Derivatives from Click Energy acquisition	Profit or loss	Hedge reserve	Borrowings	Currency basis	Premiums and roll offs paid/ (received)	FY21 $m
Energy derivative contracts	**239**	**(18)**	449	30	–	–	11	**711**
Cross currency and interest rate swap contracts	**177**	–	–	42	(145)	(2)	–	**72**
Net asset/(liability)	**416**	**(18)**	**449**	**72**	**(145)**	**(2)**	**11**	**783**
Fair value recognised within equity accounted investments			1					
Profit or loss			**450**					
Realised fair value to be recognised in cost of sales			27					
Fair value recognised in profit or loss			**477**					

The fair value movement driving the change in the net derivative assets position reflected in unrealised fair value movements is as follows:

- An increase in the fair value of energy-related derivatives of $449 million was recognised in profit or loss (excluded from Underlying Profit). This net gain reflected a positive fair value movement in AGL Energy's net sold electricity derivative contracts as a result of lower electricity forward prices and a positive fair value movement in net purchased oil and coal derivative contracts as a result of higher oil and coal forward prices.
- Certain purchased energy derivatives previously designated in a hedge relationship expired by 30 June 2021 (movement of $30 million).
- Currency related fair value loss of $(145) million recognised in borrowings. This related primarily to the appreciation of the AUD/USD foreign exchange rate, and an increase of AUD yield curve. The $42 million movement in hedge reserve was largely driven by the increase in the AUD forward curve.

4.2 Cash flow

4.2.1 Reconciliation of Underlying EBITDA to cash movement

Operating cash flow before significant items, interest and tax was $1,606 million, down $870 million. The rate of conversion of EBITDA to cash flow was 96%, down from 122% in the prior year. Adjusting for margin calls, the cash conversion rate was 97%, down from 99% in the prior year.

		FY21 $m		Restated FY20 $m
Underlying EBITDA		**1,666**		2,026
Equity accounted income (net of dividends received)		**14**		(2)
Accounting for onerous contracts		**(80)**		(30)
Other assets/liabilities and non-cash items		**(30)**		44
Working capital movements				
Decrease in receivables	**12**		60	
Increase/(decrease) in payables	**150**		(156)	
(Increase) in inventories	**(1)**		(14)	
Net derivative premiums paid/roll-offs	**4**		16	
(Increase)/decrease in financial assets (margin calls)	**(17)**		471	
Net movement in green assets/liabilities	**(81)**		47	
Other working capital movements	**(31)**		14	
Total working capital movements		**36**		438
Operating cash flow before significant items, interest and tax		**1,606**		2,476
Net finance costs paid		**(120)**		(124)
Income taxes (paid)		**(114)**		(233)
Cash flow relating to significant items		**(122)**		(7)
Net cash provided by operating activities		**1,250**		2,112
Net cash used in investing activities		**(937)**		(835)
Net cash used in financing activities		**(366)**		(1,252)
Net increase/(decrease) in cash and cash equivalents		**(53)**		25

Relative to prior year the principal reasons for lower operating cash flow were lower Underlying EBITDA and a less positive working capital movement. Working capital movements were $36 million, compared with $438 million in the prior year. Components of working capital movement were:

- Receivables cash flow of $12 million reflected a reduction in customer receivables due to reduced average customer prices driven by customers switching to lower-priced products, continued impacts of the introduction of regulated default offers, price decreases following the decrease in wholesale costs and improved collection of debts to pre-COVID-19 levels. This was partly offset by a receivable recognised for the fees paid to the Clean Energy Regulator following the under surrender of 2020 Large-scale Generation Certificates (LGCs). The fees will be recovered in future years following the surrender of additional LGCs in those years. The prior year cash flow of $60 million reflected a partial year impact of the introduction of regulated default offers in each state and customers switching to lower-priced products.
- Payables cash flow of $150 million reflected higher electricity prices across May and June on net derivative and AEMO balances, increased volumes and higher contract prices relating to gas purchases, leading to higher accounts payable balances at June. Payables also increased due to the contracts to purchase LGCs in future periods to satisfy the 2020 surrender obligations. The prior year cash flow of $(156) million reflected lower electricity pool prices and timing of contract positions combined with lower coal payables due to reduced coal deliveries.
- Inventory cash flow of $(1) million reflected the inclusion of Solgen and Epho inventory balances, largely offset by a lower weighted average cost of coal due to a higher portion of coal delivered from legacy contracts. The prior year cash flow of $(14) million reflected an increase in spare parts inventory partly offset by a lower coal stockpile at AGL Macquarie.
- Financial assets (margin calls) cash flow of $(17) million reflected an increase in initial margin and variation margin requirements driven by an increase in the volume of ASX trades, the increase in forward curves across the last quarter of the year as well as the roll-off of derivatives with positive mark to market value. This was partly offset by a change in calculation of initial margin which reduced the initial margin requirement. The prior year cash flow reflected a net cash inflow of variation margin calls due to a decrease in the electricity forward curve during FY20.
- Green assets and liabilities cash flow of $(81) million reflected higher certificate purchases in response to expected increases in scheme compliance percentages. The prior year cash flow of $47 million reflected a higher LGC scheme compliance percentage as well as the impact of certificates purchased in FY19 and surrendered in FY20.

The onerous contracts cash flow of $(80) million reflected the onerous portion of payments made to suppliers under legacy wind farm offtake agreements and Yabulu PPA and Gas Transport Agreements (GTAs), previously recognised as onerous. The prior year cash flow of $(30) million reflects the onerous portion of payments related to Yabulu PPA and GTAs.

The movement in other assets/liabilities of $(30) million largely related to payments for rehabilitation works. The prior year cash flow of $44 million largely related to movements in employee related provisions.

Cash tax paid during FY21 was lower than FY20, in line with lower profit before tax and utilisation of prior year tax losses.

Investing cash flow of $(937) million reflected capital expenditure and the acquisitions of Click Energy, Solgen and Epho. The prior year Investing cash flow of $(835) million reflected capital expenditure, and the Perth Energy and Southern Phone Company acquisitions. For further details on capital expenditure, see Section 3.1.6.

Financing cash flow of $(366) million included dividend payments of $(573) million and a net borrowings drawdown of $212 million. The prior year cash flow of $(1,252) million included dividend payments of $(719) million, share buy-back of $(620) million and a net borrowings drawdown of $94 million.

4.3 Financial position

Summary Statement of Financial Position

At 30 June 2021 AGL Energy's total assets were $15,450 million, an increase from $14,607 million at 30 June 2020, primarily due to an increase in deferred tax assets and property plant and equipment reflecting the increase in the estimated environmental rehabilitation costs. The increase in estimated environmental rehabilitation costs follows the alignment of the discount rates used for rehabilitation cash flows with latest market practice and the substantial completion of a periodic review of future rehabilitation requirements. This was partly offset by an impairment loss on property plant and equipment and intangible assets (refer to Section 4.1.2).

Total liabilities at 30 June 2021 were $9,944 million, an increase from $6,635 million at 30 June 2020, primarily reflecting an increase in provisions for environmental rehabilitation as mentioned above and onerous contracts (refer to Section 4.1.2).

Total equity at 30 June 2021 was $5,506 million, down from $7,972 million, reflecting the Statutory Loss for the period and dividends paid. AGL Energy's return on equity, calculated on a rolling 12-month basis was 8.1%, down from 30 June 2020.

	FY21 $m	Restated FY20 $m
Assets		
Cash and cash equivalents	**88**	141
Other current assets	**3,587**	2,981
Property, plant and equipment	**6,283**	6,640
Intangible assets	**3,302**	3,638
Other non-current assets	**2,190**	1,207
Total assets	**15,450**	14,607
Liabilities		
Borrowings	**3,185**	3,108
Other liabilities	**6,759**	3,527
Total liabilities	**9,944**	6,635
Net assets/total equity[1]	**5,506**	7,972

1. Total equity includes $5m attributable to non-controlling interests.

Net debt reconciliation

Net debt at 30 June 2021 was $2,997 million, up from $2,723 million at 30 June 2020 due to increased debt facility drawdowns following acquisitions.

AGL Energy's gearing (measured as the ratio of net debt to net debt plus adjusted equity) at 30 June 2021 was 35.1% compared with 25.3% at 30 June 2020.

AGL Energy maintained its credit rating of Baa2 throughout the period as provided by Moody's Investors Service. Key metrics consistent with this credit rating at 30 June 2021:

- Interest cover: 9.0 times
- Funds from operations to net debt: 30.7%

AGL Energy'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.

	FY21 $m	FY20 $m
Net debt reconciliation		
Borrowings	**3,185**	3,108
Less: Adjustment for cross currency swap hedges and deferred borrowing costs	**(100)**	(244)
Cash and cash equivalents	**(88)**	(141)
Net debt	**2,997**	2,723

5. Segmental Analysis

AGL Energy manages its business in three key operating segments: Customer Markets, Integrated Energy and Investments. Further detail on the activities of each operating segment is provided below.

AGL Energy manages and reports a number of expense items including Information Technology under Centrally Managed Expenses. These costs are not reallocated to AGL Energy's operating segments because their management is the responsibility of various corporate functions.

Effective 1 July 2020, AGL Energy formed the Integrated Energy operating segment. Integrated Energy reflects the consolidation of the previous Wholesale Markets and Group Operations operating segments, adjusted for any intra-segment transactions.

5.1 Customer Markets

5.1.1 Underlying EBIT

Customer Markets Underlying EBIT was $203 million, up 16.7% due to higher gross margin and lower operating costs, partly offset by higher depreciation and amortisation. Investment in digital transformation in prior years, together with a continued focus on efficiencies, helped absorb the increased operating costs associated with the full year impact of Southern Phone Company (acquired in December 2019), growth and launch of AGL Telecommunications and the successful acquisitions of Click Energy, Solgen and Epho, and increased net bad debt expense due to COVID-19.

The increase in gross margin was driven by an increase in Consumer Gas gross margin due to higher revenue rates, and the margin associated with the acquisition of Click Energy, which was fully integrated into Customer Markets on 1 April 2021. This was partially offset by a decrease in Consumer Electricity gross margin due to customers switching to lower-priced products.

Consumer Electricity and Consumer Gas services increased by 162,000 and 64,000 respectively from 30 June 2020 to 30 June 2021. The increase in gross margin from the growth in Consumer Electricity services was offset by an increased uptake of lower priced products. Excluding the operating costs associated with the full year impact of Southern Phone Company, growth and launch of AGL Telecommunications, the acquisitions of Click Energy, Solgen and Epho, and the impact of the COVID-19 net bad debt expense, operating costs were down $64 million, or 13.0%.

	FY21 $m	Restated FY20 $m
Consumer Electricity gross margin	**478**	500
Consumer Gas gross margin	**256**	219
Large Business Electricity gross margin	**34**	36
Large Business Gas gross margin	**10**	12
Fees, charges and other gross margin	**20**	20
Telecommunications gross margin	**9**	6
Perth Energy gross margin	**14**	25
Click Energy gross margin[1]	**30**	–
Solgen/Epho gross margin	**3**	–
Gross margin	**854**	818
Operating costs (excluding depreciation and amortisation)	**(517)**	(527)
Underlying EBITDA	**337**	291
Depreciation and amortisation	**(134)**	(117)
Underlying EBIT	**203**	174

1. Results for the period from acquisition to 31 March 2021. Click Energy was fully integrated on 1 April 2021.

- Consumer Electricity gross margin was $478 million, down 4.4%, due to more customers switching to lower-priced products compared with the prior year. Consumer Electricity volumes increased 5.5%, largely driven by the acquisition of Click Energy and growth in the average number of electricity services during the year.

- Consumer Gas gross margin was $256 million, up 16.9%, driven by higher revenue rates in New South Wales and Victoria. Consumer Gas volumes were down 4.0%, driven by milder weather and reduction in small business demand, partly offset by an increase in residential customer market share and the inclusion of Click Energy customer volumes in the year.
- Large Business Electricity gross margin was $34 million, down 5.6% due to the impacts of increased competition and COVID-19 on consumption.
- Large Business Gas gross margin was $10 million, down 16.7%, as lower wholesale gas costs were passed on to customers, partly offset by volume growth.
- Fees, charges and other gross margin was $20 million, flat on prior year.
- Telecommunications gross margin was $9 million, up 50.0%, due to a full year of telecommunications gross margin in the year compared with six months in the prior year, with the Southern Phone acquisition taking place in December 2019 and the launch of AGL Telecommunications during FY21. Southern Phone gross margin was impacted by additional investment in network-to-network upgrade work and a shift in customer mix from voice to internet services.
- Perth Energy gross margin was $14 million, down 44.0% due to lower generation from forced outages, which limited the ability to hedge against higher wholesale costs and resulted in margin compression. This was partly offset by electricity and gas volumes increasing by 41.7% and 134.0% respectively compared with the prior year due to the inclusion of a full year of volumes and increased customer acquisition and retentions.
- Click Energy gross margin reflects results from acquisition in September 2020 to March 2021. It includes retailing of electricity and gas to residential and small business customers, and connections margin from the On the Move business. Click Energy was fully integrated into Customer Markets on 1 April 2021 within Consumer Electricity and Consumer Gas.
- Solgen and Epho gross margin since acquisition includes solar engineering, procurement, construction and asset maintenance services and distribution sales of wholesale solar components.
- Depreciation and amortisation was $(134) million, up 14.5% due to a full year of depreciation on capital expenditure spent during FY20 on digital uplift and regulatory system upgrades.

5.1.2 Operating costs

Customer Markets operating costs (excluding depreciation and amortisation) were $(517) million, down 1.9%. There were a number of cost increases specific to the year, including those related to the full year impact of Southern Phone Company, growth and launch of AGL Telecommunications, the step up in costs from the acquisition of Click Energy, Solgen and Epho, and an increase in net bad debt expense reflecting heightened repayment risk relating to COVID-19 and the COVID-19 payment support program.

Excluding these specific cost increases**,** total operating costs were down $64 million, or 13.0%. Cost savings were largely driven by prior year investment in digital transformation initiatives and Customer Experience transformation programs, as the benefit of these initiatives were reflected in the results, including lower call volumes and increases in digital sales. Costs directly associated with investing in these programs were also reduced. Partly offsetting these savings were incremental costs to service the increase in average services to customers.

	FY21 $m	Restated FY20 $m
Labour and contractor services	**(191)**	(185)
Net bad debt expense	**(127)**	(119)
Campaigns and advertising	**(98)**	(103)
Other expenditure	**(101)**	(120)
Operating costs (excluding depreciation and amortisation)	**(517)**	(527)
Add: depreciation and amortisation	**(134)**	(117)
Operating costs (including depreciation and amortisation)	**(651)**	(644)

- Labour and contractor services costs were $(191) million, up 3.2% due to the launch of AGL Telecommunications, acquisitions of Click Energy, Solgen and Epho and increased regulatory requirements, partly offset by increased customer digital adoption driving a decline in call centre volumes. Excluding the impact of acquired businesses, the full year impact of Southern Phone Company and the growth and launch of AGL Telecommunications, labour and contractor services costs were $(165) million, down 7.3%.
- Net bad debt expense was $(127) million, up 6.7% driven by net bad debt expense due to COVID-19, to reflect heightened repayment risk relating to COVID-19 and discounted settlements for impacted small business and large business customers, and for Click Energy. Excluding the impact of the COVID-19 net bad debt expense and FY21 acquisitions, net bad debt expense was $(93) million, down 5.1%.
- Campaigns and advertising costs were $(98) million, down 4.9%, due to cost reductions achieved through digital investments. Excluding the full year impact of Southern Phone Company and the impact of the launch of AGL Telecommunications, campaigns and advertising costs were $(88) million, down 12.0%.

- Other expenditure was $(101) million, down 15.8% due to a $23 million reduction in digital uplift outlays. Other costs increases were due to the acquisitions of Click Energy, Solgen and Epho, the full year impact of Southern Phone Company acquired in December 2019 and the launch of AGL Telecommunications.

5.1.3 Consumer profitability and operating efficiency

Net operating costs per consumer service[1] was $(108), down 4.4% compared with the prior year due to efficiencies from the Customer Experience Transformation program, including lower call volumes and increased digital sales. Excluding the impact of COVID-19 net bad debt expense, the full year impact of Southern Phone Company and the growth and launch of AGL Telecommunications, net operating cost per consumer service[1] was $(98), down 10.9% compared with the prior year.

	FY21 $m	FY20 $m
Gross margin	**773**	725
Net operating costs (including fees, charges, recoveries and excluding depreciation and amortisation)[1]	**(444)**	(439)
EBITDA	**329**	286
Average consumer services ('000)	**4,121**	3,898
Gross margin per consumer service ($)	**188**	186
Net operating costs per consumer service ($)	**(108)**	(113)
EBITDA per consumer service ($)	**80**	73
Net operating costs as a percentage of gross margin	**57.4%**	60.6%

1. Excludes impact of digital uplift expenses (Software as a Service)

Average consumer services increased compared with the prior year largely due to the acquisition of Click Energy in September 2020.

Average gross margin per consumer service increased due to the acquisition of Click Energy and higher revenue rates in Consumer Gas, partially offset by more Consumer Electricity customers switching to lower priced products in the year.

AGL Energy churn remained flat at 14.3% as reported at 30 June 2020, largely due to stronger retention focus in second half of the year. Overall market churn has increased as the number of customers changing their energy provider has normalised to levels more consistent with before the start of the COVID-19 pandemic.

5.2 Integrated Energy

Effective 1 July 2020, AGL Energy formed the Integrated Energy operating segment. Integrated Energy reflects the consolidation of the previous Wholesale Markets and Group Operations operating segments, adjusted for any intra-segment transactions.

- Trading and Origination - Electricity reflects the procurement of key fuel inputs and hedging of AGL Energy's wholesale electricity requirements, and also includes Eco Markets, which reflects the management of AGL Energy's liabilities relating to both voluntary and mandatory renewable and energy efficiency schemes.
- Trading and Origination - Gas reflects the sourcing and management of AGL Energy's gas supply and transportation portfolio. Trading and Origination - Gas is also responsible for the management of the price exposures related to AGL Energy's oil-linked wholesale gas contracts.
- Trading and Origination – Other reflects the Trading and Origination resourcing and support, in addition to the Decentralised Energy business, responsible for the management of the Residential Battery Program and Business Customer Demand Response products, along with other growth initiatives in AGL Energy's orchestration pathway.

The other components of Integrated Energy comprises AGL Energy's power generation portfolio and other key sites and operating facilities across the Coal, Gas Generation, Renewables, Natural Gas, and Other business units.

- Coal Operations primarily comprises AGL Macquarie (Bayswater and Liddell power stations) and AGL Loy Yang.
- Gas Generation primarily comprises AGL Torrens, Barker Inlet Power Station, Kwinana Swift Power Station and Somerton Power Station.
- Renewables primarily comprises hydroelectric power stations, the operation of solar power as well as wind power generation. Operational costs to maintain the wind farms are reported within Trading and Origination – Electricity to align with the gross margin of the related power purchase agreements.
- Natural Gas includes the Newcastle Gas Storage Facility (currently 'held for sale' as at 30 June 2021), the Silver Springs underground gas storage and production facility, the natural gas compression and LPG separation facility, the natural gas production assets at Camden in New South Wales and the North Queensland gas assets, including the Moranbah Gas Project.
- Other primarily consists of the Major Projects business focused on the development and construction of greenfield growth opportunities, and technical and business support functions.

Refer to the map in Section 1.1 for asset locations and details.

5.2.1 Underlying EBIT

Integrated Energy Underlying EBIT was $1,119 million, down $410 million or 26.8%. Excluding Insurance premiums internally transferred from Centrally Managed Expenses of $24 million, Underlying EBIT was down $386 million or 25.2%. The decline in Underlying EBIT by $410 million was largely due to lower gross margin from Trading and Origination - Electricity (down $239 million) and Trading and Origination – Gas (down $180 million). Higher operating costs of $25 million were more than offset by a reduction in depreciation and amortisation of $36 million, largely as a result of the impact of impairments recognised at 31 December 2020 (as per Section 4.1.2).

	FY21 $m	Restated FY20 $m
Gross margin	**2,420**	2,841
Operating costs (excluding depreciation and amortisation)	**(790)**	(765)
Underlying EBITDA	**1,630**	2,076
Depreciation and amortisation	**(511)**	(547)
Underlying EBIT	**1,119**	1,529

Gross margin was down largely due to lower electricity and LGC prices, the impact of unplanned outages on availability at AGL Macquarie, and compressed gas margins driven by the impact of legacy supply contracts maturing and increases in haulage and storage costs. This was partly offset by increased generation at AGL Loy Yang as a result of the Unit 2 extended outage in the prior year and related $125 million of insurance proceeds recognised in the period, of which $120 million was recognised in gross margin and $5 million in operating costs.

Operating Costs (excluding depreciation and amortisation) were $790 million, an increase of $25 million compared with the prior year due to expenditure on fully impaired assets that would have otherwise been treated as capital. Operating Costs (excluding the impact of impairment and depreciation and amortisation) were $773 million, an increase of $8 million compared with the prior year, due to higher labour costs driven by Enterprise Agreement wage escalations, increased costs to maintain plant availability at AGL Macquarie, commencement of the first full year of operations at Barker Inlet Power Station, turbine repairs at Kwinana Swift Power Station to ensure future availability and a transfer of insurance premiums from Centrally Managed Expenses. For further detail see Section 5.2.2.

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

	FY21 $m	Restated FY20 $m
Trading and Origination - Electricity	**2,014**	2,253
Trading and Origination - Gas	**241**	421
Trading and Origination - Other	**(45)**	(44)
Coal	**(436)**	(408)
Gas Generation	**(59)**	(57)
Renewables	**(24)**	(52)
Natural Gas	**(7)**	1
Other	**(54)**	(38)
Underlying EBITDA	**1,630**	2,076
Depreciation and amortisation	**(511)**	(547)
Underlying EBIT	**1,119**	1,529

- Trading and Origination – Electricity gross margin was $2,014 million, down 10.6%. The decrease in gross margin was driven by lower generation at AGL Macquarie due to lower availability because of unplanned outages, including during periods of high prices in New South Wales and Queensland in December, May and June. Gross margin was also down due to lower customer volumes purchased from the NEM and sold to Customer Markets as a result of increased penetration by rooftop solar, the impact of lower spot and contracted electricity prices and LGC prices, lower ancillary service revenue, and the reclassification of renewable wind farm costs to Trading and Origination gross margin to align with the gross margin of the related PPAs.
  This was partly offset by increased generation at AGL Loy Yang with Unit 2 returned to service, $103 million of proceeds related to insurance claims for the AGL Loy Yang Unit 2 outage (a further $22 million was recognised within Coal Underlying EBITDA) and lower unit fuel costs for AGL Macquarie driven by lower coal prices and a higher proportion of deliveries from legacy contracts. The impact of low spot prices was partly mitigated by the performance of wholesale electricity derivatives, with contracted prices significantly higher than spot price outcomes. Also included in gross margin for the year was the portion of the provision for onerous contracts that was released as it related to services delivered since the provision was recognised at 31 December 2020.

- Trading and Origination – Gas gross margin was $241 million, down 42.8%, driven by compressed gas margins, lower Wholesale and Large Business customer contracted rates and lower Consumer customer volumes. Wholesale and Large Business customer volumes were 5.2 PJ higher however this was offset by lower contracted rates for new and existing customers, driven by lower oil prices and market prices. Consumer customer volumes were 2.3 PJ lower as per commentary in 3.1.2. Compressed gas margins were driven by the impact of legacy lower cost supply contracts maturing and increases to haulage and storage costs, partly offset by the benefit of lower oil prices on contracted supply.
- Trading and Origination – Other Underlying EBITDA was $(45) million, down 2.3% mainly due to expansion of the Decentralised Energy business to develop future growth opportunities.
- Coal Underlying EBITDA was $(436) million, down 6.9%, driven by the half-year impairment impact on operating costs across AGL Energy's generation fleet ($17 million impact), higher forced outage costs at AGL Macquarie, maintenance activities at AGL Loy Yang to ensure mine coal supply reliability and station availability, increased labour costs due to Enterprise Agreement wage escalations and the transfer of insurance premiums from Centrally Managed Expenses. This was partly offset by AGL Loy Yang Unit 2 insurance proceeds for material damages of $22 million.
- Gas Generation Underlying EBITDA was $(59) million, down 3.5%, due to commencement of the first full year of operations at Barker Inlet Power Station and turbine repairs at Kwinana Swift Power Station to ensure future availability. This was partly offset by the closure of two A station units at Torrens and decreased labour costs as a result of lower overtime due to the closure, operational efficiencies and a milder summer.
- Renewables Underlying EBITDA was $(24) million, up 53.8% due to a reclassification of all AGL Energy operated wind farm costs to Trading and Origination gross margin to align with the gross margin of the related PPAs. This was partly offset by the commercial settlement of a historic legal dispute.
- Natural Gas Underlying EBITDA was down $(8) million due to lower gas sales at Camden and Moranbah, and increased costs of well workover activities in the Surat Basin (AGL Energy's joint operation in Queensland involved with oil and gas exploration and production), primarily driven by regulatory requirements. This was partly offset by lower costs of well workover activities at Moranbah.
- Other Underlying EBITDA was $(54) million, down 42.1% reflecting the transfer of insurance premiums from Centrally Managed Expenses to Integrated Energy in the period, partly offset by a reallocation of Communications and Change Leadership headcount to Centrally Managed Expenses and lower consultancy spend.

5.2.2 Operating costs

Integrated Energy operating costs (excluding depreciation and amortisation) of $(790) million increased by 3.3% compared with the prior year. Excluding the transfer of insurance premium costs from Centrally Managed Expenses of $24 million, operating costs were flat on prior year.

	FY21 $m	FY20 $m
Labour	**(370)**	(382)
Contracts and materials	**(277)**	(262)
Other	**(143)**	(121)
Operating costs (excluding depreciation and amortisation)	**(790)**	(765)

- Labour costs were $(370) million, down 3.1%, driven by savings related to labour initiatives, a reallocation of Communications and Change Leadership headcount to Centrally Managed Expenses, and increased utilisation of AGL Energy labour on rehabilitation and capital projects across the fleet. This was partly offset by Enterprise Agreement wage escalations primarily at AGL Energy's coal operations.
- Contracts and materials costs were $(277) million, up 5.7%, including $17 million of expenditure at Liddell that would have otherwise been treated as capital following the asset being fully impaired at 31 December 2020, higher costs associated with increased forced outages at AGL Macquarie, commencement of the first full year of operations at Barker Inlet Power Station and turbine repairs at Kwinana Swift Power Station to ensure future availability. This was partly offset by the reclassification of wind farm operational expenditure to Trading and Origination gross margin.
- Other operating costs were $(143) million, up 18.2% due to a transfer of insurance premiums from Centrally Managed Expenses to Integrated Energy in the year ($24 million) and a subsequent increase in premiums. This was partly offset by the reclassification of wind farm operational expenditure to Trading and Origination gross margin.

5.2.3 Depreciation and amortisation

Integrated Energy depreciation and amortisation of $(511) million decreased by 6.6% compared with the prior year.

	FY21 $m	Restated FY20 $m
Coal	**(361)**	(369)
Gas Generation	**(70)**	(80)
Renewables	**(34)**	(50)
Natural Gas	**(29)**	(30)
Other Integrated Energy	**(17)**	(18)
Depreciation and amortisation	**(511)**	(547)

- Coal depreciation and amortisation was $(361) million, down 2.2%, driven by the impact of the impairment recognised during the year across AGL Energy's coal generation fleet, and the non-recurrence of accelerated asset depreciation in the prior year related to the AGL Loy Yang Unit 2 outage in FY20. This was partly offset by higher depreciation associated with an increase in environmental rehabilitation assets in December 2020.
- Gas Generation depreciation and amortisation was $(70) million, down 12.5% due to the impact of the impairment recognised during the year at Torrens, partly offset by the commencement of the first full year of operations at Barker Inlet Power Station, a full year of ownership of the Kwinana Swift Power Station and higher depreciation associated with an increase in environmental rehabilitation assets in December 2020.
- Renewables depreciation and amortisation was $(34) million, down 32.0% due to a reclassification of wind farm depreciation to Trading and Origination gross margin to align with the gross margin of the related PPAs.
- Natural Gas depreciation and amortisation was $(29) million, down 3.3% due to the impact of the impairment recognised during the year at Silver Springs and Camden.
- Other Integrated Energy depreciation and amortisation was $(17) million, down 5.6% due to the cessation of depreciation relating to the previously proposed LNG import jetty at Crib Point.

5.3 Centrally Managed Expenses

AGL manages and reports certain expense items including Information Technology under Centrally Managed Expenses. These costs are not reallocated to AGL Energy's operating segments because their management is the responsibility of various corporate functions.

Centrally Managed Expenses' Underlying EBIT was $(372) million, an improvement of $43 million or 10.4% compared with the prior year. Excluding the impact of specific insurance policy premiums internally transferred to Integrated Energy of $24 million, Underlying EBIT improved $19 million or 4.6% on prior year. Cost out initiatives decreased labour and recruitment costs following restructuring, and reduced activity due to COVID-19 resulted in lower discretionary spend on travel, consultancy, and property. Centrally Managed Expenses also benefited from lower investment in digital transformation initiatives relative to the prior year ($8 million). These gains were partly offset by an increase in the insurance premiums not related to the policies transfer to Integrated Energy and a reallocation of Communications and Change Leadership headcount from Integrated Energy. Depreciation and amortisation increased due to AGL Energy's capitalisation of costs relating to an exit of applications out of data centres and migration into cloud.

	FY21 $m	Restated FY20 $m
Gross margin	–	–
Operating costs (excluding depreciation and amortisation)	**(310)**	(359)
Underlying EBITDA	**(310)**	(359)
Depreciation and amortisation	**(62)**	(56)
Underlying EBIT	**(372)**	(415)
Breakdown of operating costs (excluding depreciation and amortisation)		
Labour	**(152)**	(158)
Hardware and software costs	**(106)**	(109)
Consultants and contractor services	**(18)**	(31)
Insurance premiums	**(7)**	(29)
Other	**(27)**	(32)
Operating costs (excluding depreciation and amortisation)	**(310)**	(359)

5.4 Investments

Investments comprises AGL Energy's interests in the ActewAGL Retail Partnership, Powering Australian Renewables (PowAR) previously known as Powering Australian Renewables Fund (PARF), Energy Impact Partners' Fund, Energy Impact Partners' Fund SCSp, Activate Capital Partners, Solar Analytics Pty Limited, Sunverge Energy Inc, Ecobee Inc, RayGen Resources Pty Ltd, Honey Insurance Pty Ltd and Ovo Energy Australia Pty Ltd.

	FY21 $m	FY20 $m
ActewAGL	**13**	16
Ovo	**(2)**[1]	–
Powering Australian Renewables (PowAR)	**(3)**	1
Other	**1**	1
Underlying EBIT	**9**	18

1. Includes $(1) million attributable to Non-controlling interests.

- ActewAGL Retail partnership contributed an equity share of profits of $13 million for the period compared with $16 million in the prior year.
- A 51% joint venture with Ovo was also entered into on 29 March 2021. AGL Energy's investment in Ovo creates a vehicle to explore innovative products and propositions including emerging segments. The $(2) million loss for the period is in line with the business case and is attributable to being in a growth phase, incurring significant customer acquisition costs that are expected to be recouped in the future.
- PowAR contributed a $(3) million loss for the period, primarily driven by transaction related costs relating to the proposed Tilt acquisition.

5.5 Consolidated financial performance by operating segment

FY21 $m	Customer Markets	Integrated Energy	Investments	Centrally Managed Expenses	Inter-segment	Total Group
Revenue	**7,614**	**6,367**	**–**	**–**	**(3,039)**	**10,942**
Cost of sales	**(6,760)**	**(4,067)**	**–**	**–**	**3,039**	**(7,788)**
Other income/(loss)	**–**	**120**	**11**	**–**	**–**	**131**
Gross margin	**854**	**2,420**	**11**	**–**	**–**	**3,285**
Operating costs (excluding depreciation and amortisation)	**(517)**	**(790)**	**(2)**	**(310)**	**–**	**(1,619)**
Underlying EBITDA	**337**	**1,630**	**9**	**(310)**	**–**	**1,666**
Depreciation and amortisation	**(134)**	**(511)**	**–**	**(62)**	**–**	**(707)**
Underlying EBIT	**203**	**1,119**	**9**	**(372)**	**–**	**959**
Net finance costs						**(224)**
Underlying Profit before tax						**735**
Income tax expense						**(199)**
Underlying Profit after tax						**536**
Non-controlling interests[1]						**1**
Underlying Profit after tax attributable to AGL Energy shareholders						**537**

1. Relates to the 49% attributable to non-controlling interests.

Restated FY20 $m	Customer Markets	Integrated Energy	Investments	Centrally Managed Expenses	Inter-segment	Total Group
Revenue	7,717	7,958	–	–	(3,515)	12,160
Cost of sales	(6,899)	(5,108)	–	–	3,515	(8,492)
Other income/(loss)	–	(9)	18	–	–	9
Gross margin	818	2,841	18	–	–	3,677
Operating costs (excluding depreciation and amortisation)	(527)	(765)	–	(359)	–	(1,651)
Underlying EBITDA	291	2,076	18	(359)	–	2,026
Depreciation and amortisation	(117)	(547)	–	(56)	–	(720)
Underlying EBIT	174	1,529	18	(415)	–	1,306
Net finance costs						(179)
Underlying Profit before tax						1,127
Income tax expense						(319)
Underlying Profit after tax						808

6. Impact of Change in Accounting Policy - Intangible Assets

Group financial performance

	FY20 $m	Policy change	Restated FY20 $m
Revenue	12,160	–	**12,160**
Cost of sales	(8,492)	–	**(8,492)**
Other income	9	–	**9**
Gross margin	3,677	–	**3,677**
Operating costs (excluding depreciation and amortisation)	(1,607)	(44)	**(1,651)**
Underlying EBITDA	2,070	(44)	**2,026**
Depreciation and amortisation	(753)	33	**(720)**
Underlying EBIT	1,317	(11)	**1,306**
Net finance costs	(179)	–	**(179)**
Underlying Profit before tax	1,138	(11)	**1,127**
Income tax expense	(322)	3	**(319)**
Underlying Profit after tax	816	(8)	**808**

Group financial position

	FY20 $m	Policy change	Restated FY20 $m
Assets			
Cash and cash equivalents	141	–	**141**
Other current assets	2,981	–	**2,981**
Property, plant and equipment	6,640	–	**6,640**
Intangible assets	3,786	(148)	**3,638**
Other non-current assets	1,162	45	**1,207**
Total assets	14,710	(103)	**14,607**
Liabilities			
Borrowings	3,108	–	**3,108**
Other liabilities	3,527	–	**3,527**
Total liabilities	6,635	–	**6,635**
Net assets/total equity	8,075	(103)	**7,972**

Cash flow

		FY20 $m	Policy change		Restated FY20 $m
Underlying EBITDA		2,070	(44)		**2,026**
Equity accounted income (net of dividends received)		(2)	–		**(2)**
Accounting for onerous contracts		(30)	–		**(30)**
Movement in other assets/liabilities and non-cash items		44	–		**44**
Working capital movements					
Decrease in receivables	60			**60**	
(Decrease) in payables	(156)			**(156)**	
(Increase) in inventories	(14)			**(14)**	
Net derivative premiums paid/roll-offs	16			**16**	
Decrease in other financial assets (margin calls)	471			**471**	
Net movement in green assets/liabilities	47			**47**	
Other	14			**14**	
Total working capital movements		438	–		**438**
Operating cash flow before significant items, interest and tax		2,520	(44)		**2,476**
Net finance costs paid		(124)	–		**(124)**
Income taxes (paid)		(233)	–		**(233)**
Cash flow relating to significant items		(7)	–		**(7)**
Net cash provided by operating activities		2,156	(44)		**2,112**
Net cash used in investing activities		(879)	44		**(835)**
Net cash used in financing activities		(1,252)	–		**(1,252)**
Net increase in cash and cash equivalents		25	–		**25**

Capital expenditure

	FY20 $m	Policy change	Restated FY20 $m
Customer Markets	96	(27)	**69**
Integrated Energy	563	–	**563**
Centrally Managed Expenses	70	(17)	**53**
Total capital expenditure	729	(44)	**685**
Sustaining	536	(29)	**507**
Growth and transformation	193	(15)	**178**
Total capital expenditure	729	(44)	**685**

7. Changes to Segmental Reporting

On 30 June 2021 AGL Energy confirmed its intent to execute a demerger of its retail business and form two listed energy businesses, Accel Energy and AGL Australia. Subsequent to year end, the internal reporting structure of AGL Energy has been updated, effective 1 July 2021, to align to the two new businesses. The new reporting structure will lead to new segments to be disclosed in the financial reports of AGL Energy for the half year ended 31 December 2021 and later reports. Refer to Note 39 in the Financial Report for further detail on the composition of the new segments and the basis of realignment of reported results. A reconciliation of Underlying EBIT between the previous and revised segmental reporting structure and commentary on AGL Energy's FY21 financial performance reported under the new segmental reporting structure is provided below.

Reconciliation of Underlying EBIT

	FY21 $m	Restated FY20 $m
Revised Structure:		
Trading and Origination	**1,787**	2,018
Operations	**(969)**	(989)
Accel Energy	**818**	1,029
Customer	**202**	171
Supply and Trading	**302**	503
Investments	**9**	18
AGL Australia	**513**	692
Other (Centrally Managed Expenses)	**(372)**	(415)
Underlying EBIT	**959**	1,306
Previous Structure:		
Customer Markets	**203**	174
Integrated Energy	**1,119**	1,529
Investments	**9**	18
Centrally Managed Expenses	**(372)**	(415)
Underlying EBIT	**959**	1,306

Accel Energy

Accel Energy Underlying EBIT was $818 million, down 20.5% largely due to lower gross margin from Trading and Origination and higher operating costs in Operations. This was partly offset by a reduction in depreciation and amortisation.

- Trading and Origination Underlying EBIT was $1,787 million, down 11.4% due to lower electricity prices and lower LGC prices, lower generation at AGL Macquarie due to lower availability because of unplanned outages, including during periods of high prices in New South Wales and Queensland. This was partly offset by increased generation at AGL Loy Yang with Unit 2 returned to service, $103 million of proceeds related to insurance claims for the AGL Loy Yang Unit 2 outage and lower unit fuel costs for AGL Macquarie driven by lower coal prices and a higher proportion of deliveries from lower cost legacy contracts.
- Operations Underlying EBIT was $(969) million, up 2.0% due to a reduction in depreciation and amortisation, largely as a result of the impact of impairments recognised at 31 December 2020 (as per Section 4.1.2) across the thermal generation fleet and gas operations, and AGL Loy Yang Unit 2 insurance proceeds received for material damages of $22 million. Partly offsetting this was an increase in operating costs due to expenditure on fully impaired assets that would have otherwise been treated as capital, higher labour costs driven by Enterprise Agreement wage escalations, increased costs to maintain plant availability at AGL Macquarie, and a transfer of insurance premiums from Centrally Managed Expenses.

AGL Australia

AGL Australia Underlying EBIT was $513 million, down 25.9% largely due to lower gross margin from Supply and Trading, partly offset by higher gross margin and lower operating costs in Customer.

- Customer Underlying EBIT was $202 million, up 18.1% due to lower operating costs and higher gross margin, partly offset by higher depreciation and amortisation. Lower digital uplift outlays in the year combined with the investment in digital transformation in prior years, together with a continued focus on efficiencies, helped absorb the increased operating costs associated with the full year impact of Southern Phone Company, growth and launch of AGL Telecommunications and the successful acquisitions of Click Energy, Solgen and Epho, and increased net bad debt expense due to COVID-19. The increase in gross margin was driven by an increase in Consumer Gas gross margin due to higher revenue rates, and the margin associated with the acquisition of Click Energy, which was fully integrated into Customer Markets on 1 April 2021. This was partially offset by a decrease in Consumer Electricity gross margin due to customers switching to lower-priced products.
- Supply and Trading Underlying EBIT was $302 million, down 40.0% largely due to Supply and Trading Gas portfolio, which was down $180 million or 42.8% due to compressed gas margins driven by the impact of legacy supply contracts maturing and increases in haulage and storage costs, lower Wholesale and Large Business customer contracted rates and lower Consumer customer volumes. The Supply and Trading electricity portfolio was also down, driven by lower LGC and electricity prices, partly offset by the increase in generation from Barker Inlet Power Station, Silverton and Coopers Gap wind farms.
- Investments Underlying EBIT was $9 million, down 50.0%. Refer to Section 5.4 for detailed commentary.

Other (Centrally Managed Expenses)

These costs are managed and reported under Centrally Managed Expenses. Refer to Section 5.3 for detailed commentary.

8. Portfolio Review Summary

The portfolio review for the Electricity (Section 8.2) and Gas (Section 8.3) businesses outlines the margin achieved for each of AGL Energy's portfolios across operating segments, and demonstrates how value is generated within each business. The portfolio reviews in Section 8.2 and 8.3 start with volume information before summarising external customer revenue, customer network and other costs, fuel and gas costs net of hedging, and costs of managing and maintaining owned and contracted generation assets, to arrive at a portfolio's 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 Sections 8.2 and 8.3 should be read in conjunction with Section 8.4 to reconcile the segmental revenue and costs allocated to each portfolio with Group Underlying EBIT.

8.1 Portfolio Review Summary to Underlying Profit after Tax

	FY21 $m	Restated FY20 $m
Electricity Portfolio		
Total revenue	**6,934**	7,172
Customer network, green compliance, and other cost of sales	**(3,461)**	(3,312)
Fuel costs	**(857)**	(1,013)
Generation running costs	**(635)**	(716)
Depreciation and amortisation	**(465)**	(499)
Net portfolio management	**58**	164
Electricity Portfolio Margin (a)	**1,574**	1,796
Gas Portfolio		
Total revenue	**2,389**	2,496
Customer network and other cost of sales	**(555)**	(584)
Gas purchases	**(967)**	(950)
Haulage, storage and other	**(347)**	(308)
Gas Portfolio Margin	**520**	654
Natural Gas	**(36)**	(29)
Gas Portfolio Margin (including Natural Gas) (b)	**484**	625
Other AGL Energy		
Other margin[1]	**33**	44
Customer Markets operating costs	**(517)**	(527)
Integrated Energy other operating costs	**(90)**	(82)
Investments operating costs	**(2)**	–
Centrally Managed Expenses operating costs	**(310)**	(359)
Other depreciation and amortisation	**(213)**	(191)
Net finance costs	**(224)**	(179)
Income tax expense	**(199)**	(319)
Total Other AGL Energy (c)	**(1,522)**	(1,613)
Underlying Profit after Tax (a + b + c)	**536**	808
Non-controlling interests[2]	**1**	–
Underlying Profit after tax attributable to AGL Energy shareholders	**537**	808

1. Other margin includes other income from investments, and gross margin from Customer Markets.
2. Relates to the 49% Non-controlling interest in Ovo.

8.2 Electricity portfolio

The Electricity portfolio review combines Integrated Energy's Trading and Origination (Electricity), Operations (Coal, Gas Generation and Renewables), with Customer Markets (Consumer and Large Business) businesses to outline the portfolio's performance across operating segments.

All electricity volume generated by AGL Energy is sold into either the National Electricity Market (NEM) or Western Australian Wholesale Electricity Market (collectively "the pool") for which AGL Energy receives pool generation revenue. Pool generation revenue is a function of volume and pool prices, which are set by the real-time market in each state. In the NEM, the total volume demanded by AGL Energy customers is then purchased from the pool according to the geographical profile of customer demand and is reported as pool purchase volumes and costs. Where AGL Energy's customer demand volumes exceed pool generation volumes, the generation volume deficit needs to be purchased from the pool by AGL Energy.

	FY21 GWh	FY20 GWh	Movement %
Pool purchase volume to satisfy Consumer customers	**15,117**	14,738	2.6%
Pool purchase volume to satisfy Large Business customers and Wholesale customers	**26,390**	26,949	(2.1)%
Pool purchase volume[1]	**41,507**	41,687	(0.4)%
Add: Net generation volume (deficit)/surplus	**(370)**	2,141	(117.3)%
Pool generation volume	**41,137**	43,828	(6.1)%
Consumer customers sales	**14,608**	13,840	5.5%
Large Business customers sales	**10,207**	10,564	(3.4)%
Wholesale customers sales	**15,752**	15,945	(1.2)%
Total customer sales volume	**40,567**	40,349	0.5%
Energy losses	**940**	1,338	(29.7)%
Pool purchase volume[1]	**41,507**	41,687	(0.4)%

1. Includes 2.0 TWh residential solar volumes purchased from consumers (FY20: 1.4 TWh)

Refer to Section 3.1.4 for commentary on generation volumes.

Refer to Section 3.1.2 for commentary on customer energy demand.

	Portfolio Margin		Per Unit		Volume Denomination	
Revenue	FY21 $m	FY20 $m	FY21 $/MWh	FY20 $/MWh	FY21 GWh	FY20 GWh
Consumer customers	**4,134**	4,091	***283.0***	*295.6*	**14,608**	13,840
Large Business customers	**1,597**	1,823	***156.5***	*172.6*	**10,207**	10,564
Wholesale customers[1]	**1,108**	1,162	***70.3***	*72.9*	**15,752**	15,945
Operations (ancillary revenue)	**95**	96				
Total revenue	**6,934**	7,172	***170.9***	*177.7*	**40,567**	40,349

1. Wholesale customers revenue includes 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.

Total revenue was $6,934 million, down 3.3%.

- Revenue from Consumer customers was $4,134 million, up 1.1% due to growth in the number of average electricity services and the inclusion of Click Energy in the year, partly offset by the impact of customers moving to lower-priced products compared to the prior year.
- Large Business customer revenue was $1,597 million, down 12.4%, driven by lower consumption as a result of COVID-19 and the decline in the revenue rate due to the decrease in wholesale costs, partly offset by the inclusion of a full year of Perth Energy volumes.
- Wholesale customer revenue was $1,108 million, down 4.6%, largely driven by a decrease in volumes and prices sold to Wholesale customers in addition to a reduction in green certificates sold compared with the prior year.
- Operations revenue was $95 million, broadly flat compared with the prior year. This predominately comprises external revenue from the sale of coal from AGL Energy's mine at Loy Yang to the Loy Yang B Power Station.

Network and other cost of sales						
Network costs	**(2,361)**	(2,322)	***(95.1)***	*(95.1)*	**24,815**	24,404
Consumer	**(1,786)**	(1,710)	***(122.3)***	*(123.6)*	**14,608**	13,840
Large Business	**(575)**	(612)	***(56.3)***	*(57.9)*	**10,207**	10,564
Green compliance costs	**(655)**	(584)	***(26.4)***	*(23.9)*	**24,815**	24,404
Other cost of sales	**(445)**	(406)	***(17.9)***	*(16.6)*	**24,815**	24,404
Total customer network and other cost of sales	**(3,461)**	(3,312)	***(139.5)***	*(135.7)*	**24,815**	24,404

Total customer network and other costs of sales were $(3,461) million, up 4.5%.

- Total network costs were $(2,361) million, an increase of 1.7%, driven by growth in the number of average electricity services and the inclusion of Click Energy and Perth Energy network costs in the year.
- Green compliance costs were $(655) million, up 12.2%, due to higher scheme compliance percentages, increased cost of internally generated large scale generation certificates, growth in the number of average electricity services and the inclusion of Click Energy and Perth Energy green compliance costs in the year.
- Other cost of sales were $(445) million, up 9.6%, due to the growth in the number of average electricity services, higher solar feed-in-tariff costs due to higher solar volumes, and the inclusion of Click Energy and Perth Energy costs in the year. Excluding the acquisitions of Click Energy and Perth Energy other cost of sales were $(392) million, down 3.8%.

	Portfolio Margin		Per Unit		Volume Denomination	
Fuel costs	FY21 $m	FY20 $m	FY21 $/MWh	FY20 $/MWh	FY21 GWh	FY20 GWh
Coal	**(627)**	(747)	***(18.3)***	*(20.2)*	**34,292**	36,948
Gas	**(230)**	(266)	***(106.5)***	*(103.0)*	**2,159**	2,582
Renewables	–	–	**–**	–	**4,686**	4,298
Total fuel costs (a)	**(857)**	(1,013)	***(20.8)***	*(23.1)*	**41,137**	43,828

Refer to Section 3.1.5 for commentary on fuel costs.

Generation running costs						
Coal Power plants	**(393)**	(374)	***(11.5)***	*(10.1)*	**34,292**	36,948
Gas Power plants	**(62)**	(58)	***(28.7)***	*(22.5)*	**2,159**	2,582
Renewables[1]	**(248)**	(272)	***(52.9)***	*(63.3)*	**4,686**	4,298
Other	**(57)**	(12)	***(1.4)***	*(0.3)*	**41,137**	43,828
AGL Loy Yang Unit 2 Insurance proceeds	**125**	–				
Total generation running costs (b)	**(635)**	(716)	***(15.4)***	*(16.3)*	**41,137**	43,828

1. Renewables includes PPA costs.

Total generation running costs were $(635) million, down 11.3%.

- Coal operating costs were $(393) million, up 5.1%, due to expenditure on fully impaired assets that would have otherwise been treated as capital, higher forced outage costs at AGL Macquarie, increased labour costs due to Enterprise Agreement wage escalations, and the transfer of insurance premiums from Centrally Managed Expenses to Integrated Energy.
- Gas operating costs were $(62) million, up 6.9%, due to a full year of operations at Barker Inlet Power Station and turbine repairs at Kwinana Swift Power Station.
- Renewables costs were $(248) million, down 8.8% driven by an increase in allocation of wind PPA costs from generation running costs to green compliance costs as a result of the change in relative value of LGCs and Electricity partly offset by increased generation volumes from Silverton Wind Farm and Coopers Gap Wind Farm.
- Other costs were $(57) million, up $45 million, largely due to lower Frequency Control Ancillary Services (FCAS) revenue.
- AGL Loy Yang Unit 2 insurance proceeds relates to the insured event that occurred in 2019 leading to a major outage.

Depreciation and amortisation (c)	**(465)**	(499)	***(11.3)***	*(11.4)*	**41,137**	43,828

Depreciation and amortisation was $(465) million, down 6.8%, driven by asset impairments during the year across AGL Energy's generation fleet, reclassification of wind farm depreciation to Trading and Origination gross margin to align with the related PPA margin, and the non-recurrence of prior year accelerated asset depreciation related to the AGL Loy Yang Unit 2 outage. This was partly offset by a full year of depreciation of the Barker Inlet Power Station and ownership of the Kwinana Swift Power Station, and higher depreciation associated with an increase in environmental rehabilitation assets in December 2020.

Net Portfolio Management						
Pool generation revenue[1]	**2,386**	3,294	***58.0***	*75.2*	**41,137**	43,828
Pool purchase costs[1]	**(2,582)**	(3,156)	***(62.2)***	*(75.7)*	**41,507**	41,687
Net derivative revenue	**254**	26	***6.2***	*0.6*	**41,137**	43,828
Net Portfolio Management (d)	**58**	164	***1.4***	*4.1*	**40,567**	40,349

1. Pool generation 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.

Net pool generation revenue and pool purchase costs were $(196) million, down $334 million, reflecting lower generation volumes mainly driven by AGL Macquarie outages coupled with lower pool price outcomes. The net derivative revenue of $254 million has increased by $228 million, or $5.6 per MWh driven largely by the performance of the wholesale electricity derivatives, with contracted prices significantly higher than pool price outcomes in current period.

	Portfolio Margin		Per Unit		Volume Denomination	
	FY21 $m	FY20 $m	FY21 $/MWh	FY20 $/MWh	FY21 GWh	FY20 GWh
Total wholesale costs (a + b + c + d)	**(1,899)**	(2,064)	***(45.8)***	*(49.5)*	**41,507**	41,687
Total costs	**(5,360)**	(5,376)	***(132.1)***	*(133.2)*	**40,567**	40,349
Electricity Portfolio Margin	**1,574**	1,796	***38.8***	*44.5*	**40,567**	40,349
Consumer customers	**478**	500				
Large Business customers	**34**	36				
Trading and Origination	**2,014**	2,253				
Perth Energy margin	**11**	23				
Click Energy margin	**21**	–				
Operations (Coal, Gas Generation and Renewables)	**(984)**	(1,016)				

In addition to the commentary above, Electricity portfolio margin is discussed in Section 5.1 and 5.2.

8.3 Gas portfolio

The gas portfolio review combines the Integrated Energy (Trading and Origination – Gas) and Customer Markets (Consumer and Large Business) businesses to outline the portfolio's performance across operating segments.

	FY21 PJ	FY20 PJ	Movement %
Consumer customers sales	**55.9**	58.2	(4.0)%
Large Business customers sales	**19.4**	15.8	22.8%
Wholesale customer sales and internal generation usage volumes	**83.1**	81.5	2.0%
Total customer sales volume	**158.4**	155.5	1.9%
Energy losses	**0.9**	2.0	(55.0)%
Gas purchase volume	**159.3**	157.5	1.1%

Refer to Section 3.1.2 for commentary on customer energy demand.

	Portfolio Margin		Per Unit		Volume Denomination	
Revenue	FY21 $m	FY20 $m	FY21 $/GJ	FY20 $/GJ	FY21 PJ	FY20 PJ
Consumer customers	**1,521**	1,534	***27.2***	*26.4*	**55.9**	58.2
Large Business customers	**151**	137	***7.8***	*8.7*	**19.4**	15.8
Wholesale customers	**717**	825	***8.6***	*10.1*	**83.1**	81.5
Total revenue	**2,389**	2,496	***15.1***	*16.1*	**158.4**	155.5

- Consumer revenue was $1,521 million, down 0.8%, driven by lower volumes sold as a result of milder weather and reduction in small business demand, partly offset by an increase in residential customer market share and the inclusion of Click Energy revenue in the year.
- Large Business customers revenue was $151 million, up 10.2% due to the inclusion of a full year of Perth Energy revenue and increased customer acquisitions and retentions.
- Wholesale customer revenue was $717 million, down 13.1%, largely driven by a decrease in revenue rates due to the impact of lower oil prices and new customer contracts being won at lower prices, partly offset by increased volumes sold driven by new customers and higher demand from existing customers.

Operating & Financial Review

For the year ended 30 June 2021

Network and other cost of sales	Portfolio Margin FY21 $m	Portfolio Margin FY20 $m	Per Unit FY21 $/GJ	Per Unit FY20 $/GJ	Volume Denomination FY21 PJ	Volume Denomination FY20 PJ
Consumer network costs	**(482)**	(521)	***(8.6)***	*(9.0)*	**55.9**	58.2
Consumer other cost of sales	**(54)**	(44)	***(1.0)***	*(0.8)*	**55.9**	58.2
Large Business customers network costs	**(17)**	(14)	***(0.9)***	*(0.9)*	**19.4**	15.8
Large Business customers other cost of sales	**(2)**	(5)	***(0.1)***	*(0.3)*	**19.4**	15.8
Total network and other cost of sales	**(555)**	(584)	***(7.4)***	*(7.9)*	**75.3**	74.0

Total network costs and other cost of sales were $555 million, down 5.0%, driven by network price decreases in New South Wales and the impact lower volumes due to a reduction in small business demand, partly offset by the inclusion of Click Energy and Perth Energy network costs in the period.

Wholesale costs	Portfolio Margin FY21 $m	Portfolio Margin FY20 $m	Per Unit FY21 $/GJ	Per Unit FY20 $/GJ	Volume Denomination FY21 PJ	Volume Denomination FY20 PJ
Gas purchases	**(967)**	(950)	***(6.1)***	*(6.1)*	**158.4**	155.5
Haulage, storage and other	**(347)**	(308)	***(2.2)***	*(2.0)*	**158.4**	155.5
Total wholesale costs	**(1,314)**	(1,258)	***(8.3)***	*(8.1)*	**158.4**	155.5

See Section 3.1.5 for commentary on wholesale gas costs.

	Portfolio Margin FY21 $m	Portfolio Margin FY20 $m	Per Unit FY21 $/GJ	Per Unit FY20 $/GJ	Volume Denomination FY21 PJ	Volume Denomination FY20 PJ
Total costs	**(1,869)**	(1,842)	***(11.8)***	*(11.8)*	**158.4**	155.5
Gas Portfolio Margin	**520**	654	***3.3***	*4.2*	**158.4**	155.5

	FY21 $m	FY20 $m
Natural Gas	**(36)**	(29)
Gas Portfolio Margin (including Natural Gas)	**484**	625
Consumer customers	**256**	219
Large Business customers	**10**	12
Trading and Origination	**241**	421
Perth Energy margin	**3**	2
Click Energy margin	**10**	–
Natural Gas	**(36)**	(29)

Natural Gas was $(36) million, down 24.1% due to lower gas sales at Camden and Moranbah, and increased costs of well workover activities in the Surat Basin, primarily driven by regulatory requirements. This was partly offset by lower costs of well workover activities at Moranbah.

In addition to the commentary above, Gas portfolio margin is discussed in Section 5.1 and 5.2.

8.4 Portfolio Review Reconciliation

FY21 $m	Electricity Portfolio	Gas Portfolio	Other AGL (a)	Adjustments (b)	Total Group
Customer Markets	5,731	1,672	151	21	7,575
Integrated Energy	1,203	717	84	1,361	3,365
Other	–	–	2	–	2
Revenue	6,934	2,389	237	1,382	10,942
Customer Markets	(3,461)	(555)	(127)	521	(3,622)
Integrated Energy	(921)	(1,314)	(26)	(1,903)	(4,164)
Other	–	–	(2)	–	(2)
Cost of sales	(4,382)	(1,869)	(155)	(1,382)	(7,788)
Other income	120	–	11	–	131
Gross margin	2,672	520	93	–	3,285
Operating costs (excluding depreciation and amortisation)	(633)	–	(986)	–	(1,619)
Depreciation and amortisation	(465)	–	(242)	–	(707)
Portfolio Margin/Underlying EBIT	1,574	520	(1,135)	–	959

FY21 $m	Electricity	Gas	Pool revenue	Other	Total Group
Portfolio Margin Reporting	6,934	2,389	2,386	–	11,709
Revenue reclass	(706)	–	(113)	–	(819)
Intragroup	(3)	(231)	–	–	(234)
Other	(305)	12	28	551	286
Note 2 - Revenue	5,920	2,170	2,301	551	10,942

Restated FY20 $m	Electricity Portfolio	Gas Portfolio	Other AGL (a)	Adjustments (b)	Total Group
Customer Markets	5,914	1,671	106	(6)	7,685
Integrated Energy	1,258	825	89	2,303	4,475
Revenue	7,172	2,496	195	2,297	12,160
Customer Markets	(3,312)	(584)	(123)	577	(3,442)
Integrated Energy	(953)	(1,258)	35	(2,874)	(5,050)
Cost of sales	(4,265)	(1,842)	(88)	(2,297)	(8,492)
Other income	–	–	9	–	9
Gross margin	2,907	654	116	–	3,677
Operating costs (excluding depreciation and amortisation)	(612)	–	(1,039)	–	(1,651)
Depreciation and amortisation	(499)	–	(221)	–	(720)
Portfolio Margin/Underlying EBIT	1,796	654	(1,144)	–	1,306

FY20 $m	Electricity	Gas	Pool revenue	Other	Total Group
Portfolio Margin Reporting	7,172	2,496	3,294	–	12,962
Revenue reclass	(735)	–	(71)	–	(806)
Intragroup	(2)	(264)	–	–	(266)
Other	(299)	15	53	501	270
Note 2 - Revenue	6,136	2,247	3,276	501	12,160

Notes

(a) Other AGL includes Natural Gas Underlying EBIT.

(b) Key adjustments include:

- Integrated Energy 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.
- Integrated Energy 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 Integrated Energy, 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 Trading and Origination - Gas to Trading and Origination - Electricity; gas sales from Natural Gas to Trading and Origination - Gas. Elimination adjustment also includes the reallocation of green costs from Trading and Origination - Electricity to Consumer and Business customer other cost of sales.

9. Governance Summary

AGL Energy is committed to ensuring that its corporate governance framework, policies and practices are of a high standard. Delivering on this commitment requires AGL Energy 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 Energy's corporate governance framework and a highlight of the key governance issues affecting AGL Energy during FY21.

Throughout FY21, AGL Energy's corporate governance arrangements were consistent with the Corporate Governance Principles and Recommendations (4th edition) published by the ASX Corporate Governance Council (ASX Principles). AGL's 2021 Corporate Governance Statement is available at **agl.com.au/CorporateGovernance**.

AGL Energy's 2021 Corporate Governance Statement outlines AGL Energy's arrangements in relation to its Board, Board Committees, Executive Team, risk management framework and financial reporting, diversity and inclusion, key corporate governance policies and shareholder engagement.

AGL Energy's governance framework is summarised in the diagram below.

9.1 Board skills

During FY21, AGL Energy's Board Skills Matrix (Table 1) was updated to reflect the changes in the composition of the Board, further analysis of the skills and experience of each Director and an assessment of the current and future strategic direction, opportunities and challenges facing AGL Energy.

The skills analysis demonstrated that AGL Energy's Board members are highly experienced and all skills that would be considered important or critical to the effective performance of the Board are present on the Board. In particular, the Board has strength in the skills and experience required for the delivery of AGL's new strategic priority of creating two leading ASX listed energy companies through a demerger of AGL Energy:

- **AGL Australia Limited** - Australia's largest energy-led multi-product retailer of essential energy services to households and businesses. AGL Australia will also own and operate Australia's largest private hydro fleet as well as fast-start gas-fired power stations and a growing battery development portfolio, with capabilities across wholesale and decentralised electricity and gas trading, storage and supply.
- **Accel Energy Limited** - Australia's largest baseload electricity supplier via the Loy Yang A, Macquarie Generation and Torrens Island sites, which will prioritise the responsible operation of these sites and facilitate their accelerated transition to low-carbon industrial energy hubs. Accel Energy will also be Australia's largest operator and offtaker of wind energy via the Macarthur, Hallett, Wattle Point and Oaklands Hill wind farms, with the potential to develop 1,600 MW of new wind projects.

Given the transition of Graeme Hunt from Chairman to Interim Managing Director and CEO in April 2021 and the retirement of John Stanhope at AGL's AGM in September, the Board is currently undertaking a process to consider additional appointments to the Board of AGL in FY22, including the appointment of a Director with expertise in climate change risk, ESG governance and industry transition. The proposed demerger of AGL Energy will require the consideration of the composition of the Boards of each company to ensure that each Board (and each Board committee) has the skills and experience to fulfil their responsibilities on implementation of the demerger. The Board is utilising the Board Skills Matrix to identify Directors with skills and experience in climate change risk and ESG, energy markets, environmental issues, digital retail, technology, customer markets and other relevant skills and experience that will be required for the demerged entities.

Further details about AGL Energy's Board Skills Matrix are set out in AGL Energy's 2021 Corporate Governance Statement available at **agl.com.au/CorporateGovernance**.

9.2 Key areas of focus during FY21

The key areas of focus for the Board during FY21, in addition to standing agenda items, are set out in Table 2.

The key areas of focus for the Board Committees, in addition to standing agenda items, are set out in Table 3.

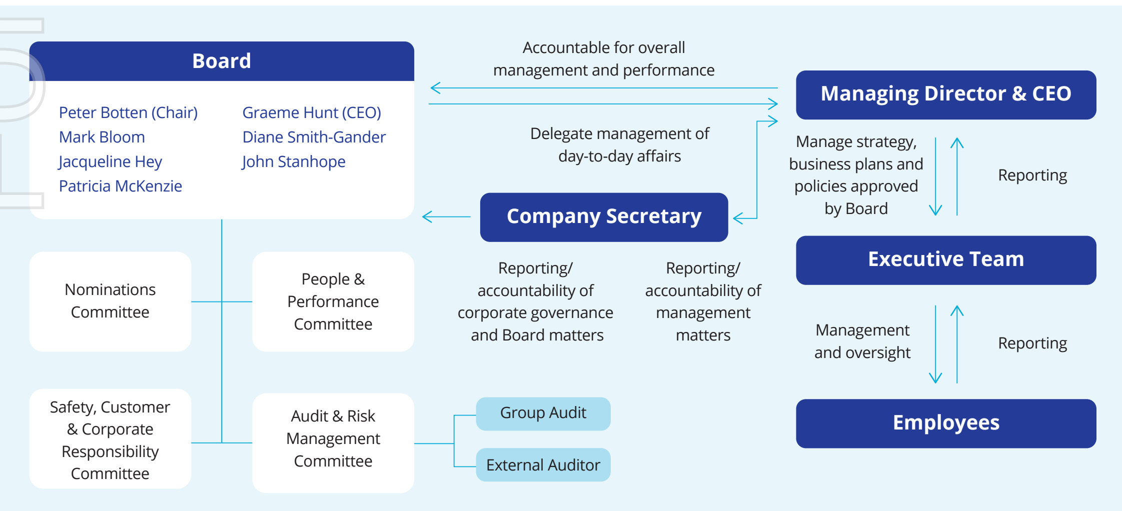


Table 1 – Board Skills Matrix

Skills, experience & knowledge	Key competencies	Competency level	BVD
Strategic Priorities	• Experience in defining and delivering strategic objectives and driving execution. For AGL Energy, the current focus is on the delivery of the proposed demerger that would result in two leading ASX listed energy companies	Proficient	
Commercial & leadership	• CEO/Leadership Team experience and strategic delivery in large, complex industrial organisations • Industrial and large asset operations • Mergers and acquisitions • Innovation and disruption • Engineering • Operational efficiency and optimisation • Project governance and management	Proficient	
Corporate finance	• Large complex ASX financial management skills (including accounting, capital management, treasury, tax) • Financial governance (including internal controls, audit, financial and business performance reporting)	Practiced	
Customer & Marketing	• Marketing, brand and reputation management • Customer experience, insight and analytics • Business to business marketing	Practiced	
People & culture	• Large workforce management, planning and change management • Culture and leadership oversight and development • Remuneration, talent development, succession planning	Proficient	
Risk	• Risk management strategies, appetite, culture • Operational risk (safety/people & well-being, technology, security, liquidity & financial, process & systems, OH&S, business resilience and crisis management) • Strategic and emerging risk • Regulatory, prudential, compliance & legal risk • Climate change risk	Proficient	
Technology	• Data and technology experience • Digital marketing/customer service delivery	Practiced	
Stakeholder management	• Stakeholder management and communications (including staff and community) • Government and regulatory relations and policy • Shareholders and investment advisors	Proficient	
Corporate governance	• ASX100 board and committee experience • ASX100 board and/or committee Chair experience • ESG including environment and sustainability	Proficient	

Skills, experience & knowledge	Key competencies	Competency level	BVD
Sector experience	• Electricity and gas • IT and telecommunications • Merchant banking • Financial markets • Consumer and SME retail • Capital intensive businesses (including industrials, manufacturing, large construction) • New and emerging energy industries and businesses	Practiced	
Attributes	• Highest standards of ethics and integrity • Cultural alignment • Diverse thinking styles • Networks and influence	Proficient	

Key:

Proficient – Board regarded overall to have expert or highly qualified proficiency, knowledge and experience in the subject matter or domain.

Practiced – Board overall has a sound working knowledge and understanding of the subject matter.

Table 2 - Board Focus Areas during FY21

Committee	Key Focus Areas in FY21	Business Value Drivers
Board	• Formulation of AGL Energy's new strategic priority of creating two leading ASX listed energy companies through a demerger of AGL Energy, including significant oversight of the demerger planning process and the process to appoint the Chairs and CEOs of each of the companies. • The appointment of Peter Botten to Chair of the Board and Graeme Hunt as Interim Managing Director and CEO as a result of the resignation of Brett Redman as Managing Director and CEO in April 2021. • Initiatives to support AGL Energy's people, customers and community through the COVID-19 pandemic and overseeing AGL Energy's social licence program. • Growth options available to AGL Energy, including the acquisition of Click Energy, Solgen and Epho as well as the acquisition of a 51% interest in OVO Australia and AGL's participation in PowAR's acquisition of Tilt Renewables' Australian business. • Group performance (including financial performance, asset performance, customer metrics, HSE performance). • Monitoring AGL Energy's progress against its Climate Commitments, including AGL Energy's target of net zero emissions by 2050 under AGL Energy's Climate Statement. • AGL Energy’s transformation programs, including grid-scale battery projects. • AGL Energy’s customer strategy, including the implementation of customer affordability measures such as the COVID-19 Customer Support Program and the Customer First Program, which has delivered a series of improvements for customers. • AGL Energy's proposed development of the liquified natural gas import jetty at Crib Point, and the decision to cease any further development in relation to the project. • AGL Energy’s governance and risk management systems and identifying ways to further strengthen governance, accountability and culture within AGL Energy. • AGL Energy's response to the first strike against the FY20 Remuneration Report received at the 2020 Annual General Meeting. Details of AGL Energy's response are set out in the Remuneration Report on page 65.	

Governance Summary

For the year ended 30 June 2021

Table 3 – Board Committee Focus Areas

Committee	Key Focus Areas in FY21	Business Value Drivers
Safety, Customer & Corporate Responsibility	• Virtual Site Tour in relation to AGL Macquarie (in lieu of a site visit, which could not be undertaken due to COVID-19 restrictions). The virtual site tour included a critical control check, conversations with AGL Macquarie employees and a deep dive on the key health, safety and environmental issues affecting the Bayswater and Liddell power stations. • AGL Energy's safety, culture, systems, capability and risk, including overseeing initiatives to improve health, safety and environmental performance. • Overseeing planning activities for the safe closure of the Liddell power station and the proposed future use of that site. • Overseeing the HSE Audit program. • Key themes in relation to AGL Energy's customers including complaint handling processes, brand health, initiatives to drive improved customer advocacy and customer affordability. • Action AGL Energy is taking to deliver on its strategic priority to build social licence and to promote stakeholder advocacy. • The development of AGL Energy's Reconciliation Action Plan.	
Audit & Risk Management	• Overseeing the issues, incidents and risks identified by management in Group Audit, compliance and risk reports and ensuring there is clear accountability for, and effective closure of, relevant issues. • Overseeing AGL Energy's financial reporting processes, including consideration of AGL's half-year and full-year reports and AGL Energy's 2021 Task-force on Climate-related Financial Disclosures (TCFD) Report. • Overseeing AGL Energy's funding and debt strategy. • Reviewing AGL Energy's insurance renewal options and strategy. • Reviewing the effectiveness of AGL Energy's governance and risk management systems and identifying ways to further strengthen governance, accountability and culture within AGL Energy. • AGL Energy's preparedness for peak period operations and reviewing performance of assets during peak periods, including risk controls and lessons learned. • Post implementation reviews of major projects, including processes to improve the delivery of major projects generally. • Reviewing reports from management on emerging sources of risk and the mitigation measures in place to deal with those risks, including in relation to cyber security and climate change. • Overseeing the process for the demerger of AGL Energy from an audit, risk and financial reporting perspective.	$
People & Performance	• Overseeing the preparation of AGL Energy's FY21 Remuneration Report. • Changes to AGL Energy's Executive Remuneration Framework, including in response to the first strike against the FY20 Remuneration Report received at the 2020 AGM. • Consideration of AGL Energy's Diversity Targets. • Executive succession planning and talent development. • Action AGL Energy is taking to foster employee engagement and monitoring of workplace culture, including changes in ways of working arising from COVID-19. • Involvement in the personnel aspects of the proposed demerger of AGL Energy.	
Nominations	• FY21 Board Review process. • Board succession planning to address AGL Energy's future opportunities and challenges.	

Board of Directors

For the year ended 30 June 2021

The Directors present their report together with the financial statements of AGL Energy and its controlled entities for the year ended 30 June 2021. The section of our Annual Report titled 'Operating & Financial Review' comprises our operating and financial review (OFR) and forms part of the Directors' Report. The Governance Summary, Remuneration Report and Other Required Disclosures also form part of the Directors' Report.

The names of the persons who have been Directors, or appointed as Directors during the period since 1 July 2020 and up to the date of this Report are Brett Redman (former Managing Director & CEO - resigned on 22 April 2021), Graeme Hunt (Managing Director and CEO), Les Hosking (retired on 7 October 2020), Jacqueline Hey, John Stanhope, Peter Botten, Diane Smith-Gander, Patricia McKenzie and Mark Bloom.

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 AC, CBE

Non-Executive Director since October 2016 and Chairman since 22 April 2021.

Age 66. BSc, ARSM

Current Directorships: Director of Karoon Energy Limited (commenced 1 October 2020), Council Member of the Australia PNG Business Council, Chairman of the Oil Search Foundation, Hela Provincial Health Authority and the National Football Stadium Trust in Papua New Guinea.

Former Directorships of listed companies over the past 3 years: Managing Director of Oil Search Limited from 28 October 1994 to 25 February 2020.

Experience: Peter was Managing Director of Oil Search Limited from 28 October 1994 until 25 February 2020, 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.

Mark Bloom

Non-Executive Director since 1 July 2020.

Age 63. BCom, BAcc, CA

Current Directorships: Director of Pacific Smiles Group Limited (commenced 18 October 2019) and Abacus Property Group Limited (commenced 1 July 2021).

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

Experience: Mark has over 35 years' experience as a Finance Executive. Mark was CFO at ASX listed Scentre Group Limited from its formation in July 2014 until his retirement in April 2019. Prior to the formation of Scentre Group Limited, Mark was the Deputy Group CFO of Westfield Group for 11 years.

Mark's executive career includes acting as CFO and an Executive Director at three listed entities in Real Estate (Westfield and Scentre Group – 16 years) and Insurance and diversified Financial Services (Liberty Life, South Africa and Manulife Financial, Toronto – 20 years). Mark has extensive experience in overseeing global and local finance and IT teams.

Jacqueline Hey

Non-Executive Director since March 2016.

Age 55. BCom, Grad Cert (Mgmt), GAICD

Current Directorships: Chair of Bendigo and Adelaide Bank Limited (Director from 5 July 2011 and Chair from 29 October 2019) and Director of Qantas Airways Limited (commenced 29 August 2013). Member of Brighton Grammar School Council.

Former Directorships of listed companies over the past 3 years: Jacqueline was a director of Australian Foundation Investment Company Ltd from 31 July 2013 until 18 January 2019.

Experience: Jacqueline 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 including as Managing Director of Ericsson UK/Ireland, Saudi Arabia and Australia/NZ.

Board of Directors

For the year ended 30 June 2021

Graeme Hunt

Managing Director and CEO (appointed 22 April 2021). Formerly a Non-Executive Director (September 2012 - April 2021) and Chairman (27 September 2017 - April 2021).

Age 64. MBA, BMET, FAus IMM

Current Directorships: Chairman of BIS Industries Limited and Member of CSIRO Energy Advisory Council. Director of the Future Battery Industry Collaborative Research Centre.

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

Experience: Graeme has extensive experience in establishing and operating large capital projects including in energy intensive industries. 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.

Patricia McKenzie

Non-Executive Director since May 2019.

Age 65. LLB FAICD

Current Directorships: Chair of NSW Ports and the Sydney Desalination Plant group companies. Director of The Housing Connection.

Former Directorships of listed companies over the past 3 years: Patricia was a director of APA Group from 1 January 2011 to 8 March 2019.

Experience: Patricia has 40 years' experience in the Australian energy sector with particular focus on matters of market design, industry governance and regulatory reform. She was previously the Chair of Essential Energy, a director of Macquarie Generation and Transgrid, CEO of the Gas Market Company from 2001 to 2008 and a member of the Gas Market Leaders Group representing gas market operators from 2005 to 2010. In these roles, she was a key participant in the Council of Australian Government's National Energy Reform, a major outcome of which was the establishment of the Australian Energy Market Operator (AEMO), of which she was a Director (2009 to 2011).

Diane Smith-Gander AO

Non-Executive Director since September 2016.

Age 63. BEc, MBA, FAICD, FGIA, Hon. DEc, FAIM, GAICD

Current Directorships: Chair of Zip Co Limited (commenced 1 February 2021), DDH1 Limited (commenced 8 February 2021), Safe Work Australia, the Committee for Economic Development of Australia and the UWA Business School Advisory Board. Director of Keystart Loans Group and HBF Health Limited.

Former Directorships of listed companies over the past 3 years: Diane was a director of Wesfarmers Limited from August 2009 to 12 November 2020.

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 & Company, and Group Executive IT and Operations, Westpac Banking Corporation.

John Stanhope AM

Non-Executive Director since March 2009.

Age 70. BCom (Economics and Accounting), FCPA, FCA, FAICD, FAIM, FAHRI

Current Directorships: Chairman of Port of Melbourne, The Bionics Institute of Australia, Melbourne Jazz Limited and Rendr Pty 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, Chairman of Australia Post and a Director of RACV Ltd and of Telstra Corporation Limited.

Board of Directors

For the year ended 30 June 2021

Composition of Board Committees
as at 30 June 2021

Director	Status	Audit & Risk Management Committee	People & Performance Committee	Safety, Customer & Corporate Responsibility Committee	Nominations Committee
Graeme Hunt	Managing Director & CEO				
Jacqueline Hey	Independent	✔		Chair	✔
Mark Bloom	Independent	✔		✔	✔
Patricia McKenzie	Independent	✔	✔		✔
Peter Botten	Independent				Chair
John Stanhope	Independent	Chair	✔		✔
Diane Smith-Gander	Independent		Chair	✔	✔

Directors' Interests

The relevant interest of each Director in the share capital of AGL Energy 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	
Peter Botten	11,390
Graeme Hunt	12,500
Mark Bloom	7,000
Jacqueline Hey	11,811
Patricia McKenzie	8,465
Diane Smith-Gander	10,962
John Stanhope	15,250

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

Company Secretaries

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

Melinda Hunter was appointed as an additional Company Secretary on 23 May 2017. Melinda's qualifications are a Bachelor of Commerce and a Bachelor of Laws from Macquarie University. Melinda is admitted as a Solicitor of the Supreme Court of New South Wales and has been practising corporate law for over 19 years.

Dividends

The Directors have declared a final dividend of 34.0 cents per share, compared with 51.0 cents per share for the prior final dividend. The annual dividend for the year ended 30 June 2021 was 75.0 cents per share compared with 98.0 cents per share for the prior year. The final dividend will be 100% unfranked and will be paid on 29 September 2021. The record date to determine shareholders' entitlements to the final dividend is 26 August 2021. Shares will commence trading ex-dividend on 25 August 2021.

The following dividends have been paid or declared by the Directors since 30 June 2020:

Final dividend of 51.0 cents per share (80% franked) paid on 25 September 2020	$318 million
Interim dividend of 41.0 cents per share (100% unfranked) paid on 26 March 2021	$255 million
Final dividend of 34.0 cents per share (100% unfranked) payable on 29 September 2021	$212 million

AGL Energy targets a payout ratio of approximately 75% of Underlying Profit after tax. Before declaring each dividend the Directors satisfied themselves that:

- AGL Energy'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 Energy's shareholders as a whole; and
- the payment of the dividend would not materially prejudice AGL Energy's ability to pay its creditors.

The AGL Energy Dividend Reinvestment Plan (DRP) will operate in respect of the 2021 final dividend. AGL Energy will issue shares and allot them to DRP participants at no discount to the simple average of the daily weighted average price at which AGL Energy's ordinary shares trade during each of the 20 trading days commencing 30 August 2021. The last date for shareholders to elect to participate in the DRP for the 2021 final dividend is 27 August 2021. AGL Energy intends to underwrite the DRP for the FY21 final and FY22 interim dividends.

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 Energy during the financial year ended 30 June 2021 were:

	Regular Board Meetings		Special Board Meetings		Audit & Risk Management Committee		People and Performance Committee		Safety, Customer and Corporate Responsibility Committee		Nominations Committee	
Directors' Name	A	B	A	B	A	B	A	B	A	B	A	B
Peter Botten	11	11	21	21			4	4	3	3	2	2
Mark Bloom	11	11	21	21	5	5			4	4	2	2
Jacqueline Hey	11	11	21	21	5	5			4	4	2	2
Graeme Hunt	11	11	21	21							2	2
Patricia McKenzie	11	11	21	21	5	5	6	6			2	2
Diane Smith-Gander	11	11	21	21			6	6	4	4	2	2
John Stanhope	11	11	18	21	5	5	6	6			2	2
Les Hosking	3	3			1	1			1	1		
Brett Redman	8	8	15	15								

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 46 occasions when Non-Executive Directors also attended meetings of Committees, of which they were not members.

Directors also participated in informal meetings and video conferences. AGL Energy 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 Energy to discuss matters of interest and travel to visit assets, operations or locations of particular relevance to AGL Energy.

Executive Team

For the year ended 30 June 2021

Graeme Hunt
Managing Director & CEO

See page 59 for Graeme's bio.

Markus Brokhof
Chief Operating Officer

Markus joined AGL in April 2020 as Chief Operating Officer.

Prior to joining AGL, Markus was the Head of Digital and Commerce, and an Executive Board Member at ALPIQ Group in Switzerland, a leading Swiss electricity producer. In this capacity, Markus was responsible for the trading and origination activities in more than 30 countries as well for the retail and digital business of the Group.

With more than 26 years' experience in the oil, power and gas sectors gained across operations in Europe, Africa and the Middle East, Markus brings a wealth of experience in mining, asset management and trading. Markus holds a Masters of Engineering from Technical University of Clausthal, Germany.

John Chambers
Executive General Manager, Future Business & Technology

John joined AGL in August 2020 following various roles spanning multiple industries in both the public and private sectors.

With more than 26 years' experience gained across multiple industries, John spent the bulk of his career at Telstra. John has extensive executive experience in technology and innovation, product development, and strategy. Prior to joining AGL John was Managing Partner at IE, a large independent Innovation and Digital consultancy.

John has a Bachelor of Economics from Macquarie University and is a Graduate of the Australian Institute of Company Directors. He is a member of the Swinburne University of Technology Council and is on the advisory board for Indigitek, a not-for-profit company supporting the growth of opportunities in STEM and technology for First Nations people.

Christine Corbett
Chief Customer Officer

Christine joined AGL in July 2019. Prior to joining AGL, Christine built a career at Australia Post spanning almost three decades, where she held several leadership roles, including two years as Chief Customer Officer, responsible for group channel operations, marketing, digital and customer experience. She also held the role of Interim Chief Executive Officer at Australia Post prior to joining PwC in 2018 as a Special Advisor consulting for a range of clients in the customer and integrated solution space.

Christine holds a Bachelor of Law and a Bachelor of Business (Comm) from the Queensland University of Technology, and is a graduate of the Australian Institute of Company Directors and Stanford Graduate School of Business' Executive Program.

John Fitzgerald
General Counsel & Company Secretary

John was appointed Company Secretary in October 2015. In December 2007, John was appointed General Counsel and continues to hold that position in addition to his role as Company Secretary.

Previous to joining AGL, John worked in both government and private legal practice.

John holds a Bachelor of Arts and a Bachelor of Law 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.

Joanne Fox
Executive General Manager, People & Culture

Joanne joined AGL in June 2019, following a successful career at Santos.

With more than 25 years' experience, Joanne has a strong and diverse background leading the Human Resources function in large ASX100 companies in the oil and gas, FMCG and pharmaceutical industries. Joanne brings extensive experience in capability and culture development, succession management, talent development and organisational design.

Joanne holds a Graduate Certificate in Energy & Resources from University College of London, a Masters of Business Administration from the University of South Australia and is a Graduate of the Australian Institute of Company Directors.

Elizabeth McNamara
Executive General Manager, Corporate Affairs

Elizabeth joined AGL in February 2020 following a career in both the public and private sectors.

With more than 20 years' experience gained across multiple industries in the public and private sectors, Elizabeth has extensive experience in stakeholder engagement, public policy, communications and sustainability. Prior to joining AGL, Elizabeth was Group Director, Public Affairs, Communications and Sustainability for Coca-Cola Amatil, and has held various roles in the resources industry at South32 Ltd and BHP's Energy Coal Business and was Deputy Director General at NSW Ministry of Transport.

Elizabeth has a Bachelor of Economics (Hons) from Sydney University, a Grad Cert in Sustainability from Cambridge University and is a Graduate of the Australian Institute of Company Directors.

Damien Nicks
Chief Financial Officer

Damien joined AGL in March 2013 and held several senior executive finance roles before being appointed Interim CFO in August 2018, then formally CFO in May 2019.

Damien has more than 26 years' experience across large multinational businesses including Linfox Logistics, Smorgon Steel and Deloitte.

Damien is the Chair of ActewAGL, a joint venture that governs the electricity and gas retailer and distribution businesses in the ACT. Damien holds a Bachelor of Commerce (Honours) from La Trobe University, is a fellow of the Chartered Accountants Australia and New Zealand and a graduate member of the Australian Institute of Company Directors.

João Segorbe
Executive General Manager, Strategy & Corporate Development

João joined AGL in August 2019.

With more than 20 years' experience, João brings a wealth of international energy sector expertise, most recently from the global team leading McKinsey & Company's thinking on energy transition. João headed up the company's Electrical Power and Natural Gas Professional Practice in Australia and New Zealand from 2016 to 2019.

João holds a degree in Mechanical Engineering at the Instituto Superior Técnico, Portugal, and completed his Masters of Business Administration at Kellogg School of Management Northwestern University in the USA. João is a Graduate of the Australian Institute of Company Directors.

10. 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 the Board, I am pleased to present the Remuneration Report for AGL Energy Limited (AGL Energy) and its consolidated entities for the year ended 30 June 2021 (FY21).

A challenging year for AGL Energy

FY21 was a challenging year for AGL Energy. The results reflect a sharp decline in wholesale prices for electricity, lower gross margins in wholesale gas, higher costs to support our operational customer response to the COVID-19 pandemic, the increased depreciation expense following recent investment, and the impact of impairments made during the year. To balance this, we have met our objective to keep FY21 operating expenditure flat, excluding COVID-19 impacts and acquisitions. A net profit after tax of $537m is down 34% from FY20 and highlights the difficult market conditions facing AGL Energy.

Across our key customer metrics we have continued the progress made during FY20 on our Net Promoter Score (NPS) with AGL Energy ending FY21 ranked #1 against tier 1 competitors and a 20.7% improvement in the FY21 Event NPS. Similar improvements have been achieved in our key safety metrics of total injury frequency rate (TIFR) and the high potential near miss ratio, although the incident at our Liddell site, causing a serious injury to one of our employees, means that there is an ongoing need to sharpen the focus on safety. After two years of improvement, employee engagement decreased from 73% in FY20 to 62% which reflects the level of change and uncertainty being experienced by AGL Energy employees as they navigate the current operating environment, the proposed demerger and the ongoing pandemic conditions.

The executive team have delivered some notable achievements this year against their individual objectives, particularly to progress our strategic objectives. The acquisitions of Click Energy, Epho and Solgen have built on strong customer growth and enhanced our solar capabilities, our investment in renewable energy has continued via our 20 percent interest in PowAR, which has recently completed the acquisition of Tilt Renewables, whilst the announcement of 850 MW of grid-scale battery projects forms part of a cleaner energy future.

Linking performance to FY21 remuneration outcomes

While AGL Energy's financial performance did not meet the threshold required to warrant payment on that component under the short-term incentive (STI), performance against non-financial metrics, including safety, customer and individual objectives would have delivered an STI award to executives in FY21, albeit at low levels.

However, in undertaking a holistic review of the balanced scorecard and the company's performance, the Board has exercised its discretion to adjust STI outcomes to zero for executives. This is not a decision taken lightly, considering the challenging operating environment and the need to retain critical executives through a period of uncertainty but reflects AGL Energy's underlying principle of aligning reward with overall performance and shareholder outcomes.

The outcomes of both the relative total shareholder return (TSR) and return on equity (ROE) metrics under the FY19 long-term incentive (LTI) offer reflect the financial performance of AGL Energy over the three-year performance period, with 0% of performance rights vesting for participants. This result reflects the challenging environment and highlights the difficulty of setting appropriate long-term targets.

To summarise, in light of AGL Energy's performance:

- No executive key management personnel (KMP) received a fixed increase during the year;
- Zero STI outcomes have been determined for FY21, at the discretion of the Board, for all executive KMP including the former MD & CEO;
- There was 0% vesting under the FY19 LTI offer which was tested on 30 June 2021, with both the relative TSR, and ROE outcomes being below threshold. Impairments and share buy-backs were excluded from this calculation;
- Non-Executive Director fees were not increased during the year; and
- The 0.5% increase in superannuation guarantee contributions effective 1 July 2021 was absorbed by those AGL Energy employees paid on a fixed remuneration basis.

Responding to feedback from shareholders

In light of the vote against the FY20 remuneration report at last year's AGM, we have spent time engaging with and listening to our shareholders' concerns on the remuneration framework and disclosures. The Board has taken this feedback very seriously and our response is set out in detail in Section 10.1.1 of this report. In summary, the following changes have been implemented for FY21. These changes have been designed to better align our remuneration structure with company performance, drive long term shareholder value and provided enhanced transparency:

- STI disclosures now include specific targets and target ranges to allow for a more accurate assessment of performance over the financial year to be undertaken;
- There is clearer alignment between STI outcomes and FY21 performance outcomes. Applying the scorecard approach would have delivered STI awards significantly below target, reflecting the overall company performance. However, the Board has exercised discretion this year to adjust the STI outcome to zero for executives, a reflection of the FY21 financial performance and shareholder experience;
- In the context of lower wholesale electricity prices and lower gross margins in gas, establishing an appropriate target range for a ROE performance metric continues to be challenging. The ROE metric has been removed from the FY22 LTI plan, with 75% of the outcome to be determined against relative TSR performance and 25% against carbon transition performance metrics; and
- Carbon transition metrics will remain in the LTI plan for FY22 to ensure that the leadership team continues to focus on the responsible transition away from carbon-generated energy, in line with both the Transformation and Social Licence strategic objectives.

For "good leaver" executives who participated in the FY20 bridging grant, the Board will keep its commitment to lapse an LTI award in full to ensure that two pro-rated grants are retained, not three (as is the case for Brett Redman).

We continue to engage with shareholders and look forward to receiving further feedback on our FY21 remuneration report as we work to improve our remuneration framework and disclosures.

A new chapter in AGL Energy's history

An accelerated desire for action on climate change, shifts in government policy and rapidly falling technology costs have changed our market and led AGL Energy to announce a proposed demerger. The proposed demerger positions AGL Energy to continue to lead Australia's energy transition as two strong businesses with compelling growth and investment opportunities for each. A summary of the remuneration approaches for the two entities will be provided in the scheme booklet, scheduled for release in 2022.

During the year, the former MD & CEO, Brett Redman, resigned from the role and advised the Board that he believed he could not make a long-term commitment beyond the proposed post-demerger. As a result, the Board agreed it was appropriate to put in place alternative leadership arrangements to lead the business into its next chapter.

Mr Redman's resignation as Director became effective immediately and the Board determined that he will be treated as a "good leaver" as he remains available to AGL Energy to assist with a smooth transition until the expiry of his notice period on 21 October 2021. Mr Redman will receive benefits in accordance with the terms of his service agreement and AGL Energy's incentive plans. As such, a pro-rata portion of LTI performance rights remain on foot to be tested against the relevant metrics at the end of their respective performance periods. However, as noted above, Mr Redman did not receive an STI in FY21.

Graeme Hunt, previously the AGL Energy Chair, stepped into the MD & CEO role on an interim basis in April 2021. This provided important continuity of leadership for the business and certainty for our people and shareholders as we work through considerations of the demerger and establish a platform for future success. At the time, Mr Hunt's fixed remuneration was established at the same level as Mr Redman's and the Board determined that he would not participate in either short-term or long-term incentive plans, given the interim nature of the role. To provide immediate shareholder alignment, and in lieu of any incentives, restricted shares valued at $600,000 were allocated to Mr Hunt upon commencement, with restrictions lifting in July 2022.

As Mr Hunt has been appointed to the MD & CEO role on a permanent basis taking effect from 1 July 2021, the intial offer of restricted shares to the value of $600,000 made will be reduced on a pro-rated basis for the interim period to $165,354. From 1 July 2021 Mr Hunt's fixed remuneration is $1,550,000 and he will participate in AGL's incentive plans for FY22.

We welcome your feedback on the remuneration practices and disclosures for AGL Energy and look forward to your support at our 2021 AGM.

Yours sincerely,

Diane Smith-Gander AO
Chair, People & Performance Committee

10.1 Introduction

The directors present the Remuneration Report for AGL Energy Limited (AGL Energy) and its consolidated entities for the year ended 30 June 2021 (FY21), 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) and the resulting outcomes for FY21.

10.1.1 Our response to the concerns raised regarding the FY20 Remuneration Report

At the 2020 AGM, 46.5% of shareholders voted against the FY20 Remuneration Report (a 'First Strike'). The AGL Energy Board and People & Performance Committee have consulted extensively with proxy advisors, institutional investors, equity analysts and other stakeholders. The feedback received has been valuable and has been incorporated into the ongoing evolution of the remuneration framework and the disclosure of outcomes. The key issues and concerns raised during these discussions are listed below.

Concern	Response
Short-term Incentives	
Targets: • The omission of targets for STI metrics was hampering accurate assessment of STI awards against performance outcomes.	• FY21 targets and target ranges have been provided for group level objectives.
Assessment of outcomes: • The "above target" assessment of FY20 STI outcomes was difficult to reconcile with share price outcomes and the achievement of guidance at the lower level.	• The above target assessment for FY20 STI outcomes was based on executives exceeding the budget. Budgets are set early in the performance period and may not always reflect the market guidance range as this may change over the performance period. • In FY20, several of the metric targets in the scorecard, including the financial metric, were exceeded resulting in a positive outcome for executives in a challenging environment.
Treatment of the 2019 Loy Yang Unit 2 outage: • Lack of clarity on the discretion applied due to the outage at Loy Yang in 2019 for STI outcomes for FY19 and FY20.	• FY19 STI awards were adjusted downward for the net impact of the outage. The net impact estimated the insurance proceeds which were then incorporated in the FY20 budget meaning no adjustment was necessary in determining the FY20 STI awards. • Discretion guidelines have been implemented formalising current practice and are described later in this report.
Long-term Incentives	
Metrics & targets: • The ROE target range for the FY21 LTI offer was too low. • The inclusion and weighting of the carbon transition metrics in the FY21 LTI offer does not align with shareholder outcomes.	• Modest levels of LTI vesting experience over the last three years indicates that targets have been set appropriately. Average vesting over the last three years has been 26%. • ROE metric is being removed for the FY22 LTI offer with a higher weighting for relative TSR (75%) and a lower weighting for carbon transition (25%). • The carbon transition metrics have been included in the LTI plan to ensure that AGL Energy progresses the transition responsibly, in support of our Climate Statement and community expectations. The FY22 LTI offer includes carbon transition metrics with the weighting reduced from 33% to 25%.
FY20 Bridging Grant: • In moving from a three to four year vesting period, 28 current employees received two grants in FY20 to provide a vesting opportunity in each year. When these employees leave AGL Energy as a 'good leaver' if one grant is not lapsed they will have received a windfall (i.e. additional grant)	• Upon cessation of employment for good leavers, the Board has the discretion to lapse grants. To date, there have been four good leavers and in every case the Board has lapsed in full an LTI grant. This means these good leavers retain only two pro-rated grants on foot. By contrast, those employees who have always been in the four year vesting schedule would retain three pro-rated grants on foot.

10.1.2 Key Management Personnel

AGL Energy KMP are the interim Managing Director & CEO and AGL Energy executives with operational and/or financial responsibility (together referred to in this Report as 'executives'), and the Non-Executive Directors.

During FY21 the following changes to the executives occurred:

- Former MD & CEO, Brett Redman, tendered his resignation and subsequently ceased to be KMP on 21 April 2021. Mr Redman continues to be engaged as an advisor to the Board until 21 October 2021, and as such, is deemed a "good leaver" and is therefore eligible for an FY21 STI award and for pro-rated LTI Performance Rights to remain on foot. As Mr Redman is serving out his notice period and remains an Advisor to the Board, there are no termination payments on cessation of employment, other than any statutory leave entitlements.
- Graeme Hunt, previously the Chairman, stepped in as Interim Managing Director & CEO from 22 April 2021, and was appointed permanently to the role from 1 July 2021.
- Peter Botten, previously a Non-Executive Director, became Chairman on 22 April 2021.

Table 10.1.2.1: Key management personnel

Name	Position	Term as KMP
Non-Executive Directors		
Current		
Peter Botten	Chairman[1]	Full year
Mark Bloom	Non-Executive Director	Full year
Jacqueline Hey	Non-Executive Director	Full year
Patricia McKenzie	Non-Executive Director	Full year
Diane Smith-Gander	Non-Executive Director	Full year
John Stanhope	Non-Executive Director	Full year
Former		
Graeme Hunt	Chairman	Until 21 April 2021
Les Hosking	Non-Executive Director	Until 7 October 2020
Executives		
Current		
Graeme Hunt	Interim Managing Director & CEO[2]	From 22 April 2021
Markus Brokhof	Chief Operating Officer	Full year
Christine Corbett	Chief Customer Officer	Full year
Damien Nicks	Chief Financial Officer	Full year
Former		
Brett Redman	Managing Director & CEO	Until 21 April 2021[3]

1. Mr Botten was a Non-Executive Director from 1 July 2020 until 21 April 2021, then as Chairman from 22 April 2021.
2. Mr Hunt was appointed Managing Director & CEO on a permanent basis, with effect from 1 July 2021.
3. Mr Redman will remain employed by AGL Energy as an Advisor to the Board until 21 October 2021.

10.2 Remuneration governance

10.2.1 Role of the People & Performance Committee

What is the purpose of the People & Performance Committee?

- The purpose of the People & Performance Committee is to support the Board in fulfilling its responsibilities through the recruitment, retention and remuneration of executives with the capabilities and skills necessary to execute AGL Energy's strategy.

How does the Committee support the Board?

- The Committee reviews and makes recommendations to the Board on the remuneration arrangements for the Managing Director & CEO, Non-Executive Directors and executives.
- The Committee provides support to the Board in relation to matters such as governing remuneration and employment policies, practices and programs.
- The Committee oversees the preparation of AGL Energy's Remuneration Report which is subsequently reviewed by the Audit & Risk Management Committee as part of the Annual Report.

Who sits on the Committee?

- The People & Performance Committee includes independent members of the Board, including members of the Audit & Risk Management Committee, which are reviewed periodically.

To what extent does the Committee seek advice, e.g. from remuneration advisers?

- To assist in performing its duties and making recommendations to the Board, the Committee has access to management and independent external consultants to seek advice on various remuneration-related matters as required.
- Any recommendations made by consultants in relation to remuneration arrangements of KMP are made directly to the Board without any influence from management. Arrangements are in place to ensure any advice is independent of management.
- During FY21, the Committee engaged EY to act as independent remuneration advisers. EY did not provide any remuneration recommendations as defined in the *Corporations Act 2001 (Cth)* to the People & Performance Committee during FY21.

Further details

- The complete People & Performance Charter is reviewed at least every two years and is available on AGL Energy's website: **agl.com.au/BoardAndCommitteeCharters**.

10.2.2 Management of Risk & Remuneration

The AGL Energy remuneration framework is designed to ensure that executives focus on delivering against the strategic priorities, ensuring that company and shareholder outcomes are primary considerations in the decision-making processes. The framework is structured to mitigate against any excessive risk-taking or short-term decisions by executives through the establishment of scorecard metrics that align with strategic priorities, the use of deferred equity in both the short and long-term incentive plans, and the clawback provisions within those equity plans.

10.2.3 Board Discretion

The Board, in conjunction with the People & Performance Committee, exercises discretion to ensure the quantum of executive remuneration is appropriate in light of individual and company performance, for example by adjusting STI and LTI vesting outcomes. This discretion ensures that the quantum of executive remuneration is appropriate. Discretion guidelines have been implemented to formalise current practice. The guidelines provide a framework to assist the Board with identifying one-off/extraordinary circumstances (e.g. impairments) and whether those circumstances require an adjustment to incentive outcomes. The guidelines support consistency in application over time and does not limit the Board's overarching discretion under AGL Energy's incentive plans.

10.2.4 KMP share ownership

To provide for shareholder alignment, AGL Energy operates a minimum shareholding policy for KMP and other executives reporting to the Managing Director & CEO, subject to compliance with AGL Energy's Securities Dealing Policy. Shareholdings are reported in Table 10.7.2.

The minimum shareholding policies stipulate the following requirements:

	Shareholding requirement	Period to satisfy requirement
Non-Executive Directors	100% of base annual fee	Four years; 50% within two years of appointment; encouraged to hold 10% by the end of the financial year of appointment
Executives		
MD & CEO	100% of fixed remuneration	Up to 5 years from their initial appointment date to an eligible role
CFO	75% of fixed remuneration	
Other Executives	50% of fixed remuneration	

10.3 Remuneration strategy and framework

What is the objective of the AGL Energy remuneration strategy?

- The remuneration strategy is underpinned by AGL Energy's purpose of supporting progress for all of its stakeholders.
- The objective of the remuneration strategy is to support and drive AGL Energy's strategic priorities of Growth, Transformation and Social Licence.

What is the objective of the AGL Energy remuneration framework?

- AGL Energy strives to create a remuneration framework that drives a performance edge, ensuring there is a strong link between executive pay and the achievement of company performance outcomes and returns to shareholders.
- The remuneration framework is underpinned by the AGL Energy Business Value Drivers with the aim of creating long-term value for shareholders and other stakeholders.

Are any other factors considered in establishing the framework?

- The AGL Energy Values guide the behavioural expectations for employees within the remuneration framework.
- AGL Energy is committed to ensuring that its remuneration framework is equitable and supports the objective of increasing female representation at all levels of the company.
- AGL Energy regularly reviews the remuneration framework to ensure that it remains fit-for-purpose and drives performance outcomes that deliver on AGL Energy's strategy.

FY21 remuneration framework and alignment with strategy

Our Purpose	Progress for life		
Our Strategic Priorities	Growth	Transformation	Social Licence
Our Values	Care in every action	Integrity always	
	Better together	Deliver your best	Shape tomorrow
Our Business Value Drivers	CUSTOMERS	COMMUNITY & RELATIONSHIPS	PEOPLE
	ENVIRONMENT	INFRASTRUCTURE	FINANCE
	SYSTEMS & PROCESSES		

	Fixed remuneration	Short-term incentive	Long-term incentive
How does it link with strategy?	Competitive remuneration to attract and retain executives with the right capability and experience to deliver against the strategic priorities.	Rewards executives for delivering financial returns and progressing AGL Energy's strategy; annual metrics are aligned to business value drivers and strategic priorities.	Rewards executives for long-term performance, delivering against the strategic priorities of Growth, Transformation and Social Licence; to encourage shareholding and deliver long-term value creation for shareholders and other stakeholders.
How is it determined?	• Skills and experience • Role complexity • Responsibility Benchmarked against peer companies.	**Annual performance period** • Financial metrics (50-60%) • Safety metrics (15%) • Customer metrics (7.5%) • Employee engagement (7.5%) • Individual strategic metrics (10-20%)	**Four-year performance period** • Relative total shareholder return measured against the S&P/ASX100 (33.4%) • Return on equity (33.3%) • Carbon transition metrics (33.3%)
How is it delivered?	Base salary and superannuation.	Cash and Restricted Shares (no performance conditions apply, restrictions lifted after two years).	Performance Rights which vest after four years, subject to meeting the performance conditions.

10.3.1 Changes for FY22

The only change to the remuneration framework implemented for FY22 is the removal of return on equity as a performance metric in the long-term incentive plan. Further details are provided in the LTI section (10.4.4) of this report.

New remuneration arrangements for the MD & CEO

Graeme Hunt, previously the AGL Energy Chair, stepped into the MD & CEO role on an interim basis in April 2021 to provide continuity of leadership. Mr Hunt's fixed remuneration was established at the same level as that of the former MD & CEO, and the Board determined that he would not participate in either short-term or long-term incentive plans, given the interim nature of the role.

To provide immediate shareholder alignment, and in lieu of any incentives, restricted shares valued at $600,000 were allocated to Mr Hunt upon commencement, with the intention that Mr Hunt would remain in the role until the implementation of the proposed demerger, with share restrictions lifting in July 2022. However, upon his appointment to the MD & CEO role permanently, the Board has determined that it is appropriate for Mr Hunt to participate in the incentive plans for FY22 to ensure his reward outcomes are determined by, and align with company performance.

Therefore, to ensure that Mr Hunt is not receiving both the restricted shares and be eligible for an incentive in the same period, a pro-rating factor has been applied to the value of restricted shares to cover the interim period from 22 April to 30 June 2021. The $600,000 of restricted shares has subsequently been adjusted to $165,354, with the restrictions on the shares remaining until 1 July 2022.

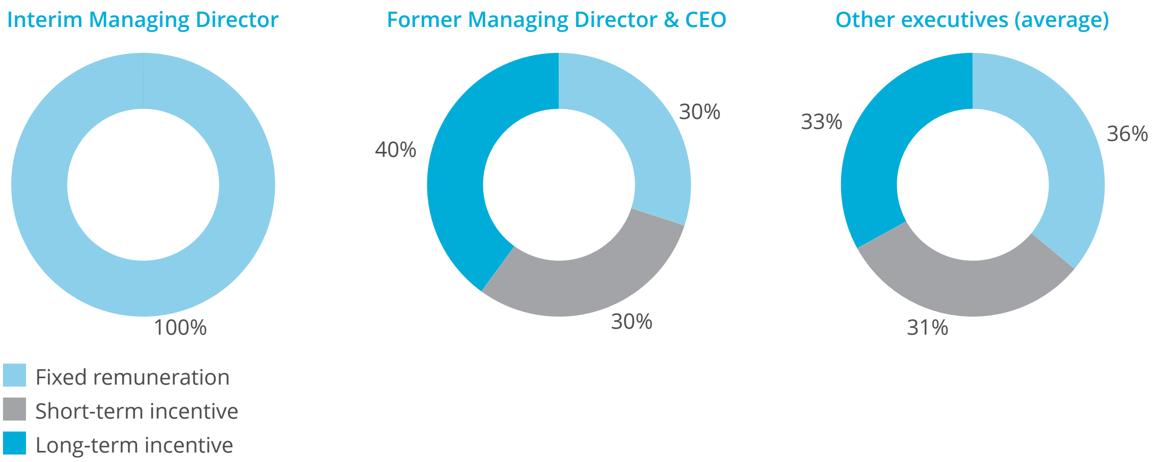
The new remuneration arrangements for Mr Hunt in the MD & CEO role have been established with regard to appropriate benchmarks based on the projected market capitalisation of Accel Energy.

Mr Hunt's remuneration, from 1 July 2021, will be as follows:

- fixed remuneration of $1,550,000;
- STI eligibility, with a maximum opportunity of 67% of fixed remuneration for FY22; and
- LTI eligibility, with a maximum opportunity of 167% of fixed remuneration for FY22.

10.3.2 Remuneration mix

The remuneration mix is structured to attract and retain executives. The FY21 remuneration mix at maximum for executives is summarised below.



The variable/at-risk component of total remuneration is 70% and 64% at maximum for the former Managing Director & CEO and other executives respectively. The Interim Managing Director & CEO did not participate in any incentive plans in FY21, in accordance with the terms of employment.

10.4 FY21 performance and executive remuneration outcomes

10.4.1 Fixed remuneration approach and FY21 outcomes

What is the purpose of fixed remuneration?

- The purpose of establishing fixed remuneration is to attract and retain the right person for the job to lead AGL Energy in tackling the challenges confronting the energy industry.
- Fixed remuneration at AGL Energy therefore needs to be competitive to ensure the company is able to attract and retain those executives with experience in companies or industries undergoing similar transformation.

How is fixed remuneration established at AGL Energy?

- Fixed remuneration is determined by considering market benchmarks in peer companies.
- AGL Energy's approach is to set an executive's fixed remuneration initially at a level reflecting their skill and 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.

What were the changes to fixed remuneration in FY21?

- No changes were made to continuing executives' fixed remuneration levels during FY21.
- The Board concurred with management's recommendation that the economic impact on AGL Energy's customers and the community arising from the COVID-19 pandemic made any remuneration increases inappropriate.

Are there any other considerations in setting fixed remuneration?

- AGL Energy is committed to gender pay equity across employees, including executives. There are no gender pay gaps in fixed remuneration for current executives in roles of equivalent size.

10.4.2 STI approach and FY21 outcomes

What is the purpose of the STI?

- The objective of the STI is to reward executives for delivering financial returns and progressing AGL Energy's strategy.

What are the performance measures?

Executives have STI scorecards which sets performance expectations for key performance measures:

- financial (50-60%);
- strategic (30%); and
- individual (10-20%) measures.

The scorecard for FY21 is provided in Section 10.4.2.1. For FY21:

- Net profit after tax is the key financial measure to drive shareholder returns and operate as efficiently as possible in the market within which AGL Energy operates;
- The strategic measures are focused on safety, customer and employee engagement and are aligned with the Business Value Drivers; and
- Individual strategic objectives focus on Growth, Transformation and Social Licence to drive the overall AGL Energy strategy. This is aligned with the delivery of value creation for shareholders.

How are performance targets established?

- Annual performance targets are determined with reference to a number of inputs: the previous year's performance outcomes, external market conditions, and longer-term business forecasts. Performance targets are set at levels which are considered to be a "stretch" in the context of these inputs, stretched beyond the 'business as usual' performance standards.
- The STI target range for net profit after tax is established early in the financial year based on AGL Energy's budget and the perceived degree of difficulty in that budget based on internal forecasts and prevailing market conditions at that time.
- AGL Energy's budget may not reflect the market guidance range. Guidance is initially released at the time of AGL Energy's results in August and may change during the year. Guidance normally has a broader range than incentive targets.

What is the award opportunity?

Interim MD & CEO	Former MD & CEO:	Other executives:
Did not participate in the STI plan in FY21	Target = 60% Maximum = 100%	Target = 70% Maximum = 84%

How does the Board assess performance?

- In assessing outcomes under the STI, the Board 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 Energy's shareholders.
- The starting point for considering STI outcomes is Statutory Profit. The Board may adjust Statutory Profit in consideration of any non-cash fair value movements in financial instruments and non-recurring significant items that materially affect AGL Energy's financial results to derive Underlying Profit after tax. This is to ensure that management are not unfairly advantaged or disadvantaged by items outside their control.
- The Board expects an executive delivering against all performance objectives to achieve STI opportunities at their target levels given that performance targets are set at "stretch" levels.
- The Board applies discretion in the treatment of any significant items and their impact on outcomes against performance targets and subsequent STI awards.

How are STI awards delivered?

- Awards are delivered as a mix of cash and Restricted Shares (no performance conditions apply, restrictions lifted after two years):

Former MD & CEO:	Other executives:
50% cash 50% Restricted Shares	75% cash 25% Restricted Shares

- Restricted Shares are entitled to receive dividends and carry voting rights.

What happens upon cessation of employment?

- When an executive leaves the organisation prior to the payment date for awards by way of resignation or dismissal for cause, the executive would not be eligible to receive any STI award for the relevant year.
- Where the Board determines that an executive is a "good leaver" they may be entitled to a pro-rated award for the year. The grant and treatment of Restricted Shares is subject to Board discretion.

Are clawback conditions applicable?

- The Board has discretion to prescribe clawback events for any unvested equity awards which may be clawed back from executives.

What happens upon a 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.

Is there a Hedging Policy?

- AGL Energy has a policy in place that prevents executives from entering into any derivative or other financial product in relation to their equity plan(s) participation.

The group STI scorecard outcomes are detailed in Table 10.4.2.1, and the individual strategic objective outcomes are shown in the subsequent tables.

Group performance objectives and FY21 outcomes

- Safety: Total injury frequency rate was 2.3, down from 3.3 for FY20, a strong indicator that the ongoing focus on safety is helping to keep employees and contractors safe. The high potential near miss ratio was 1.1:1, an improvement from 0.9:1 for FY20. However, the transformer incident at Liddell in December 2020, which resulted in a serious injury to an employee, shows there is still more to be done. In consideration of this incident, the above target outcome for safety was adjusted to below target.
- Customer: the AGL Energy Net Promoter Score (NPS) has continued the progress made in FY20 with AGL Energy again ranked #1 against tier 1 competitors, with a +4.9 outcome, up from +2.3 in FY20. Event NPS has also improved, at 19.2 compared with 15.9 in FY20, an increase of 20.7%.
- Employee Engagement: an engagement score of 62%, down from 73% in FY20, is reflective of the uncertainty employees have experienced through the announcement of the structural separation and the subsequent demerger proposal.
- Financial: Underlying Profit after tax was $537 million, down 34% from FY20, below the target range and in the lower levels of the revised guidance range of $500 - 580m. This reflects a decline in wholesale prices for electricity, lower gross margins in wholesale gas, the impact of unplanned outages on availability at AGL Macquarie, higher depreciation expense and the continuing impact of COVID-19 on demand and customer margin.

The FY21 STI scorecard results in STI outcomes of between 20.25 - 31.46% of maximum for executives, including the former MD & CEO. However, in consideration of overall performance, particularly the financial performance, and the shareholder experience, the Board has exercised discretion to adjust STI outcomes to zero for executives.

Table 10.4.2.1: STI scorecard – group performance objectives and FY21 outcomes

Performance measure	Weighting: Former MD & CEO	Weighting: Other KMP	Target Range (threshold to max)	Target	Outcome	Outcome Relative to Target
Safety:						
a. Total injury frequency rate (TIFR);	15%	15%	a. 3.6 to 3.0	a. 3.3	a. TIFR was 2.3 (against 3.3 in FY20).	
b. High Potential Near Miss KPI to Recordable Incident KPI Ratio			b. 0.8:1 to 1.3:1	b. 1.1:1	b. High potential near miss to recordable incident ratio was 1.1:1 (from 0.9:1 in FY20). (The overall above target safety outcome was adjusted to below target in light of the Liddell incident.)	
Customer:						
a. AGL Energy's NPS ranking against tier 1 competitors;	7.5%	7.5%	a. #2 to #1 ranking against tier 1 retailers	a. #1 ranking in 2 states amongst tier 1 retailers	a. #1 ranking against tier 1 retailers with a +4.9 outcome (from +2.3 in FY20).	
b. Overall Event NPS			b. FY20 outcome to 15% improvement	b. 10-15% improvement on FY20	b. 19.2 against 15.9 for FY20, an improvement of 20.7%.	
Engagement:						
AGL Energy employee engagement	7.5%	7.5%	71% to 76%	75%	AGL Energy FY21 employee engagement score is 62%, down from 73% in FY20.	
Financial:						
AGL Energy net profit after tax (including business unit earnings/opex overlay, as relevant)	60%	50%	<$580m to $630m	$610m	Underlying Profit after tax was $537 million, down 34% from FY20. Excludes the significant items arising from asset impairment losses and the movement in fair value of financial instruments.	
Individual strategic objectives:						
Growth, Transformation and Social Licence	10%	20%			See individual outcomes below.	

Key: Below target At target Above target

Individual strategic objectives and FY21 outcomes

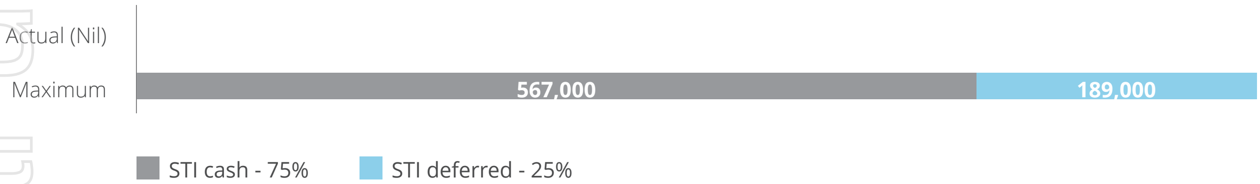
Graeme Hunt
Managing Director & CEO

As Interim MD & CEO for the period 22 April to 30 June 2021, Mr Hunt did not participate in the STI plan, in accordance with the terms of employment.

Board discretion applied to adjust STI outcomes to 0%. Scorecard outcomes below:

Markus Brokhof
Chief Operating Officer

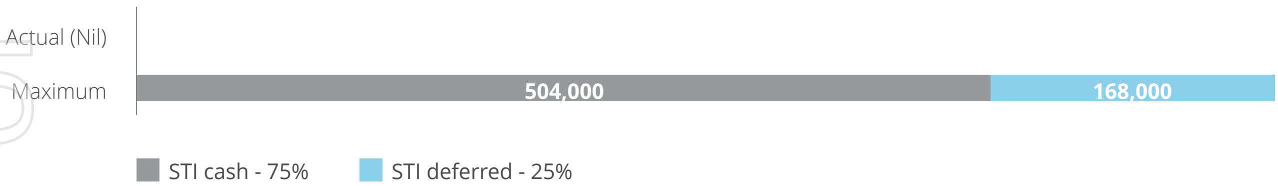
Group objectives 80%	Achieved **13.13**%. Refer Table 10.4.2.1 for details. Adjusted for business unit performance.
Individual strategic objectives 20%	Achieved **13.33**%. **Growth:** development of the east coast energy market; **Social Licence:** commercial availability. • Grid-scale battery projects progressing, to deliver 850 MW of storage capacity by FY24. • Commercial availability was below target for FY21, impacted by the Liddell Unit 3 outage.



Board discretion applied to adjust STI outcomes to 0%. Scorecard outcomes below:

Christine Corbett
Chief Customer Officer

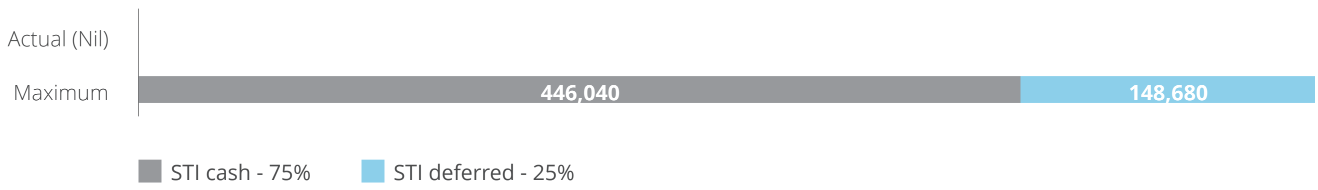
Group objectives 80%	Achieved **13.13%**. Refer Table 10.4.2.1 for details. Adjusted for business unit performance.
Individual strategic objectives 20%	Achieved **14.16%**. **Growth:** drive growth in customer numbers; **Social Licence:** drive improvement in customer experience. • Successful acquisition and transition of 214,000 Click customers to AGL Energy. • Strong customer growth with 26,500 new energy services to customers, excluding Click. • Ombudsman complaints reduced by 23% and customer complaints down 63% from FY20.



Board discretion applied to adjust STI outcomes to 0%. Scorecard outcomes below:

Damien Nicks
CFO

Group objective 80%	Achieved **13.13%**. Refer Table 10.4.2.1 for details. Adjusted for business unit performance.
Individual strategic objectives 20%	Achieved **18.33%.** **Growth:** drive AGL Energy's growth agenda; **Transformation:** drive productivity through financial discipline. • Completed Click Energy, Solgen and Epho acquisitions. • Led the TILT via PowAR investment to provide more renewable energy options in AGL Energy's generation portfolio. • Led the 'Operational Edge' cost program to deliver $150m in opex reductions in FY22.



Individual strategic objectives and FY21 outcomes – Former

Board discretion applied to adjust STI outcomes to 0%. Scorecard outcomes below:

Brett Redman
Former Managing Director & CEO
Term as KMP in FY21:
Up to 21 April 2021

Group objectives 90%	Achieved **11.25%**. Refer Table 10.4.2.1 for details.
Individual strategic objective 10%	Achieved **9.0%**. **Growth:** drive AGL Energy's growth agenda. • Completed Click Energy, Solgen and Epho acquisitions. • Introduction of AGL Energy's carbon neutral products. • Progressed demerger plans to provide shareholders with a sustainable pathway to future value.

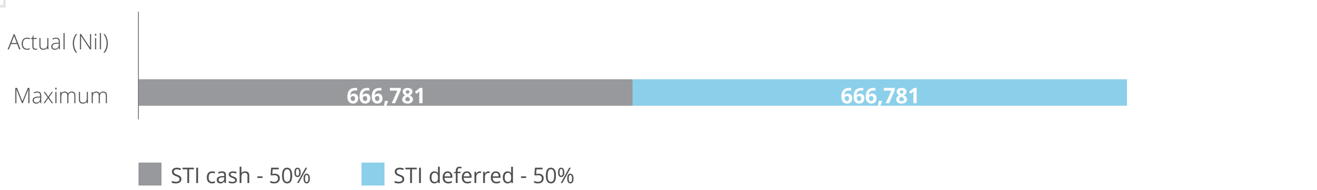


Table 10.4.2.2: Actual FY21 STI outcomes

Executive	Total STI award $	Cash $[1]	Restricted Shares $[2]	Total STI paid as a % of maximum opportunity	Total STI forfeited as a % of maximum opportunity
Current					
M Brokhof	-	-	-	0.0%	100.0%
C Corbett	-	-	-	0.0%	100.0%
D Nicks	-	-	-	0.0%	100.0%
Former					
B Redman[3]	-	-	-	0.0%	100.0%

1. To be paid on 15 September 2021.
2. To be allocated once the full-year financial results have been disclosed to the market, generally in August/September 2021.
3. As per the cessation of employment agreement, eligibility maintained for participation in the FY21 STI. Disclosed for KMP period only.

10.4.3 Prior year STI awards – Restricted Shares

Table 10.4.3.1: FY20 STI Deferred Restricted Share awards outstanding (FY20 STI deferral)

Executive[1]	Allocation date	Number of awards allocated	Value at allocation date $[2]	Release date[3]
Current				
M Brokhof	25 August 2020	2,508	38,938	25 August 2022
C Corbett	25 August 2020	9,783	151,888	25 August 2022
D Nicks	25 August 2020	3,960	61,482	25 August 2021
		3,960	61,482	25 August 2022
Former				
B Redman	25 August 2020	21,255	329,999	25 August 2021
		21,255	329,999	25 August 2022

1. Includes executives who were KMP at the allocation date.
2. Calculated based on allocation price of $15.5257 (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 10.5.1.1.
3. STI Deferred Restricted Shares are subject to time-based restriction only and no further performance conditions apply.

Table 10.4.3.2: FY19 STI Deferred Restricted Share awards released during FY21 (FY19 STI deferral)

Executive[1]	Allocation date	Number of awards released	Value at release date $[2]	Release date[3]
Former				
B Redman	20 August 2019	21,378	330,076	20 August 2020

1. Includes executives who were KMP at the release date.
2. Calculated based on closing share price on the release date, being $15.44.
3. STI Deferred Restricted Shares are subject to time-based restriction only and no further performance conditions apply. Therefore, on 20 August 2020, the shares were released and no further restrictions applied.

10.4.4 LTI approach and FY21 outcomes

What is the purpose of the LTI?

- 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 performance metrics are selected to align with the strategic priorities of Growth, Transformation and Social Licence.

What are the performance measures?

Three performance measures apply to the FY21 LTI offer:

1. **Relative Total Shareholder Return (TSR)** = 33.4% weighting. A comparative, external market performance benchmark against companies in the S&P/ASX100 Index. Provides a direct link between executive reward and shareholder return.
2. **Return on Equity (ROE)** = 33.3% weighting. Provides a measure of the effectiveness with which AGL Energy is deploying shareholders' funds by dividing profit after tax for a given period by the monthly average of shareholders' equity for the same period.
3. **Carbon Transition metrics** = 33.3% weighting. Provides the focus for executives to deliver against carbon transition objectives. Comprises three sub-metrics to ensure a balanced assessment.

The vesting schedules are provided under FY21offers - terms.

What is the performance period?

- The performance metrics are measured either over a four-year period or at the end of the four-year period (1 July 2020 – 30 June 2024).
- All performance measures are to be tested once at the end of the performance period to determine the vesting percentage.

What is the award opportunity?

- The opportunities for LTI awards, as a % of fixed remuneration, are as follows:

Interim MD and CEO:	**Former MD & CEO:**	**Other executives:**
Did not participate in the LTI plan in FY21	Threshold = 65% Maximum = 130%	Threshold = 40-50% Maximum = 80-100%

- The number of Rights granted is based on a 30-day volume weighted average share price (VWAP) up to the commencement of the performance period.

How does the Board assess performance?

1. Relative TSR: Independent assessment of TSR by external advisors is undertaken, based on 30-day average VWAPs, and provides the outcome for the Board to consider the final evaluation of performance;
2. ROE: internal calculations are undertaken based upon the audited statutory profit after tax for the relevant financial year. The Board determines the final outcome.
3. Carbon transition: internal calculations are undertaken and are subject to limited assurance by external auditors on an annual basis. Revenue from green electricity and carbon neutral products and services is derived from the reported revenue. The Board determines the final outcome.

How are the LTI awards delivered?

- Awards are delivered in Performance Rights. Participants are not entitled to receive dividends.

What happens upon cessation of employment?

- Unvested rights lapse if a participant ceases employment with AGL Energy before the end of the performance period.
- Where the Board determines that an executive is a "good leaver" they may be entitled to retain a pro-rated number of Performance Rights which remain subject to the plan rules until performance testing at the end of the performance period.

Are clawback conditions applicable?

- The Board has discretion to prescribe clawback events for any unvested equity awards which may be clawed back from executives.

What happens upon a 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.

Is there a Hedging Policy?

- AGL Energy has a policy in place that prevents executives from entering into any derivative or other financial product in relation to their equity plan(s) participation.

When does the Board exercise discretion?

- The Board applies overarching discretion particularly when determining whether an extraordinary event should be taken into consideration in relation to assessing the performance of AGL Energy for each vesting event.

FY21 Offer – terms

Relative TSR vesting schedule

AGL Energy'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%

ROE vesting schedule

AGL Energy's average annual ROE outcome	Vesting of award subject to ROE measure (% of maximum)
Less than 5.0%	0%
5.0% to 6.5%	Straight-line vesting between 50% and 90%
6.5% to 8.0%	Straight-line vesting between 90% and 100%
At or above 8.0%	100%

Carbon transition vesting schedules

Controlled intensity in FY24	Vesting of award	% Controlled renewable & storage capacity at 30 June 2024	Vesting of award	Green & carbon neutral products & services in FY24	Vesting of award
More than 0.895	0%	Less than 28%	0%	Less than 15.5%	0%
0.895 to 0.845	Straight-line vesting between 50% and 100%	28% to 34%	Straight-line vesting between 50% and 100%	15.5% to 20%	Straight-line vesting between 50% and 100%
Less than 0.845	100%	More than 34%	100%	More than 20%	100%

Table 10.4.4.1: FY21 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]
Current					
M Brokhof	28 October 2020	30 June 2024	52,086	436,481	436,481
C Corbett	28 October 2020	30 June 2024	46,298	387,975	387,975
D Nicks	28 October 2020	30 June 2024	32,779	274,684	274,684
Former					
B Redman	28 October 2020	30 June 2024	124,139	1,040,283	1,040,283

1. Includes executives who were KMP at the grant date.
2. Calculated based on fair values shown in Note 33 to the consolidated financial report, being $3.86 for relative TSR, $10.64 for ROE and $10.64 for carbon transition metrics.
3. The minimum value of the grant is zero.

Historical Performance Outcomes

The following table and outlines AGL Energy's historical financial performance. These results flow into the STI scorecard outcomes, as well as LTI performance outcomes.

AGL Energy five-year performance

		FY21	FY20	FY19	FY18[1]	FY17
Statutory Profit/(Loss)	($m)	(2,058)	1,007	905	1,582	539
Underlying Profit	($m)	537	808	1,040	1,018	802
Statutory (loss)/earnings per share (EPS)	(cents)	(330.3)	157.2	138.0	241.2	80.5
Underlying EPS	(cents)	86.2	126.1	158.6	155.2	119.8
Dividends	(cents)	75	98	119	117	91
Closing share price at 30 June	($)	8.20	17.05	20.01	22.48	25.50
Return on equity[2,3]	(%)	8.1	10.0	12.5	13.1	10.2

1. Restated for adoption of AASB 9 Financial Instruments and AASB 16 Leases.
2. Used to calculate a portion of executives' LTI outcomes.
3. Includes share buy-backs.

FY19 LTI offer – vested during FY21

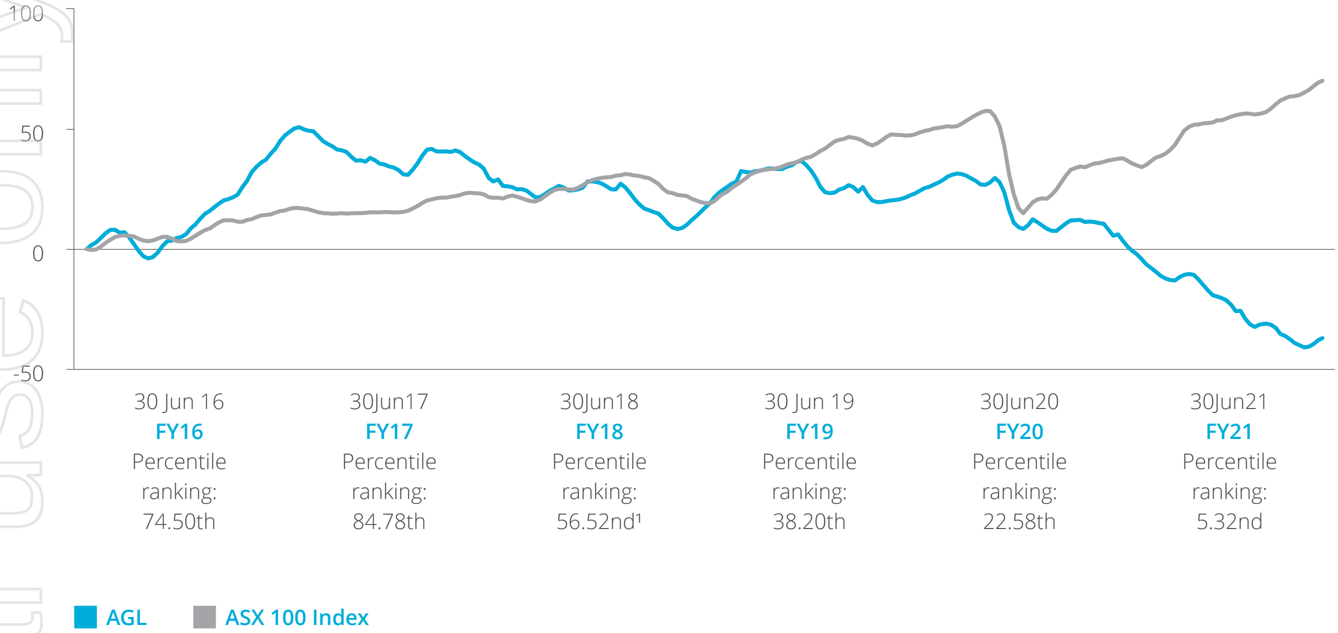
In assessing outcomes under the LTI, the Board assessed the quality of the results and the manner in which they were achieved and ensured that outcomes were aligned with the experience of AGL Energy's shareholders.

The metrics for the FY19 plan that vested at the end of the year were relative TSR (compared to the constituent companies in the S&P/ASX100 Index) and ROE.

The vesting outcome of the FY19 LTI offer is detailed below.

Metric	Vesting schedule	Outcome	Commentary
Relative TSR	Straight-line vesting between 50-100% for 50th to 75th percentile	5.32nd percentile 0% vesting	AGL Energy's relative TSR performance over three-year performance ended 30 June 2021 was at the 5.32nd percentile, resulting in 0% vesting for this metric.
ROE	Straight-line vesting between 50-90% for 10% to 12% ROE; straight-line vesting between 90-100% for 12% to 14% ROE	9.4% average annual ROE 0% vesting	The average annual ROE for AGL Energy over the three-year performance period was 9.4% excluding impairments and share buy-backs, resulting in 0% vesting for this metric.
Total		**0% vesting**	**The combined vesting outcome for the FY19 LTI is therefore 0%.**

Relative TSR: AGL Energy and ASX100



1. The peer group of companies for the relative TSR component of the FY16 LTI plan, tested at the end of FY18, was 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.

Table 10.4.4.2: Forfeiture/Vesting/Lapse of FY19 LTI Performance Rights

Executive[1]	Grant date	Number of awards granted	Value at grant date $[2]	Vesting date	Number of awards forfeited[3]	Number of awards vested	Value vested $[4]	Number of awards lapsed	% of awards lapsed	Value lapsed $[4]
Current										
D Nicks	24 October 2018	16,164	188,311	30 June 2021	-	-	-	16,164	100%	132,545
Former										
B Redman	24 October 2018	41,337	481,572	30 June 2021	-	-	-	41,337	100%	338,963

1. Includes those executives participating in the FY19 LTI offer who were KMP during the financial year.
2. Calculated based on fair values shown in Note 33 to the consolidated financial report, being $7.18 for relative TSR and $16.12 for ROE.
3. Reflects the number of Performance Rights forfeited as a result of cessation of employment.
4. Calculated based on closing share price on 30 June 2021, being $8.20.

FY20 LTI offer – outstanding

The performance measures and terms that apply to the FY20 and FY20 bridging LTI grants, which will be tested at the end of FY22 and FY23 respectively, are described in detail in the 2020 Remuneration Report.

For participants holding the FY20 bridging grant, the AGL Energy Board has discretion to lapse an LTI grant in full for a "good leaver". The former MD & CEO, Brett Redman will retain only two pro-rated grants instead of three upon cessation of employment. Similarly, three other senior leaders ceased employment with "good leaver" status during FY21 and the Board determined that an LTI grant lapsed in full upon cessation of employment. Therefore, there is no opportunity for participants to benefit from a perceived 'double vesting' event as only two pro-rated grants will be retained upon cessation, not three.

FY22 LTI offer – details

What is changing for the FY22 LTI offer and why?

- In response to feedback from shareholders, and against the background of challenging market conditions, the performance metrics have been refined for the FY22 LTI offer to ensure that the plan continues to align executive reward with long-term value creation for shareholders.
- Establishing an appropriate target range for a ROE performance metric continues to be challenging. The ROE metric has therefore been removed.
- The weighting of the relative TSR performance metric is being increased from 33.4% in FY21 to 75% for the FY22 LTI offer. The weighting of the carbon transition metrics is being decreased from 33.3% to 25%. This provides enhanced alignment between executive rewards and shareholder outcomes over the performance period.
- Other than the performance metrics and weightings no further changes have been implemented. All other terms and conditions remain unchanged.

What are the performance measures?

Two performance measures apply to the FY22 LTI offer:

1. **Relative Total Shareholder Return (TSR)** = 75% weighting. A comparative, external market performance benchmark against companies in the S&P/ASX100 Index. Provides a direct link between executive reward and shareholder return.
2. **Carbon Transition metrics** = 25% weighting. Provides the focus for executives to deliver against carbon transition objectives. Comprises three sub-metrics to ensure a balanced assessment.

The vesting schedules are provided in tables below.

What is the performance period?

- The performance metrics are measured either over a four-year period or at the end of the four-year period (1 July 2021 – 30 June 2025).
- All performance measures are to be tested once at the end of the performance period to determine the vesting percentage.

Relative TSR vesting schedule

AGL Energy'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%

Carbon transition vesting schedules

Controlled intensity in FY25	Vesting of award	% Controlled renewable & storage capacity at 30 June 2025	Vesting of award	Green & carbon neutral products & services in FY25	Vesting of award
More than 0.885	0%	Less than 29.4%	0%	Less than 16.5%	0%
0.885 to 0.823	Straight-line vesting between 50% and 100%	29.4% to 36.9%	Straight-line vesting between 50% and 100%	16.5% to 22.1%	Straight-line vesting between 50% and 100%
Less than 0.823	100%	More than 36.9%	100%	More than 22.1%	100%

10.5 Executive remuneration disclosure

10.5.1 Statutory remuneration

Table 10.5.1.1: Executive remuneration and benefits for FY21 (prepared in accordance with the statutory accounting requirements)

Executive	Year	Short-term benefits			
		Cash salary/ fees $[1]	Total cash incentive $[2]	Non-monetary benefits $[3]	Other short-term benefits $[4]
Current					
G Hunt	**FY21 (from 22 April 2021)**	**314,739**	**-**	**1,619**	**-**
M Brokhof	**FY21**	**878,306**	**-**	**31,902**	**228**
	FY20 (from 1 Apr 2020)	219,749	106,320	24,788	3,000
C Corbett	**FY21**	**778,306**	**-**	**12,658**	**-**
	FY20	750,645	455,700	15,258	-
D Nicks	**FY21**	**686,306**	**-**	**12,891**	**-**
	FY20	686,997	368,913	17,054	-
Former					
B Redman	**FY21 (until 21 April 2021)**	**1,316,214**	**-**	**23,156**	**-**
	FY20	1,628,997	660,000	22,634	-
D Jackson	FY20 (until 31 Mar 2020)	580,029	266,352	14,593	-
R Wrightson	FY20 (until 28 Feb 2020)	490,165	337,673	11,222	-
TOTAL	**FY21**	**3,973,871**	**-**	**82,226**	**228**
	FY20	4,356,582	2,194,958	105,549	3,000

1. Represents cash salary and fees including any salary-sacrificed items (such as additional superannuation contributions and charitable donations) and unpaid annual leave.
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 the STI Restricted Shares column.
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 2021.
4. Includes other cash payments and benefits, such as retention and relocation payments.
5. For members of the default employee superannuation fund, AGL Energy funds the costs of Death and Permanent and Total Disablement insurance premiums. For Mr Redman and Mr Nicks, these premiums lifted them above the $25,000 total concessional super contributions cap for FY20 and generated an additional taxation liability. AGL Energy paid a contribution to offset the impact of the excess concessional contributions tax generated.
6. Includes the value of all STI Restricted Shares expected to be granted in relation to the performance year.
7. 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 Bridging Grant). 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.
8. 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.
9. Represents the sum of cash STIs and Performance Rights/Restricted Shares/other equity as a percentage of total remuneration, excluding termination payments.
10. Includes leave accruals upon ceasing to be a KMP.
11. Expected to be granted in August 2021.

Post-employment benefits	Share-based payments					
Superannuation/ pension $[5]	STI Restricted Shares $[6]	LTI equity $[7]	Other equity $[8]	Total $	Performance-related %[9]	Termination benefits $[10]
4,218	**-**	**-**	**165,354**[11]	**485,930**	**34.0%**	**-**
21,694	**-**	**109,120**	-	**1,041,250**	**10.5%**	**-**
5,251	35,439	-	-	394,547	35.9%	-
21,694	**-**	**220,665**	-	**1,033,323**	**21.4%**	**-**
21,003	151,900	123,671	-	1,518,177	48.2%	-
21,820	**-**	**150,548**	-	**871,565**	**17.3%**	**-**
21,003	122,970	261,683	-	1,478,620	51.0%	-
21,793	**-**	**205,906**	-	**1,567,069**	**13.1%**	**-**
21,003	660,000	905,729	-	3,898,363	57.1%	-
15,752	88,784	268,556	-	1,234,066	50.5%	851,605
14,002	-	25,227	-	878,289	41.3%	171,842
91,219	**-**	**686,239**	**165,354**	**4,999,137**		**-**
98,014	1,059,093	1,584,866	-	9,402,062		1,023,447

10.6 Non-Executive Directors' remuneration

10.6.1 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.

10.6.2 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; but does not receive any extra fees 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, 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.

10.6.3 FY21 fees

Fees for Non-Executive Directors remained unchanged during the financial year.

Table 10.6.3.1: Non-Executive Director fees

Board/Committee	Chair fee $	Member fee $
Board base fee	603,000	201,000
Audit & Risk Management Committee	55,200	27,600
People & Performance Committee	44,900	21,200
Safety, Sustainability & Corporate Responsibility Committee	44,900	21,200

Table 10.6.3.2: Non-Executive Director remuneration for FY21

Non-Executive Director	Year	Cash fees $	Superannuation $	Total $
Current				
M Bloom	**FY21 (from 1 July 2020)**	**223,775**	**20,603**	**244,378**
P Botten	**FY21**	**291,607**	**21,261**	**312,868**
	FY20	220,148	20,852	241,000
J Hey	**FY21**	**251,806**	**21,694**	**273,500**
	FY20	249,797	21,003	270,800
P McKenzie	**FY21**	**228,128**	**21,672**	**249,800**
	FY20	226,347	21,003	247,350
D Smith-Gander	**FY21**	**261,676**	**5,424**	**267,100**
	FY20	253,949	10,501	264,450
J Stanhope	**FY21**	**255,706**	**21,694**	**277,400**
	FY20	253,647	21,003	274,650
Former				
G Hunt	**FY21 (until 21 April 2021)**	**469,180**	**17,476**	**486,656**
	FY20	575,997	21,003	597,000
L Hosking	**FY21 (until 7 October 2020)**	**61,353**	**5,829**	**67,182**
	FY20	226,347	21,003	247,350
TOTAL	**FY21**	**2,043,231**	**135,653**	**2,178,884**
	FY20	2,006,232	136,368	2,142,600

10.7 Additional Disclosures

10.7.1 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 10.7.1.1: Information relating to service agreements of executives

Executives	Notice period[1]		Termination payment[2,3]	Post employment restraint period
	By executive	By AGL Energy		
Current				
G Hunt	6 months	6 months	N/A	N/A
M Brokhof	6 months[4]	3 months	9 months	12 months
C Corbett	6 months[4]	3 months	9 months	12 months
D Nicks	6 months[4]	3 months	9 months	12 months
Former				
B Redman	6 months[4]	6 months	N/A	12 months

1. AGL Energy can, at its election, make a payment in lieu of part or all of the notice period.
2. Maximum termination payment (exclusive of any payment in lieu of notice) payable if AGL Energy terminates the executive's employment other than for cause.
3. Termination payments reference fixed remuneration.
4. 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.

10.7.2 Movement in AGL Energy shares

The movement during FY21 in the number of AGL Energy shares, including Restricted Shares, held by each KMP, including their related parties, is shown below. Restricted Shares generally relate to the STI deferral, or for attraction/retention purposes in certain circumstances.

Table 10.7.2.1: KMP shareholdings

FY21	Balance at start of year	Acquired during year[1]	Other changes during year[2]	Balance at end of year	Total Consideration $	% base fees[3]	Date to satisfy requirement
Non-Executive Director							
Current							
M Bloom	-	7,000	-	7,000[4]	104,384	52%	1 Jul 24
P Botten	9,890	1,500	-	11,390[4]	213,079	106%	Satisfied
J Hey	10,953	858		11,811[5]	247,783	123%	Satisfied
P McKenzie	8,465	-	-	8,465[4]	149,509	74%	1 May 23
D Smith-Gander	9,462	1,500	-	10,962[4]	227,514	113%	Satisfied
J Stanhope	9,788	5,462	-	15,250[6]	248,362	124%	Satisfied
Former							
G Hunt	12,500	-	(12,500)	-	-	-	-
L Hosking	11,701		(11,701)		-	-	-
Non-Executive Director total	**72,759**	**16,320**	**(24,201)**	**64,878**	**1,190,631**		

1. Includes purchase of ordinary shares and Dividend Reinvestment Plan during FY21.
2. Includes sale of ordinary shares during FY21 and balance adjustments for directors joining or leaving as non-executive KMP.
3. Value is based on price of the AGL Energy shares at the time of acquisition, as per the Minimum Shareholding Policy.
4. All shares held indirectly.
5. All shares held directly.
6. Includes 6,360 shares held directly and 8,890 shares held indirectly.

FY21	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	Total Consideration $	% FR[4,5]	Date to satisfy requirement
Executive								
Current								
G Hunt	-	-	-	12,500	12,500[6]	245,750	15%	22 Apr 26
M Brokhof	-	-	-	-	-		0%	23 Mar 25
C Corbett	-	-	-	-	-		0%	1 Jul 24
D Nicks	4,056	-	1,564	-	5,620[7]	85,345	12%	31 May 24
Former					-			
B Redman	99,331	-	7,413	(106,744)	-	-	-	-
Executive total	**103,387**	**-**	**8,977**	**(94,244)**	**18,120**	**331,095**		
Grand total	**176,146**	**16,320**	**8,977**	**(118,445)**	**82,998**	**1,521,726**		

1. Includes purchase of ordinary shares and Dividend Reinvestment Plan during FY21.
2. Includes shares acquired upon vesting of LTI awards during FY21 (FY18 LTI award vesting).
3. Includes sale of ordinary shares during FY21 and balance adjustments for executives joining or leaving KMP.
4. Value is based on price of the AGL shares at the time of acquisition, as per the Minimum Shareholding Policy.
5. Percentage of fixed remuneration (FR).
6. All shares held indirectly.
7. All shares held directly.

Movement in Performance Rights

FY21 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					
M Brokhof	-	52,086	-	-	52,086
C Corbett	39,926	46,298	-	-	86,224
D Nicks	72,700	32,779	-	(16,164)	89,315
Former					
B Redman	255,445	124,139	-	(41,337)	338,247
Total	**368,071**	**255,302**	**-**	**(57,501)**	**565,872**

1. Includes Performance Rights vested under the FY19 LTI plan but will not be allocated as shares to executives until August/September 2021.
2. Represents balance adjustments for executives joining or leaving KMP, and any units forfeited under the LTI. Includes Performance Rights forfeited under the FY19 LTI plan but will not lapse for executives until August/September 2021.

10.7.3 Outstanding Performance Right holdings under the LTI plan

LTI Offer	FY20 Bridging	FY20	FY21	...
Performance Period Start date	1-Jul-19	1-Jul-19	1-Jul-20	...
Performance Period (Years)	3	4	4	...
Performance Period End date	30-Jun-22	30-Jun-23	30-Jun-24	...
Grant Date	18-Oct-19	18-Oct-19	28-Oct-20	...
VWAP for grant	$20.0366	$20.0366	$17.2790	...

Rights Held	FY20 Bridging	FY20	FY21	Balance as at 30 June 2021
Current				
M Brokhof	n/a	n/a	52,086	52,086
C Corbett	n/a	39,926	46,298	86,224
D Nicks	28,268	28,268	32,779	89,315
Former				
B Redman[1]	107,054	107,054	124,139	338,247

1. As a "good leaver", Mr Redman will retain two pro-rated grants upon cessation of employment, with one grant lapsing in full.

Other Required Disclosures

For the year ended 30 June 2021

These Other Required Disclosures (pages 87 to 88) are attached to and form part of the Directors' Report.

11. Other Required Disclosures

11.1 Changes in state of affairs

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

11.2 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 Energy or intervene in any proceedings to which AGL Energy is a party for the purpose of taking responsibility on behalf of AGL Energy for all or any part of those proceedings. AGL Energy was not a party to any such proceedings during the year.

11.3 Commercial in confidence information

Further information about likely developments in the operations of AGL Energy 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.

11.4 Non-audit services

Non-audit services have been provided during the year by the external auditor, Deloitte Touche Tohmatsu Australia (**Deloitte**). Disclosure of the details of these services can be found in Note 26 of the Financial Report 2021.

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 & Risk Management Committee. The Directors are satisfied that the provision of other accounting advice and services by the external auditor is compatible with the general standard of independence for auditors.

The policy and procedures in place, and the review by the Audit & Risk Management Committee, enable the 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. Mr Jason Thorne (Partner, Deloitte) has acted as AGL Energy 's lead audit partner since 2017. Under the Corporations Act, Mr Thorne can only play a "significant role in the audit" of AGL Energy for 5 successive financial years, unless the Board resolves to extend Mr Thorne's role as lead audit partner for a period of one (or two) years in accordance with the Corporations Act. The Audit & Risk Management Committee recommended to the Board that it resolve to extend Mr Thorne's role as lead audit partner for one year. The basis for the recommendation being that as the demerger of AGL Energy into two leading energy businesses would increase the complexity of the accounting and financial control environment over the year ending 30 June 2022, to maintain the quality of the audit over this period, Mr Thorne's term as lead audit partner should be extended. The Board resolved to extend Mr Thorne's role as lead audit partner for one year.

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 Energy were partners or directors of Deloitte during this or prior periods.

11.5 Rounding

AGL Energy 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.

11.6 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 Energy Financial Report 2021.

11.7 Indemnification and insurance of officers

AGL Energy '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 Energy paid premiums in respect of contracts insuring all Directors of AGL Energy as listed earlier, all Directors of related bodies corporate of AGL Energy, 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.

Other Required Disclosures

For the year ended 30 June 2021

11.8 Subsequent events

On 30 June 2021 AGL confirmed its intent to execute a demerger of its retail business and form two listed energy businesses, Accel Energy and AGL Australia. Subsequent to year end, effective 1 July 2021, and as described in Note 39 of the Financial Report, the internal reporting structure of AGL has been updated, to align to the two new businesses.

On 3 August 2021 AGL completed a $357.6 million capital contribution into Powering Australian Renewables (PowAR) to fund its 20% interest in PowAR's acquisition of Tilt Renewables Limited's Australian business.

Apart from the matters identified in the financial statements or notes thereto, there has not been any matter or circumstance that has arisen since 30 June 2021 that has significantly affected or may significantly affect the operations of AGL Energy, the results of those operations, or the state of affairs of AGL Energy in the future.

11.9 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 Energy 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 Energy 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 ASIC Regulatory Guide 230 "Disclosing non-IFRS financial information", issued in December 2011. AGL Energy'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 Energy.

11.10 Corporate governance

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

11.11 Environmental regulation

AGL Energy'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.

An event occurred on 16 July 2020 at Liddell Power Station where an internal spillway wall in the Liddell Ash Dam was breached, resulting in ash laden water being discharged via a licensed discharge point, which flows into Lake Liddell. AGL Macquarie Pty Limited (**AGLM**) notified the NSW Environment Protection Authority (**NSW EPA**) of the event and carried out repairs to the internal spillway wall. On 19 August 2020, the NSW EPA issued an official caution to AGLM for an alleged pollution of waters offence.

On 4 September 2019, an event occurred at Bayswater Power Station, where a hole was formed in a fly ash transfer pipeline, resulting in the release of fly ash slurry into a depression within a dry bed of Bayswater Creek. AGLM notified the NSW EPA of the event and carried out clean up and rehabilitation actions in consultation with the NSW EPA. On 2 September 2020, AGLM entered into an enforceable undertaking with the NSW EPA in relation to this event. The enforceable undertaking includes commitments by AGLM to undertake testing and rectification works associated with the pipeline, contribute funds to local environment projects as approved by the NSW EPA up to a total amount of $500,000, conduct industry training on the testing program and pay the NSW EPA's costs. Three of the six undertakings have been completed as at the date of this report. The remaining undertakings are due to be completed by 31 January 2022. AGLM is on track to meet its commitments within the required timeframe.

On 30 October 2020, AGLM notified the NSW EPA that emission testing undertaken at Liddell Power Station recorded exceedance of the prescribed solid particles concentration limit provided under AGLM's environment protection licence. On 26 March 2021, the NSW EPA issued a penalty infringement notice and an official caution to AGLM for two alleged failures to comply with a licence condition which requires AGLM to not exceed solid particles concentration limits.

On 5 April 2021, an event occurred at Bayswater Power Station, where a leak occurred in a fly ash transfer pipeline, resulting in the release of a small amount of fly ash slurry into Bayswater Creek. AGLM notified the NSW EPA of the event. AGLM carried out clean up actions and repaired the relevant section of the pipeline. On 24 June 2021, the NSW EPA issued a penalty infringement notice for an alleged pollution of waters offence.

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 12th day of August 2021.

Peter Botten
Chairman

Financial Report

Contents | Page

Consolidated Statement of Profit or Loss

For the year ended 30 June 2021

	Note	2021 $m	2020 $m Restated[1]
Continuing operations			
Revenue	2	**10,942**	12,160
Other income	3	**121**	-
Expenses	4	**(12,798)**	(9,864)
Share of profits of associates and joint ventures	14	**9**	17
(Loss)/Profit before net financing costs, depreciation and amortisation		**(1,726)**	2,313
Depreciation and amortisation	5	**(707)**	(720)
(Loss)/Profit before net financing costs		**(2,433)**	1,593
Finance income	6	**-**	4
Finance costs	6	**(224)**	(183)
Net financing costs		**(224)**	(179)
(Loss)/Profit before tax		**(2,657)**	1,414
Income tax benefit/(expense)	7	**598**	(407)
(Loss)/Profit for the year including non-controlling interests		**(2,059)**	1,007
Loss attributable to non-controlling interest		**1**	-
(Loss)/Profit for the year attributable to the shareholders of AGL Energy Limited		**(2,058)**	1,007
Earnings per share			
Basic earnings per share	23	**(330.3 cents)**	157.2 cents
Diluted earnings per share	23	**(330.3 cents)**	157.0 cents

1. The period ended 30 June 2020 has been restated as a result of a change in accounting policy detailed in Note 38

The Consolidated Statement of Profit or Loss should be read in conjunction with the notes to the financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2021

	Note	2021 $m	2020 $m Restated[1]
(Loss)/profit for the year		**(2,058)**	1,007
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement gain on defined benefit plans	32	**97**	12
Fair value gain/(loss) on the revaluation of equity instrument financial assets		**66**	(1)
Income tax relating to items that will not be reclassified subsequently	7	**(49)**	(4)
		114	7
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges			
Gain/(loss) in fair value of cash flow hedges		**17**	(99)
Reclassification adjustments transferred to profit or loss		**56**	33
Cost of hedging subject to basis adjustment		**(2)**	(3)
Income tax relating to items that may be reclassified subsequently	7	**(21)**	21
		50	(48)
Other comprehensive income/(loss) for the year, net of income tax		**164**	(41)
Total comprehensive (loss)/income for the year attributable to the shareholders of AGL Energy Limited		**(1,894)**	966

1. The period ended 30 June 2020 has been restated as a result of a change in accounting policy detailed in Note 38

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

Consolidated Statement of Financial Position

As at 30 June 2021

	Note	2021 $m	2020 $m Restated[1]
Current assets			
Cash and cash equivalents	35	**88**	141
Trade and other receivables	9	**1,889**	1,571
Inventories	10	**418**	400
Current tax assets	7	**165**	99
Other financial assets	11	**539**	640
Other assets	12	**353**	271
Assets classified as held for sale	13	**223**	-
Total current assets		**3,675**	**3,122**
Non-current assets			
Trade and other receivables	9	**81**	25
Inventories	10	**46**	59
Other financial assets	11	**950**	688
Investments in associates and joint ventures	14	**117**	135
Property, plant and equipment	15	**6,283**	6,640
Intangible assets	16	**3,302**	3,638
Deferred tax assets	7	**971**	297
Other assets	12	**25**	3
Total non-current assets		**11,775**	11,485
Total assets		**15,450**	14,607
Current liabilities			
Trade and other payables	17	**1,838**	1,351
Borrowings	18	**305**	38
Provisions	19	**413**	286
Current tax liabilities	7	**71**	25
Other financial liabilities	20	**327**	679
Other liabilities	21	**21**	9
Total current liabilities		**2,975**	2,388
Non-current liabilities			
Borrowings	18	**2,880**	3,070
Provisions	19	**3,301**	424
Deferred tax liabilities	7	**330**	273
Other financial liabilities	20	**253**	239
Other liabilities	21	**205**	241
Total non-current liabilities		**6,969**	4,247
Total liabilities		**9,944**	6,635
Net assets		**5,506**	7,972
Equity			
Issued capital	22	**5,601**	5,603
Reserves		**15**	(80)
Retained earnings		**(115)**	2,449
Non-controlling interest		**5**	-
Total equity attributable to owners of AGL Energy Limited		**5,506**	7,972

1. The period ended 30 June 2020 has been restated as a result of a change in accounting policy detailed in Note 38

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

Consolidated Statement of Changes in Equity

For the year ended 30 June 2021

	Issued capital $m	Investment revaluation reserve $m	Employee equity benefits reserve $m	Hedge reserve $m	Other reserve $m	Retained earnings $m	Total $m	Non-controlling Interests $m	Total equity $m
Balance at 1 July 2020	**5,603**	**(6)**	**-**	**(75)**	**1**	**2,552**	**8,075**	**-**	**8,075**
Change in accounting policy	-	-	-	-	-	(103)	(103)	-	(103)
Restated balance at the beginning of the financial year	**5,603**	**(6)**	**-**	**(75)**	**1**	**2,449**	**7,972**	**-**	**7,972**
(Loss)/Profit for the period	-	-	-	-	-	(2,059)	(2,059)	1	(2,058)
Other comprehensive income for the year, net of income tax	-	46	-	51	(1)	68	164	-	164
Total comprehensive income/(loss) for the year	-	46	-	51	(1)	(1,991)	(1,895)	1	(1,894)
Transactions with owners in their capacity as owners:									
On-market share buy-back	(2)	-	-	-	-	-	(2)	-	(2)
Payment of dividends	-	-	-	-	-	(573)	(573)	-	(573)
Share-based payments	-	-	(1)	-	-	-	(1)	-	(1)
Capital contributed by non-controlling interests	-	-	-	-	-	-	-	4	4
Balance at 30 June 2021	**5,601**	**40**	**(1)**	**(24)**	**-**	**(115)**	**5,501**	**5**	**5,506**
Balance at 1 July 2019	6,223	(5)	(2)	(29)	3	2,248	8,438	-	8,438
Change in accounting policy	-	-	-	-	-	(95)	(95)	-	(95)
Restated balance at the beginning of the financial year	6,223	(5)	(2)	(29)	3	2,153	8,343	-	8,343
Restated Profit for the period	-	-	-	-	-	1,007	1,007	-	1,007
Other comprehensive (loss)/income for the year, net of income tax	-	(1)	-	(46)	(2)	8	(41)		(41)
Total comprehensive (loss)/income for the year	-	(1)	-	(46)	(2)	1,015	966	-	966
Transactions with owners in their capacity as owners:									
On-market share buy-back	(620)	-	-	-	-	-	(620)	-	(620)
Payment of dividends		-	-	-	-	(719)	(719)	-	(719)
Share-based payments	-	-	2	-	-	-	2	-	2
Balance at 30 June 2020 (restated)[1]	5,603	(6)	-	(75)	1	2,449	7,972	-	7,972

1. The period ended 30 June 2020 has been restated as a result of a change in accounting policy detailed in Note 38

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

Consolidated Statement of Cash Flows

For the year ended 30 June 2021

	Note	2021 $m	2020 $m Restated[1]
Cash flows from operating activities			
Receipts from customers		**11,542**	13,333
Payments to suppliers and employees		**(10,081)**	(10,880)
Dividends received		**23**	16
Finance income received		**-**	4
Finance costs paid		**(120)**	(128)
Income taxes paid		**(114)**	(233)
Net cash provided by operating activities	35(b)	**1,250**	2,112
Cash flows from investing activities			
Payments for property, plant and equipment and other assets		**(695)**	(714)
Payments for investments in associates and joint ventures		**(8)**	(11)
Payments for equity instrument financial assets		**(17)**	(29)
Payments for subsidiaries and businesses, net of cash acquired		**(183)**	(48)
Payments of deferred consideration		**(39)**	(33)
Proceeds from sale of investments in joint ventures		**5**	-
Net cash used in investing activities		**(937)**	(835)
Cash flows from financing activities			
Payments for buy-back of shares		**(2)**	(620)
Purchase of shares on-market for equity based remuneration		**(3)**	(7)
Proceeds from borrowings		**3,006**	1,637
Repayment of borrowings		**(2,794)**	(1,543)
Dividends paid	8	**(573)**	(719)
Net cash used in financing activities		**(366)**	(1,252)
Net (decrease)/increase in cash and cash equivalents		**(53)**	25
Cash and cash equivalents at the beginning of the financial period		**141**	115
Effect of exchange rate changes on the balance of cash held in foreign currencies		**-**	1
Cash and cash equivalents at the end of the financial period	35(a)	**88**	141

1. The period ended 30 June 2020 has been restated as a result of a change in accounting policy detailed in Note 38

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

1. 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.

AGL views the business as three interrelated segments collectively servicing our customers' needs.

- **Customer Markets** comprises the Consumer and Large Business customer portfolios responsible for the retailing of electricity, gas, broadband/mobile/voice, solar and energy efficiency products and services to residential, small and large business customers. Customer Markets sources its energy from Integrated Energy at a transfer price based on methodologies that reflect the prevailing wholesale market conditions and other energy costs in each state. Customer Markets also includes sales, marketing, brand, and AGL's customer contact and call centre operations.
- **Integrated Energy** comprises of Trading and Origination - Electricity and Trading and Origination - Gas 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. Trading and Origination controls the dispatch of AGL's owned and contracted generation assets, third party gas agreements and associated portfolio of energy hedging products. The other components of Integrated Energy comprise AGL's power generation portfolio and other key sites and operating facilities across the Coal, Gas, Renewables, Natural Gas, and Other business units.
- **Investments** comprises AGL's interests in the ActewAGL Retail Partnership, Powering Australian Renewables (PowAR), Energy Impact Partners' Fund, Energy Impact Partners' Fund (Europe), Activate Capital Partners, Solar Analytics Pty Limited, Sunverge Energy Inc, Raygen Resources Pty Limited, Honey Insurance Pty Limited and Ecobee Inc.

In the segment financial results, the 'Other' category consists of various Corporate activities. These are not considered to be reportable segments.

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 segment reports the revenue and margin associated with satisfying the gas and electricity requirements of AGL's consumer and business customer portfolio, whilst the Integrated Energy segment reports the revenue, expenses and margin related to AGL's operating sites and AGL's wholesale energy portfolio.

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

1. Segment information (cont.)

2021	Customer Markets $m	Integrated Energy $m	Investments $m	Other $m	Total $m
Revenue					
Total segment revenue	7,614	6,367	-	-	13,981
Inter-segment revenue	(38)	(3,001)	-	-	(3,039)
External revenue	**7,576**	**3,366**	**-**	**-**	**10,942**
Underlying earnings before interest, tax, depreciation and amortisation (Underlying EBITDA)	337	1,630	9	(310)	1,666
Depreciation and amortisation	(134)	(511)	-	(62)	(707)
Underlying EBIT	203	1,119	9	(372)	959
Net financing costs					(224)
Underlying profit before tax					735
Underlying income tax expense					(199)
Underlying profit after tax					536
Non-controlling interests					1
Underlying profit after tax (attributable to AGL shareholders)					537
Segment assets	2,782	9,604	331	309	13,026
Segment liabilities	666	4,943	2	167	5,778
Other segment information					
Share of profits of associates and joint ventures	-	-	9	-	9
Investments in associates and joint ventures	-	-	117	-	117
Additions to non-current assets	86	558	-	66	710
Other non-cash expenses	(127)	-	-	(3)	(130)

1. Segment information (cont.)

2020 Restated	Customer Markets $m	Integrated Energy $m	Investments $m	Other $m	Total $m
Revenue					
Total segment revenue	7,717	7,958	-	-	15,675
Inter-segment revenue	(32)	(3,483)	-	-	(3,515)
External revenue	7,685	4,475	-	-	12,160
Underlying earnings before interest, tax, depreciation and amortisation (Underlying EBITDA)	291	2,076	18	(359)	2,026
Depreciation and amortisation	(117)	(547)	-	(56)	(720)
Underlying EBIT	174	1,529	18	(415)	1,306
Net financing costs					(179)
Underlying profit before tax					1,127
Underlying income tax expense					(319)
Underlying profit after tax					808
Segment assets	2,429	9,786	253	455	12,923
Segment liabilities	575	1,554	-	182	2,311
Other segment information					
Share of profits of associates and joint ventures	-	-	17	-	17
Investments in associates and joint ventures	-	4	131	-	135
Additions to non-current assets	78	584	-	59	721
Other non-cash expenses	(119)	-	-	(9)	(128)

1. Segment information (cont.)

Segment revenue reconciliation to the Consolidated Statement of Profit or Loss

Reconciliation of segment revenue to total revenue is as follows:

	2021 $m	2020 $m
Segment revenue for reportable segments	**13,981**	15,675
Elimination of inter-segment revenue	**(3,039)**	(3,515)
Revenue for reportable segments	**10,942**	12,160
Total revenue	**10,942**	12,160

Revenue from major products and services

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

	2021 $m	2020 $m
Electricity	**5,920**	6,136
Generation sales to pool	**2,301**	3,276
Gas	**2,170**	2,247
Rendering of services	**290**	290
Other revenue	**261**	211
Total revenue	**10,942**	12,160

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

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

	2021 $m	2020 $m Restated
Underlying EBIT for reportable segments	**1,331**	1,721
Other	**(372)**	(415)
	959	1,306
Amounts excluded from underlying results:		
- gain in fair value of financial instruments[1]	**477**	308
- significant items	**(3,869)**	(21)
Finance income	**-**	4
Finance costs	**(224)**	(183)
Profit before tax	**(2,657)**	1,414

1. Includes ($27) million (2020: $20 million) of realised gains related to oil-linked gas financial instruments for which the physical delivery is yet to occur.

1. Segment information (cont.)

Segment assets reconciliation to the Consolidated Statement of Financial Position

Reconciliation of segment assets to total assets is as follows:

	2021 $m	2020 $m Restated
Segment assets for reportable segments	**12,717**	12,468
Other	**309**	455
	13,026	12,923
Cash and cash equivalents	**88**	141
Current tax assets	**165**	99
Deferred tax assets	**971**	297
Derivative financial instruments	**1,200**	1,147
Total assets	**15,450**	14,607

Segment liabilities reconciliation to the Consolidated Statement of Financial Position

Reconciliation of segment liabilities to total liabilities is as follows:

	2021 $m	2020 $m
Segment liabilities for reportable segments	**5,611**	2,129
Other	**167**	182
	5,778	2,311
Borrowings	**3,185**	3,108
Current tax liabilities	**71**	25
Deferred tax liabilities	**330**	273
Derivative financial instruments	**412**	731
Deferred consideration	**168**	187
Total liabilities	**9,944**	6,635

Geographical information

AGL principally operates in one 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 (2020: none).

ACCOUNTING POLICY

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.

2. Revenue

2021	Consumer $m	Business $m	Wholesale $m	Other $m	Total $m
Electricity	4,314	1,346	260	-	5,920
Generation sales to pool	-	-	2,301	-	2,301
Gas	1,538	118	490	24	2,170
Rendering of services	43	41	45	161	290
Other revenue	2	-	175	84	261
Total revenue	**5,897**	**1,505**	**3,271**	**269**	**10,942**

2020	Consumer $m	Business $m	Wholesale $m	Other $m	Total $m
Electricity	4,214	1,626	296	-	6,136
Generation sales to pool	-	-	3,271	5	3,276
Gas	1,538	118	563	28	2,247
Rendering of services	37	45	111	97	290
Other revenue	-	-	129	82	211
Total revenue	5,789	1,789	4,370	212	12,160

ACCOUNTING POLICY

Revenue from contracts with customers

AGL's primary revenue streams relate to the retail sale of electricity and gas to residential (consumer) and business customers in Australia, the sale of electricity and gas to wholesale customers in Australia and the sale of generated electricity to the National Electricity Market in Australia. Revenue from contracts with customers is recognised when control of the goods or services is transferred to a customer at an amount that reflects the consideration to which AGL expects to be entitled to receive in exchange for those goods or services.

The majority of contractual energy supply arrangements with customers have no fixed duration, generally require no minimum consumption by the customer and are able to be terminated by either party at any time without incurring significant penalty. Given this, the enforceable contracts are considered short term (less than 12 months) in nature. There are some longer term contracts particularly those with business and wholesale customers.

AGL has generally concluded that it is the principal in its revenue arrangements because it controls the goods or services before transferring them to the customer.

AGL's primary performance obligations are the supply of energy (electricity or gas) over the contractual term. There are either individual contracts representing separate purchasing decisions of customers, or the units of supply of energy represent a series of distinct goods that are substantially the same and have the same pattern of transfer to the customer and hence is considered one performance obligation satisfied over time. For the shorter term contracts, the performance obligations are considered to be satisfied, and revenue is recognised, as and when the units of energy are delivered. Additionally, in relation to AGL's longer term contracts, AGL determines that the right-to-invoice approach to measure the progress towards completion of the performance obligation is most appropriate as it depicts AGL's performance. AGL uses the units of energy delivered to the customer as estimated as part of the unbilled process (and later verified by meter readings) or as indicated by the customer's energy meter (where these are known more frequently).

In most instances, the transaction price is determined by the unbilled process. For some wholesale contracts, AGL also considers the effects of variable consideration and for some business sales, there is non-cash consideration and consideration payable to the customer relating to renewable energy certificates (RECs).

Electricity and Gas revenue

Residential electricity and gas sales

Residential energy sales relate to the sale of energy (electricity and gas) to retail customers. Residential sales are classified as individual, short term, day-by-day contracts and are recognised as revenue on a day-by-day basis upon delivery of energy to customers.

Where the customers are eligible to receive additional discounts (e.g. pay on time discounts to encourage timely payment of energy invoices), AGL considers this to be variable consideration, which is estimated as part of the unbilled process.

Portfolio approach for residential electricity and gas sales

AGL recognises revenue from contracts with its residential customers at the electricity and gas portfolio levels. Furthermore, AGL has elected to apply the portfolio approach in accounting for the fair valuing of RECs, accounting for connection fees and sales commissions. Recognition at the portfolio level would not differ materially from applying the standard on a contract-by-contract basis.

2. Revenue (cont.)

ACCOUNTING POLICY

Business electricity and gas sales

Business sales represent the sale of energy to business customers. Revenue recognition is largely consistent with residential sales. These contracts are longer term in nature and represent a series of distinct goods that are substantially the same and have the same pattern of transfer to the customer and are treated as one performance obligation satisfied over time based on the output delivered to the customer. For a large majority of business sales customers, revenue is recognised when AGL has the 'right to invoice' the customer for consideration that has been determined to correspond directly with the value of units of energy delivered to that customer.

Some business sales arrangements also include the transfer of RECs to the customer, which can, in some instances, represent a separate performance obligation.

Material right applicable to residential and business sales

Where a fixed fee (e.g. connection fee, distribution fee, capacity reservation charge, etc.) received from a customer does not represent a transfer of a good or service to a customer, but the customer is charged an upfront amount, the customer contract contains a material right in that the customer is effectively able to buy additional units of energy at a lower cost per unit.

The material right is valued based on its relative standalone selling price. If standalone selling prices are not directly observable, the price is estimated by taking into consideration the discount the customer would receive in a standalone transaction and the likelihood that the customer would exercise the option.

Revenue from a material right is recognised as and when the right is exercised by the customer or the right expires, whichever is earlier.

Wholesale energy sales

Wholesale energy sales represent the sale of electricity and gas to wholesale customers. These involve a high volume of energy usually over an extended period of time. Supply of energy represents a series of distinct goods that are substantially the same and have the same pattern of transfer to the customer and is the major performance obligation. It is treated as one performance obligation which is satisfied over time. In some instances, there is an additional performance obligation in these contracts by way of a material right.

Revenue is recognised for these arrangements when AGL has the 'right to invoice' the customer for consideration that has been determined to correspond directly with the value of units of energy delivered to that customer.

Some wholesale electricity arrangements may involve the transfer of RECs to the customer, which may represent a separate performance obligation.

Renewable energy certificates (RECs) applicable to business and wholesale sales

There are two main instances where RECs pass between AGL and its customers. These include those transferred under a self-surrender arrangement as part of the consideration for energy and those that are sold to customers.

Received from customer (self-surrender)

As a retailer, AGL incurs costs in relation to its renewable energy obligations for which RECs must be surrendered to the government. For most customers, the costs associated with meeting these renewable energy obligations is factored into the cost of energy (i.e. there is a REC cost component built into the price paid). For some customers, instead of paying for the cost of the energy in cash, they have the option to elect to pay for their energy usage in the form of cash and by self-surrendering RECs.

The obligation to remit RECs to the regulator remains with AGL, but the customer is choosing to meet part of its payment by way of surrendering its own RECs rather than paying for the cost of the RECs as part of the overall cost of the energy.

The transfer of RECs as consideration in exchange for energy is a form of non-cash consideration. AGL measures non-cash consideration at its fair value at the date of surrender (i.e. the date of transfer by the customer).

Transferred to the customer

For some customer contracts, AGL sells both energy and RECs to the customer. A customer may purchase RECs to meet its own REC obligations and/or where it wants actual title to the RECs.

The RECs sold to a customer represent a separate performance obligation, i.e. a good, as the customer can benefit from the RECs on their own and the promise to transfer RECs to the customer is separately identifiable from the other promises in the contract (e.g. promise to deliver energy).

AGL determines the portion of the transaction price that it allocates to the RECs using the relative standalone selling price method.

The transaction price is allocated to each performance obligation based on the proportion of the stand-alone selling price of each performance obligation to the sum of the stand-alone selling prices of all of the performance obligations in the contract.

2. Revenue (cont.)

ACCOUNTING POLICY

Revenue is recognised as and when the control of the RECs are transferred to the customer, which occurs at a point in time. Where the customer is entitled to all the RECs generated at a specified power plant (e.g. in cases where power plants are located at the customer's site), transfer of control to the customer occurs as and when the RECs are generated. In other cases where the RECs are transferred to the customer from inventory, control of the RECs transfers upon receipt by the customer.

Pool Revenue

Pool generation sales

Pool generation sales and pool purchase costs relate to sales by AGL's generation assets to the grid and purchases of energy by AGL wholesale on behalf of AGL's retail business. AGL has assessed it is acting as the principal in relation to such sales and purchases of energy to the pool and therefore the transactions are recognised on a 'gross' basis. Revenue from these arrangements is recognised at the spot price achieved when control of the energy passes to the grid.

Variable consideration

If the consideration in a contract includes a variable amount, AGL estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Significant financing component

AGL applies the practical expedient in that it does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

Costs to obtain a contract

Costs that are incurred regardless of whether a contract is obtained are expensed as incurred, unless those costs are explicitly chargeable to the customer. Discretionary bonuses paid to sales staff based on meeting annual sales targets, overall profitability and individual performance evaluations are expensed as incurred as they are not directly attributable to identifiable contracts and do not meet the criteria for capitalisation. 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.

Costs to fulfil

The costs incurred by AGL to fulfil a contract with a customer, which may qualify for capitalisation include connection fees paid/incurred by AGL (including those charged by distribution businesses to provide such network services, or those incurred directly by AGL in connecting a customer). These costs do not fall within the scope of any other standard (i.e. the cost is not part of inventory, an intangible asset or property, plant and equipment). Therefore, these costs are capitalised as a contract cost (cost to fulfil) asset and amortised over the life of the customer contract or customer relationship, where material.

Cost sharing arrangements

AGL enters into cost sharing arrangements whereby the costs to operate and maintain assets that are shared with parties outside the AGL Group are recharged to the parties in accordance with their beneficial interest. These recharged amounts are recognised as revenue when the associated costs to which they relate impact the statement of profit or loss. Revenue is measured with reference to the fair value of the consideration received.

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 that 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 systematic basis over the useful life of the related assets.

2. Revenue (cont.)

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Variable consideration and constraints

AGL includes variable consideration in the transaction price as estimated at the inception of a contract. However, if it is considered 'highly probable' that a significant reversal of revenue recognised will occur in the future, the variable consideration is constrained and not included in the transaction price.

AGL's contractual arrangements contain a number of variable pricing elements including pay-on-time discounts, payment plans, and escalations. Some of these variable elements are resolved during the reporting period. Where they are not, management estimates the likelihood of the variable pricing element eventuating and recognises the variable pricing element to the extent it is not highly probable that it will reverse.

Revenue recognition

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.

3. Other Income

	Note	2021 $m	2020 $m
Insurance proceeds		**120**	-
Gain on disposal of investment in joint ventures	14	**1**	-
Total other income		**121**	-

4. Expenses

	2021 $m	2020 $m Restated
Cost of sales[1]	**7,760**	8,512
Administrative expenses	**229**	282
Employee benefits expenses	**646**	635
Other expenses		
Onerous contracts recognised[2]	**1,931**	-
Impairment losses on property plant & equipment[3]	**1,173**	-
Impairment losses on intangible assets[4]	**626**	-
Impairment losses on inventories	**18**	-
Contract termination payments	**55**	-
Acquisition and integration costs	**46**	7
Restructuring and separation costs	**20**	-
Gain on fair value of financial instruments	**(450)**	(328)
Contracts and materials	**297**	288
Impairment loss on trade receivables (net of bad debts recovered)	**127**	119
Marketing expenses	**45**	45
Short term lease and outgoings expenses	**26**	22
Impairment loss on investment in a joint venture	**-**	14
Net loss on disposal of property, plant and equipment	**1**	9
Other	**248**	259
Total expenses	**12,798**	9,864

1. Includes $8 million of depreciation expense for wind assets (2020: $3 million).
2. Refer to Note 19
3. Refer to Note 15
4. Refer to Note 16

5. Depreciation and amortisation

	2021 $m	2020 $m Restated
Property, plant and equipment	**508**	550
Intangible assets	**199**	170
Total depreciation and amortisation	**707**	720

6. Net financing costs

	2021 $m	2020 $m
Finance income		
Interest income	-	4
	-	4
Finance costs		
Interest expense[1]	**103**	110
Lease interest expense	**9**	10
Unwinding of discounts on provisions and other liabilities	**85**	35
Unwinding of discount on deferred consideration	**20**	22
Other finance costs	**7**	6
	224	183
Net financing costs	**224**	179

1. Interest expense for the year ended 30 June 2021 is presented net of capitalised interest of $2 million (2020: $9 million).

The weighted average capitalisation rate on funds borrowed for finance costs capitalised is 4.14% (2020: 4.50%).

ACCOUNTING POLICY

Net financing costs

Interest income is recognised in profit or loss as it accrues, 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.

7. Income tax

Income tax recognised in the Consolidated Statement of Profit or Loss

The major components of income tax expense are:

	2021 $m	2020 $m Restated
Current tax		
Current tax expense in respect of the current year	**94**	219
Deferred tax		
Relating to the origination and reversal of temporary differences	**(692)**	188
Total income tax expense	**(598)**	407

7. Income tax (cont.)

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:

	2021 $m	2020 $m Restated
(Loss)/profit before tax	**(2,657)**	1,414
Income tax expense calculated at the Australian tax rate of 30% (2020: 30%)	**(797)**	425
Non-deductible capital losses on disposal and impairment	**31**	-
Non-deductible expenses	**191**	2
Adjustments in relation to current tax of prior years	**(16)**	(15)
Other	**(7)**	(5)
Total income tax (benefit)/expense	**(598)**	407

Income tax recognised in other comprehensive income

	2021 $m	2020 $m
Deferred tax		
Cash flow hedges	**21**	(21)
Remeasurement gain on defined benefit plans	**29**	4
Fair value gain on the revaluation of equity instrument financial assets	**20**	-
Total income tax recognised in other comprehensive income	**70**	(17)

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

	2021 $m	2020 $m Restated
Temporary differences		
Tax losses	**134**	94
Provisions, payables and accruals	**(903)**	(7)
Allowance for expected credit losses	**1**	(6)
Defined benefit superannuation plans	**(6)**	(7)
Borrowings	**5**	1
Derivative financial instruments	**134**	93
Property, plant and equipment and intangible assets	**(39)**	19
Other	**(18)**	1
Total deferred income tax recognised in profit or loss	**(692)**	188

Current tax balances

	2021 $m	2020 $m
Current tax assets		
Income tax refund receivable	**165**	99
Current tax liabilities		
Income tax payable	**71**	25

7. Income tax (cont.)

Deferred tax balances

	2021 $m	2020 $m Restated
Deferred tax assets/(liabilities) arise from the following:		
Tax losses	**171**	306
Provisions, payables and accruals	**1,103**	197
Allowance for expected credit losses	**62**	58
Defined benefit superannuation plans	**23**	46
Borrowings	**36**	40
Derivative financial instruments	**(197)**	(40)
Property, plant and equipment and intangible assets	**(536)**	(562)
Trade and other receivables	**-**	(12)
Other	**(21)**	(9)
Net deferred tax assets/(liabilities)[1]	**641**	24

	2021 $m	2020 $m Restated
Recognised in the Consolidated Statement of Financial Position as follows:		
Deferred tax assets	**971**	297
Deferred tax liabilities	**(330)**	(273)
Net deferred tax assets/(liabilities)	**641**	24

1. A net deferred tax liability of $4 million was recognised on acquisition of Click Energy Group Holdings Pty Limited, SEGH Pty Limited and Epho Holding Pty Limited

Deferred tax assets of $54 million (2020: $25 million) remain unrecognised.

AGL has adopted the voluntary Tax Transparency Code as endorsed by the Board of Taxation and the Australian Taxation Office.

ACCOUNTING POLICY

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 if AGL has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

- the same taxable entity; or
- different taxable entities that intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

7. Income tax (cont.)

ACCOUNTING POLICY

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

AGL Energy Limited (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.

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 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 tax-consolidated group are recognised by the head entity in each 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.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Deferred tax assets relating to tax losses

AGL recognises a deferred tax asset relating to tax losses incurred by a subsidiary. 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.

8. Dividends

Recognised amounts

	2021 $m	2020 $m
Final dividend		
Final dividend for 2020 of 51.0 cents per share, franked to 80%, paid 25 September 2020 (2020: Final dividend for 2019 of 64.0 cents per share, franked to 80%, paid 20 September 2019).	**318**	420
Interim dividend		
Interim dividend for 2021 of 41.0 cents per share, unfranked, paid 26 March 2021 (2020: Interim dividend for 2020 of 47.0 cents per share, franked to 80%, paid 27 March 2020).	**255**	299
Dividends paid as per the Consolidated Statement of Cash Flows	**573**	719

Unrecognised amounts

Since the end of the financial year, the Directors have declared a final dividend for 2021 of 34.0 cents per share, unfranked, payable 29 September 2021 (2020: 51.0 cents per share, franked to 80%, paid 25 September 2020).	**212**	318

8. Dividends (cont.)

Dividend reinvestment plan

The AGL Dividend Reinvestment Plan (DRP) will operate in respect of the 2021 final dividend. AGL will issue shares and allot them to DRP participants at a 1.5% discount to the simple average of the daily weighted average price at which AGL's ordinary shares trade during each of the 20 trading days commencing 30 August 2021. The last date for shareholders to elect to participate in the DRP for the 2021 final dividend is 27 August 2021.

Dividend franking account

	2021 $m	2020 $m
Adjusted franking account balance	**(134)**	(114)
Impact on franking account balance of dividends proposed after the reporting date but not recognised as a liability	**-**	(109)

ACCOUNTING POLICY

Dividends

Dividends represent a distribution of profits that holders of ordinary shares receive from time to time. Dividends are not accrued as a liability until a dividend declaration is made by the Board of Directors. The liability is reduced when the dividend is paid. The Board of Directors takes into consideration factors including AGL's relative capital strength and the existing dividend payout ratio guidelines in determining the amount of dividends to be paid.

9. Trade and other receivables

	2021 $m	2020 $m
Current		
Trade receivables	**1,357**	816
Unbilled revenue	**726**	890
Allowance for expected credit loss	**(209)**	(196)
	1,874	1,510
Other receivables	**15**	61
Total current trade and other receivables	**1,889**	1,571
Non-current		
Other	**81**	**25**
Total non-current trade and other receivables	**81**	25
Allowance for expected credit loss		
Balance as at 1 July	**196**	175
Impairment losses recognised on receivables	**205**	177
Amounts written off as uncollectible	**(192)**	(156)
Balance at end of the financial year	**209**	196

9. Trade and other receivables (cont.)

The allowance for expected credit loss associated with unbilled revenue and the ageing of trade receivables at the reporting date is detailed below:

	2021		2020	
	Total $m	Allowance $m	Total $m	Allowance $m
Unbilled revenue	**726**	**(48)**	890	(47)
Not past due	**1,013**	**(21)**	439	(17)
Past due 0 – 30 days	**78**	**(12)**	96	(11)
Past due 31 – 60 days	**38**	**(9)**	45	(9)
Past due 61 – 90 days	**24**	**(7)**	23	(10)
Past 90 days	**204**	**(112)**	213	(102)
Total	**2,083**	**(209)**	1,706	(196)

ACCOUNTING POLICY

Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade and other receivables are recognised at amortised cost, less an allowance for expected credit loss. AGL's policy requires customers to pay in accordance within agreed payment terms. Depending on the customer segment, trade receivables are generally due for settlement within 30 days.

AGL assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and fair value through other comprehensive income (FVOCI). The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, unbilled revenue, contract assets and lease receivables, AGL applies the simplified approach, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Unbilled revenue

Unbilled revenue represents estimated gas and electricity services supplied to customers but unbilled at the end of the reporting period. Unbilled gas and electricity revenue is not collectible until such time as customers' meters are read and bills rendered.

9. Trade and other receivables (cont.)

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Expected credit loss on trade receivables and unbilled revenue

AGL uses an allowance matrix to measure expected credit losses of trade receivables and unbilled revenue from its customers. Trade receivable amounts are disaggregated into customer segments.

Loss rates are estimated in each age category and are based on the probability of a receivable progressing through to write-off. Factors to estimate the loss rate are based on risk assessment performed for each customer segment and economic factors such as wholesale electricity forward curves, commodity fuel forward curves and prevailing macro-economic information.

The methodology for calculating the allowance for expected credit loss has not changed as a result of COVID-19, however certain assumptions have been updated and further segmentation of the customer base has been introduced to reflect observed payment behaviours. The key assumptions impacted are external macro-economic trends such as unemployment and small business impacts.

Unbilled revenue

AGL recognises revenue from gas and electricity sales 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.

Some of the assumptions and estimates include:

- Volume and timing of energy consumed by the customers
- Various pricing plans prevalent and allocation of the estimated volume to such pricing plans
- Loss factors
- Behavioural discounts.

10. Inventories

	2021 $m	2020 $m
Current		
Raw materials and stores - at cost	**325**	321
Finished goods - at cost	**93**	79
Total current inventories	**418**	400
Non-current		
Finished goods - at cost	**46**	59
Total non-current inventories	**46**	59

ACCOUNTING POLICY

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 sell the inventory.

11. Other financial assets

	2021 $m	2020 $m
Current		
Derivative financial instruments - at fair value		
Cross currency swap contracts - cash flow and fair value hedges	11	13
Interest rate swap contracts - cash flow hedges	3	-
Forward foreign exchange contracts - cash flow hedges	2	-
Energy derivatives - economic hedges	447	568
	463	581
Futures deposits and margin calls	76	59
Total current other financial assets	539	640

	2021 $m	2020 $m
Non-current		
Derivative financial instruments - at fair value		
Cross currency swap contracts - cash flow and fair value hedges	85	235
Interest rate swap contracts - cash flow hedges	10	-
Energy derivatives - economic hedges	637	331
Other	5	-
	737	566
Equity instrument financial assets - at fair value through other comprehensive income		
Unlisted equity securities	8	-
Unlisted investment funds	205	122
Total non-current other financial assets	950	688

Refer to Note 36 for AGL's financial assets accounting policy and critical accounting estimates and assumptions.

12. Other assets

	Note	2021 $m	2020 $m
Current			
Green commodities scheme certificates and instruments		282	216
Prepayments		71	55
Total current other assets		353	271

	Note	2021 $m	2020 $m
Non-current			
Defined benefit superannuation plan asset	32	25	3
Total non-current other assets		25	3

ACCOUNTING POLICY

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, green commodity scheme certificates are recorded at cost, being the fair value of the consideration paid or the cost of the generation of the certificate.

13. Assets classified as held for sale

	2021 $m	2020 $m
Assets or disposal groups held for sale	**223**	-

On 30 March 2021, AGL announced that it would be looking to sell up to $400 million of assets, including Newcastle Gas Storage Facility (NGSF). In the period ended 30 June 2021, AGL began to actively market NGSF for sale with a disposal expected to be complete within the year ending 30 June 2022. NGSF has been classified as held for sale as at 30 June 2021 and will no longer be depreciated, and all costs incurred will be treated as operating expenditure. An impairment loss has been recognised on the carrying value of the NGSF and is presented as an impairment loss on property, plant and equipment. NGSF sits within the Integrated Energy operating segment.

14. Investments in associates and joint ventures

	2021 $m	2020 $m
Investments in joint ventures - unlisted	**117**	135
Total investments in associates and joint ventures	**117**	135

Reconciliation of movements in investments in associates and joint ventures

	2021 $m	2020 $m
Balance at beginning of financial year	**135**	150
Additions	**-**	11
Disposal[1]	**(4)**	-
Impairment loss recognised in profit or loss[2]	**-**	(14)
Share of profits after income tax	**9**	17
Dividends received	**(23)**	(15)
Other	**-**	(14)
Balance at end of financial year	**117**	135

1. On 31 December 2020, AGL and Arrow (Northern Generation) Pty Ltd completed the sale of their shareholdings in Energy Infrastructure Management Pty Ltd (EIM) to Verbrec Limited (formerly known as LogiCamms Limited) for a sum of $10 million. AGL held a 50% share in EIM and have recognised a gain on sale of $1 million less transaction costs.
2. During FY20, AGL partially impaired the carrying value of its investment interest in Powering Australian Renewables, reflecting revised market pricing and generation output assumptions for operations sites. An impairment loss of $14 million ($10 million post-tax) was recognised as a Significant Item in the period.

		Ownership interest		Carrying value	
	Principal activities	2021 %	2020 %	2021 $m	2020 $m
Associates					
Solar Analytics Pty Ltd	Solar PV monitoring	**31.2**	31.2	**-**	-
Joint ventures					
ActewAGL Retail Partnership	Gas and electricity retailer	**50**	50	**40**	51
Energy Infrastructure Management Pty Ltd	Pipeline management services	**-**	50	**-**	4
Central Queensland Pipeline Pty Ltd	Gas pipeline development	**50**	50	**-**	-
Powering Australian Renewables (PowAR)	Development and owner of renewable energy generation projects	**20**	20	**77**	80
Total investments in associates and joint ventures				**117**	135

All the above entities are incorporated and operate in Australia.

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

Aggregate information of joint ventures that are not individually material

	2021 $m	2020 $m
Current assets	**480**	502
Non-current assets	**1,256**	1,297
Total assets	**1,736**	1,799
Current liabilities	**265**	242
Non-current liabilities	**988**	1,057
Total liabilities	**1,253**	1,299
Net assets	**483**	500
Revenue	**535**	734
Expenses	**(526)**	(696)
AGL's share of joint ventures' profit after income tax	**9**	17

Commitments and contingent liabilities

AGL's share of commitments and contingent liabilities of associates and joint ventures are disclosed in Notes 24(b) and 25 respectively.

ACCOUNTING POLICY

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.

15. Property, plant and equipment

2021	Plant and equipment $m	Right-of-use plant and equipment $m	Other $m	Right-of-use assets $m	Total $m
Balance at 1 July 2020, net of accumulated depreciation and impairment	**6,349**	**5**	**89**	**197**	**6,640**
Reclassified to intangible assets	**(96)**	**-**	**-**	**-**	**(96)**
Change in estimate related to provision for environmental rehabilitation	**1,112**	**-**	**-**	**-**	**1,112**
Additions	**545**	**-**	**-**	**3**	**548**
Disposals	**(9)**	**-**	**-**	**-**	**(9)**
Depreciation expense[1]	**(492)**	**-**	**(3)**	**(21)**	**(516)**
Reclassified as held for sale	**(223)**	**-**	**-**	**-**	**(223)**
Impairment loss recognised in profit or loss	**(1,173)**	**-**	**-**	**-**	**(1,173)**
Balance at 30 June 2021 net of accumulated depreciation and impairment	**6,013**	**5**	**86**	**179**	**6,283**

1. Includes $8 million of depreciation expense for wind assets.

Balance at 1 July 2020					
Cost (gross carrying amount)	**9,260**	**12**	**109**	**294**	**9,675**
Accumulated depreciation and impairment	**(2,911)**	**(7)**	**(20)**	**(97)**	**(3,035)**
Net carrying amount	**6,349**	**5**	**89**	**197**	**6,640**

Balance at 30 June 2021					
Cost (gross carrying amount)	**10,311**	**12**	**109**	**297**	**10,729**
Accumulated depreciation and impairment	**(4,298)**	**(7)**	**(23)**	**(118)**	**(4,446)**
Net carrying amount	**6,013**	**5**	**86**	**179**	**6,283**

2020	Plant and equipment $m	Right-of-use plant and equipment $m	Other $m	Right-of-use assets $m	Total $m
Balance at 1 July 2019, net of accumulated depreciation and impairment	6,295	5	92	196	6,588
Reclassified to intangible assets	(107)	-	-	-	(107)
Additions	704	1	-	16	721
Disposals	(9)	-	-	-	(9)
Depreciation expense[1]	(534)	(1)	(3)	(15)	(553)
Balance at 30 June 2020, net of accumulated depreciation and impairment	6,349	5	89	197	6,640

1. Includes $3 million of depreciation expense for wind assets.

Balance at 1 July 2019					
Cost (gross carrying amount)	8,672	11	109	278	9,070
Accumulated depreciation and impairment	(2,377)	(6)	(17)	(82)	(2,482)
Net carrying amount	6,295	5	92	196	6,588

Balance at 30 June 2020					
Cost (gross carrying amount)	9,260	12	109	294	9,675
Accumulated depreciation and impairment	(2,911)	(7)	(20)	(97)	(3,035)
Net carrying amount	6,349	5	89	197	6,640

Other

Includes land, buildings and leasehold improvements.

Property, plant and equipment under construction

The net carrying amount of property, plant and equipment disclosed above includes expenditure recognised in relation to plant and equipment which is in the course of construction of $353 million (2020: $422 million).

Software
During the year, $96 million (2020: $107 million) of software was reclassified to intangible assets.

15. Property, plant and equipment (cont.)

ACCOUNTING POLICY

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:

- Leasehold improvements – lesser of lease period or up to 50 years
- Plant and equipment – Up to 50 years

Right-of-use assets (ROU assets)

A ROU asset is recognised in relation to each lease and is initially measured at cost comprising the initial measurement of the lease liability adjusted for any lease payments made before the commencement date (reduced by lease incentives received), plus initial direct costs incurred in obtaining the lease and an estimate of costs to be incurred in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

A ROU asset is subsequently measured using the cost model less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. AGL does not apply the revaluation model but instead carries all ROU assets at cost. The ROU asset is depreciated over its useful life. The useful life of a ROU asset for depreciation purposes is the shorter of the useful life of the asset and the lease term. Where the ROU asset is adjusted due to changes in the lease liability, the depreciation for the ROU asset is adjusted on a prospective basis.

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

- Plant and equipment – ROU assets: lesser of lease period or up to 50 years
- Other – ROU assets: lesser of lease period or up to 50 years

Short-term and low value leases as lessee

AGL has elected to apply the practical expedients available for short-term leases (i.e. where the lease period is 12 months or less) and low-value asset leases. As a result of application of these practical expedients, the measurement requirements of accounting standards do not apply and the expense for these leases is recognised on a straight-line basis.

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 post-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.

16. Intangible assets

2021	Goodwill $m	Software $m	Licences $m	Other $m	Total $m
Balance at 1 July 2020, net of accumulated amortisation and impairment	**2,879**	**392**	**296**	**71**	**3,638**
Reclassified from property, plant and equipment	**-**	**96**	**-**	**-**	**96**
Additions	**187**	**165**	**-**	**41**	**393**
Disposals	**-**	**-**	**-**	**-**	**-**
Amortisation expense	**-**	**(171)**	**(11)**	**(17)**	**(199)**
Impairment loss recognised in profit or loss	**(626)**	**-**	**-**	**-**	**(626)**
Balance at 30 June 2021, net of accumulated amortisation and impairment	**2,440**	**482**	**285**	**95**	**3,302**

Balance at 1 July 2020					
Cost (gross carrying amount)	**2,880**	**1,072**	**311**	**278**	**4,541**
Accumulated amortisation and impairment	**(1)**	**(680)**	**(15)**	**(207)**	**(903)**
Net carrying amount	**2,879**	**392**	**296**	**71**	**3,638**

Balance at 30 June 2021					
Cost (gross carrying amount)	**3,067**	**1,333**	**311**	**319**	**5,030**
Accumulated amortisation and impairment	**(627)**	**(851)**	**(26)**	**(224)**	**(1,728)**
Net carrying amount	**2,440**	**482**	**285**	**95**	**3,302**

2020 Restated	Goodwill $m	Software $m[1]	Licences $m	Other $m	Total $m
Balance at 1 July 2019, net of accumulated amortisation and impairment	2,866	366	304	67	3,603
Reclassified from property, plant and equipment	-	107	-	-	107
Additions	13	65	-	20	98
Disposals	-	-	-	-	-
Amortisation expense	-	(146)	(8)	(16)	(170)
Balance at 30 June 2020, net of accumulated amortisation and impairment	2,879	392	296	71	3,638

1. The period ended 30 June 2020 has been restated as a result of a change in accounting policy detailed in Note 38

Balance at 1 July 2019					
Cost (gross carrying amount)	2,867	900	311	258	4,336
Accumulated amortisation and impairment	(1)	(534)	(7)	(191)	(733)
Net carrying amount	2,866	366	304	67	3,603

Balance at 30 June 2020					
Cost (gross carrying amount)	2,880	1,072	311	278	4,541
Accumulated amortisation and impairment	(1)	(680)	(15)	(207)	(903)
Net carrying amount	2,879	392	296	71	3,638

16. Intangible assets (cont.)

Impairment testing for goodwill and intangibles with indefinite useful lives

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

Year ended 30 June 2021	Goodwill $m
Customer Markets	**1,087**
Wholesale Gas	**1,353**
AGL Generation Fleet	**-**
Total goodwill and intangibles with indefinite useful lives	**2,440**
Year ended 30 June 2020	
Customer Markets	900
Wholesale Gas	1,353
AGL Generation Fleet	626
Total goodwill and intangibles with indefinite useful lives	2,879

ACCOUNTING POLICY

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 lived intangible assets are assessed at least annually for impairment. Finite lived 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
- Software – 3 to 7 years
- Licences – the lesser of licence term and asset useful life

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 CGUs or groups of CGUs expected to benefit from the synergies of the combination, and tested for impairment at least annually.

A CGU or group of CGUs 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 CGU or group of CGUs is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU(s) and then to the other assets of the CGU(s) pro rata based on the carrying amount of each asset in the CGU(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.

Software

Software is measured at cost less accumulated amortisation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition or development of the software. During the year ended 30 June 2021, AGL adopted a change in accounting policy in relation to the treatment of configuration and customisation costs of cloud computing arrangements. Details of the change and related restatement are presented in Note 38.

Licences

Licences are carried at cost less any accumulated amortisation and impairment losses.

16. Intangible assets (cont.)

ACCOUNTING POLICY

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.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Impairment recognised for period ended 31 December 2020

On 4 February 2021, AGL announced an impairment of property, plant and equipment of $1,006 million and goodwill of $626 million. The impairments followed an accelerated deterioration to long-term wholesale energy market forecasts during the year, reflecting policy measures to underwrite new build of electricity generation and lower technology costs, leading to expectations of increased supply. As a result, the long-term outlook for wholesale electricity and renewable energy certificates indicated a sustained and material reduction in prices.

Combined with sharp reductions in near-term wholesale energy prices as a result of challenging macro-economic conditions, and the outcomes of AGL's three-yearly review of environmental rehabilitation provisions, this reduced the recoverable amount of certain cash generating units.

AGL Generation Fleet

As a result of the material reduction in the outlook for wholesale prices in the long term, the carrying value of the AGL Generation Fleet CGU was estimated to exceed its recoverable amount at 31 December 2020. The cash flows of the CGU include certain legacy power purchase agreements that contain purchase prices above the forward price for electricity and/or renewable energy certificates. These contracts have no assets associated with them. The cash flows associated with these contracts were therefore separately assessed and recognised as an onerous contract. Refer to Note 19.

The carrying value of the AGL Generation Fleet CGU was estimated to exceed the recoverable amount at 31 December 2020 by $1,413 million. This amount has been recognised as an impairment expense in the statement of profit or loss.

Natural Gas Assets

The carrying value of the natural gas assets was estimated to exceed the recoverable amount at 31 December 2020 by $231 million. This amount has been recognised as an impairment expense in the statement of profit or loss.

The impairment charges above are recognised within the Integrated Energy segment.

Impairment testing for year ended 30 June 2021

The recoverable amounts for the Customer Markets, Wholesale Gas and AGL Generation Fleet CGUs have been determined using value-in-use models including an appropriate terminal value. The key assumptions in the calculation of value in use include:

- Long run electricity prices;
- Corporate tax rates;
- Discount rate;
- Terminal growth rate;
- Customer numbers and churn;
- Energy procurement costs and volumes and generation volumes; and
- Gross margin including assumptions around regulatory outcomes, pricing in unregulated markets and customer discounts.

Corporate tax rates reflect the Australian company tax rate. 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 and their correlation with the long run marginal cost of electricity in the NEM (LRMC), 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 four-year plan. The terminal value is based on final year free cash flow, except for known site closures, with

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

normalised operating and capital expenditure and aligned with long term energy price forecasts, extrapolated into prepetuity with a growth rate of 2.0% (2020: 2.5%). Discount rates used are the pre-tax equivalent of a post-tax weighted average cost of capital of 6.7% (2020: 7.1%). The WACC was reduced following AGL's annual cost of capital review process as a result of sustained low interest rates.

If the recoverable amount of a cash generating unit is estimated to be less than its carrying amount, the carrying amount of the cash generating unit is reduced to its recoverable amount with any impairment recognised immediately in the statement of financial performance.

Impact of possible changes in key assumptions

AGL Generation Fleet

Following a detailed impairment review of future cash flow projections, the asset values are considered recoverable at 30 June 2021.

Reasonably possible changes in circumstances will affect assumptions and the estimated recoverable amount of the AGL Generation Fleet CGU. These reasonably possible changes include:

- an increase of discount rate of 50 basis points in isolation will reduce the recoverable amount by $821 million; and
- a decrease in terminal growth rate of 50 basis points in isolation will reduce the recoverable amount by $736 million.

The recoverable amount is also sensitive to reasonably possible changes in long run electricity prices. When viewed in connection with the current low market prices, it is reasonably possible that a change in long run electricity price assumptions could lead to a further reduction in recoverable amount. The interrelationship of changes in this and other assumptions is very complex. Changes in the external operating environment, such as closure of aluminium smelters that consume significant volumes of electricity from the market; changes to the scheduled closure date of other power stations; or changes to government policies could result in the decrease in long run electricity prices which could give rise to a further impairment.

No other reasonably possible changes in key assumptions have been identified which may cause the carrying amount to exceed its recoverable amount.

Wholesale Gas CGU

Following a detailed impairment review of future cash flow projections, the assets are considered recoverable at 30 June 2021.

The Wholesale Gas CGU is sensitive to changes in the consumer gas margin assumptions. The recoverable amount of the CGU would equal its carrying amount if the consumer gas margin assumptions reduced by $0.19/GJ. No other reasonable possible changes in key assumptions have been identified which may cause the carrying amount to exceed its recoverable amount.

Customer Markets CGU and Natural Gas Assets

Management do not believe that any reasonably possible change in the key assumptions would result in an impairment.

Crib Point LNG Import Terminal

An impairment charge of $47 million was recognised against Property Plant and Equipment in association with the cessation of the Crib Point LNG import terminal project.

Impact of climate change related risk

The recoverable amount estimates used in the impairment of assets analysis considers climate change risk through the adjustment of cash inflows associated with the planned closure of AGL's Liddell Power Station.

Management recognises that there is an increased pace of change in the energy industry and associated political landscape and will continue to work towards incorporating quantification of the financial impact of climate change and related policies within our annual financial filings in accordance with Australian Securities and Investments Commission (ASIC), Australian Prudential Regulation Authority (APRA), and Australian Accounting Standards Board (AASB) recommendations.

Notwithstanding the above, any change to the planned closure dates of AGL's coal-fired / thermal generation plants as a result of climate change may have a material impact on the National Electricity Market and may result in a material change to AGL's estimated cash inflows. Similarly, any change to policy in relation to climate change may have a material impact on the National Electricity Market and may result in a material change to AGL's estimated cash inflows.

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.

17. Trade and other payables

	2021 $m	2020 $m
Current		
Trade payables and accrued expenses	**1,261**	708
Accrued distribution costs	**359**	404
Green commodity scheme obligations	**204**	211
Other	**14**	28
Total trade and other payables	**1,838**	1,351

Trade payables are unsecured and are generally settled within 32 days from end of month of the date of recognition.

ACCOUNTING POLICY

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.

Green commodity scheme obligations

Green commodity scheme obligations represent liabilities to satisfy surrender obligations under the various renewable energy and energy efficiency schemes administered by the Commonwealth and State governments. Given the schemes are surrendered on a calendar year basis, the liability is calculated based on the best estimated unit cost at the time of expected surrender.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Accrued 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.

18. Borrowings

	2021 $m	2020 $m
Current		
Bank loans - unsecured	**275**	-
CPI bonds - unsecured	**10**	9
Other loans - unsecured	**-**	11
Lease liabilities	**20**	18
Total current borrowings	**305**	38
Non-current		
USD senior notes - unsecured	**1,019**	1,164
Medium term notes - unsecured	**-**	599
Bank loans - unsecured	**1,675**	985
CPI bonds - unsecured	**57**	66
Other loans - unsecured	**-**	111
Lease liabilities	**139**	156
Deferred transaction costs	**(10)**	(11)
Total non-current borrowings	**2,880**	3,070

Financing facilities

AGL has access to the following committed bank facilities:

	Total facilities		Amounts used	
	2021 $m	2020 $m	2021 $m	2020 $m
USD senior notes - unsecured (after effect of cross currency swaps)	**910**	910	**910**	910
Medium term notes - unsecured	**-**	599	**-**	599
Bank loans - unsecured	**2,475**	1,909	**1,950**	985
CPI bonds - unsecured	**67**	75	**67**	75
Other loans - unsecured	**-**	122	**-**	122
Bank guarantees - unsecured	**405**	541	**335**	383
Total financing facilities	**3,857**	4,156	**3,262**	3,074

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.

Medium term notes

On 5 November 2014, AGL issued $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. The $600 million of medium term notes were redeemed in May 2021, 6 months before maturity (November 2021). This early redemption was funded by additional bank debt added in April 2021 through new bilateral facilities totalling $520 million.

18. Borrowings (cont.)

Bank loans

In 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 2021, this facility was fully utilised.

In September 2019 AGL executed a A$600 million 5-year syndicated Sustainability Linked Loan. At the end of FY21, this facility was fully utilised.

During the FY17 financial year, AGL executed $375 million of new bank bilateral debt facilities for tenors between 1.5 to 5 years. Out of the $375 million, $100 million matured in FY19 and $200 million was further extended to mature in FY21. In December 2019, AGL extended its existing $150 million bilateral facility for 3 years with a reduced limit of $100 million, and transferred the bilateral facility on to the same sustainability-linked terms.

During FY21, AGL prepaid its $122 million amortising Export Credit Agency facility. Further refinancing in June 2021 added an additional $430 million bank debt from new and upsized bilateral facilities to support AGL's overall liquidity requirements and the finalisation of the Tilt acquisition in FY22. As at 30 June 2021, AGL's total debt facilities were $3,857 million, of which drawn debt was $3,262 million.

CPI bonds

CPI bonds rank pari passu with other unsecured debt and will mature in May 2027.

ACCOUNTING POLICY

Borrowings

Interest bearing liabilities

All loans and borrowings are initially recognised at fair value, being the amount received less attributable transaction costs. After initial recognition, interest bearing liabilities are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings on an effective interest basis.

Leases

At inception of a contract, AGL assesses whether a contract is, or contains a lease. A contract is, or contains a lease, if the contract conveys to the customer a right to control the use of an identified asset for a period of time in exchange for consideration.

18. Borrowings (cont.)

ACCOUNTING POLICY

AGL assesses whether:

- The contract involves the use of an identified asset – the asset may be explicitly or implicitly specified in the contract. Capacity portions of larger assets would be considered an identified asset if the portion is physically distinct or if the portion represents substantially all of the capacity of the asset. An asset is not considered an identified asset if the supplier has the substantive right to substitute the asset throughout the period of use.
- The customer in the contract has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use.
- The customer in the contract has the right to direct the use of the asset throughout the period of use – the customer is considered to have the right to direct the use of the asset only if either:
  - The customer has the right to direct how and for what purpose the identified asset is used throughout the period of use; or
  - The relevant decisions about how and for what purposes the asset is used are predetermined and the customer has the right to operate the asset, or the customer designed the asset in a way that predetermines how and for what purpose the asset will be used throughout the period of use.

AGL has applied the above approach in identifying leases in contracts entered into, or modified, on or after 1 July 2018. For contracts entered into before 1 July 2018, AGL has elected to apply the grandfathering practical expedient on transition. Consequently, the transition and measurement requirements only apply to arrangements that were identified as leases pursuant to the previous leases standards as at and subsequent to 1 July 2018.

AGL as lessee

In contracts where AGL is a lessee, AGL recognises a right-of-use asset and a lease liability at the commencement date of the lease for all leases other than short-term or low-value asset leases.

Lease Liabilities

A lease liability is recognised in relation to each lease and is initially measured at the present value of future lease payments at the commencement date. To calculate the present value, the future lease payments are discounted using the interest rate implicit in the lease (IRIL), if the rate is readily determinable. If the IRIL cannot be readily determined, the incremental borrowing rate at the commencement date is used. Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date (e.g. payments that vary due to changes in CPI, or commodity prices); and
- Amounts expected to be payable by the lessee under residual value guarantees, purchase options and termination penalties (where relevant).

Variable payments other than those included in the measurement of the lease liability above (i.e. those not based on an index or rate) are recognised in profit or loss in the period in which the event or condition that triggers those payments occur.

For contracts containing lease and non-lease components, AGL accounts for each lease component separately from the non-lease components of the contract, where material. The consideration in the contract is allocated to the components based on their relative stand-alone prices.

Subsequently, the lease liability is measured in a manner similar to other financial liabilities, i.e., at amortised cost using the effective interest rate method. This means the liability is:

- Increased to reflect interest on the lease liability;
- Decreased to reflect lease payments made; and
- Remeasured to reflect any reassessment of lease payments or lease modifications, or to reflect revised in-substance fixed lease payments.

After commencement date, the following amounts are recognised in profit or loss with respect to the payments pursuant to the lease:

- interest expense: recognised as finance cost; and
- variable lease payments not based on an index or a rate: recognised in profit or loss in the period in which the event or condition that triggers those payments occurs.

Short-term and low value leases

AGL has elected to apply the practical expedients available for short-term leases (i.e. where the lease term is less than 12 months) and low-value asset leases. As a result of application of these practical expedients, the measurement requirements above do not apply and the expense for these leases is recognised on a straight-line basis.

18. Borrowings (cont.)

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Leases

Lease term

Where lease arrangements contain options to extend the term or terminate the contract, AGL assesses whether it is 'reasonably certain' that the option to extend or terminate the contract will be made. Consideration is given to the prevalence of other contractual arrangements and or the economic circumstances relevant to the lease contract, that may indicate the likelihood of the option being exercised. Lease liabilities and ROU assets are measured using the reasonably certain contract term.

Lease discount rates

The discount rate applicable to a lease arrangement is determined at the inception of the contract or when certain modifications are made to the contract. The discount rate applied is the rate implicit in the arrangement, or if unknown, AGL's incremental borrowing rate. The incremental borrowing rate is determined with reference to AGL's borrowing portfolio at the inception of the arrangement or the time of the modification and the amount and nature of the lease arrangement. If the arrangement relates to a specialised asset, incremental project financing assumptions are considered.

19. Provisions

	2021 $m	2020 $m
Current		
Employee benefits	**212**	213
Environmental rehabilitation	**52**	45
Onerous contracts	**147**	27
Restructuring	**2**	1
Total current provisions	**413**	**286**

	2021 $m	2020 $m
Non-current		
Employee benefits	**14**	14
Environmental rehabilitation	**1,400**	299
Onerous contracts	**1,887**	111
Total non-current provisions	**3,301**	424

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

	Environmental rehabilitation $m	Restructuring $m	Onerous contracts $m	Total $m
Balance at 1 July 2020	**344**	**1**	**138**	**483**
Additional provisions recognised	**1,112**	**6**	**1,930**	**3,048**
Provisions utilised and derecognised	**(43)**	**(5)**	**(80)**	**(128)**
Unwinding of discount	**39**	**-**	**46**	**85**
Balance at 30 June 2021	**1,452**	**2**	**2,034**	**3,488**

19. Provisions (cont.)

ACCOUNTING POLICY

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 rehabilitation

The provision for future rehabilitation costs is the best estimate of the present value of the expenditure required to settle the rehabilitation obligation at the end of the reporting period, based on current legal requirements and current technology. Future rehabilitation 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 rehabilitation 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 rehabilitation 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.

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.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Provision for environmental rehabilitation

AGL estimates the future removal and rehabilitation 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 rehabilitation activities required and available technologies.

The provisions for environmental rehabilitation represents the best estimate of the present value of the expenditure required to settle the obligation. In line with AGL's accounting policy, the Provisions for Environmental Rehabilitation are reviewed on a regular basis. The increase in environmental rehabilitation provisions of $1,112 million comprises $799 million from a reduction in the discount rate used to derive the present value of future estimated rehabilitation cash flows from 10 percent to 3 percent, and $313 million from an increase in estimated future expenditure following the completion of the three-yearly review of long-term rehabilitation requirements.

Provision for onerous contracts

As discussed in Note 16, recent changes to market forecasts for wholesale electricity and renewable energy certificates, now reflect a sustained and material reduction in the outlook for wholesale prices in the long term. The cash flows of the AGL Generation Fleet CGU include certain legacy power purchase agreements that contain purchase prices above the forward price for electricity and renewable energy certificates. These contracts have no assets associated with them. The cash flows associated with these contracts were therefore separately assessed and recognised as an onerous contract.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* defines an onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. 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.

Under these legacy power purchase agreements, AGL makes periodic payments for the electricity and green certificates generated by these assets. The agreements were primarily entered between 2006 and 2012 to support the development of the renewables sector at that time. These offtake agreements were entered at prices significantly higher than current and forecast prices for electricity and renewable energy certificates today. As a result, a provision of $1,930 million was recognised for these agreements during the year.

20. Other financial liabilities

	2021 $m	2020 $m
Current		
Derivative financial instruments - at fair value		
Interest rate swap contracts - cash flow hedges	24	29
Forward foreign exchange contracts - cash flow hedges	2	-
Energy derivatives - cash flow hedges	-	31
Energy derivatives - economic hedges	264	580
	290	640
Deferred consideration	37	39
Total current other financial liabilities	327	679
Non-current		
Derivative financial instruments - at fair value		
Interest rate swap contracts - cash flow hedges	13	42
Energy derivatives - economic hedges	109	49
	122	91
Deferred consideration	131	148
Total non-current other financial liabilities	253	239

ACCOUNTING POLICY

Financial Instruments

Refer to Note 36.

Deferred consideration

To the extent that deferred consideration is payable after one year from the acquisition date, the deferred consideration is discounted at an appropriate interest rate and, accordingly, carried at net present value in the Consolidated Statement of Financial Position. The discount component is then unwound as an interest charge in profit or loss over the life of the obligation.

21. Other liabilities

	Note	2021 $m	2020 $m
Current			
Deferred revenue		21	8
Other		-	1
Total current other liabilities		21	9
Non-current			
Deferred revenue		14	14
Defined benefit superannuation plan liability	32	91	158
Other		100	69
Total non-current other liabilities		205	241

22. Issued capital

	2021 Total $m	2021 Number of shares	2020 Total $m	2020 Number of shares
Balance at beginning of reporting period	**5,603**	**623,138,096**	6,223	655,825,043
On-market share buy-back[1]	**(2)**	**(104,305)**	(620)	(32,686,947)
Balance at reporting date	**5,601**	**623,033,791**	5,603	623,138,096

1. During the period, AGL completed the buy-back of 104,305 shares. This is part of AGL's on-market share buy-back program for up to 5% of its issued share capital, or 32,791,252 shares from 23 August 2019 to 22 August 2020. As at 30 June 2021, the total consideration paid for shares bought back on market was $622 million at an average price of $18.97 per share.

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 general meeting of the Parent Entity, in person or by proxy is entitled to one vote per share.

ACCOUNTING POLICY

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.

23. Earnings per share

	2021	2020 Restated
Statutory earnings per share		
Basic earnings per share	**(330.3 cents)**	157.2 cents
Diluted earnings per share	**(330.3 cents)**	157.0 cents
Underlying earnings per share		
Basic earnings per share	**86.2 cents**	126.1 cents
Diluted earnings per share	**86.1 cents**	126.0 cents

Earnings used in calculating basic and diluted earnings per share

	2021 $m	2020 $m Restated
Statutory earnings used to calculate basic and diluted earnings per share attributable to owners of AGL	**(2,058)**	1,007
Significant expense items after income tax	**2,929**	17
Gain in fair value of financial instruments after income tax	**(334)**	(216)
Underlying earnings used to calculate basic and diluted earnings per share	**537**	808

Weighted average number of ordinary shares

	30 June 2021 Number	30 June 2020 Number
Number of ordinary shares used in the calculation of basic earnings per share	**623,047,222**	640,653,780
Effect of dilution - LTIP share performance rights	**608,119**	808,529
Number of ordinary shares used in the calculation of diluted earnings per share	**623,655,341**	641,462,309

24. Commitments

(a) Capital expenditure commitments

Property, plant and equipment and intangible assets

	2021 $m	2020 $m
Not later than one year	**70**	69
Later than one year and not later than five years	**2**	-
	72	69

There are nil (2020: nil) joint operations capital commitments and AGL's share of associates' commitments is nil (2020: nil).

(b) Joint venture commitments

AGL's share of commitments made jointly with other investors relating to its joint ventures is $358 million (2020: nil). AGL has committed to contribute $358 million to fund its portion of PowAR's acquisition of Tilt Renewables' Australian business.

25. 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.

26. Remuneration of auditors

Auditor of the Parent Entity

	2021 $000	2020 $000
Deloitte Touche Tohmatsu Australia		
Audit and review of financial reports		
Group	**1,599**	1,466
Controlled entities	**151**	156
	1,750	1,622
Other regulatory audit services	**167**	187
Other assurance services	**173**	161
Other accounting advice and services	**-**	95
	2,090	2,065
Deloitte Touche Tohmatsu related practices		
Audit of subsidiary financial reports	**29**	28
Total remuneration of auditors	**2,119**	2,093

The auditor of AGL Energy Limited is Deloitte Touche Tohmatsu Australia.

27. Subsidiaries

Name of subsidiary	Note	Country of incorporation	Ownership interest and voting power held 2021 %	2020 %
AGL Limited		New Zealand	**100**	100
AGL ACT Retail Investments Pty Limited	(a)	Australia	**100**	100
AGL Australia Limited	(e)	Australia	**100**	-
AGL Barker Inlet Pty Limited	(a)	Australia	**100**	100
AGL Community Legacy Program Pty Limited	(a)	Australia	**100**	100
AGL Corporate Services Pty Limited	(a)	Australia	**100**	100
AGL Electricity (VIC) Pty Limited	(a)	Australia	**100**	100
OVO Energy Pty Limited	(c)	Australia	**51**	-
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
Epho Holding Pty Limited	(a)(c)	Australia	**100**	-
Epho Services Pty Limited	(a)(c)	Australia	**100**	-
Epho Pty Limited	(a)(c)	Australia	**100**	-
Epho Asset Management Pty Limited	(a)(c)	Australia	**100**	-
BTPS 1 Pty Limited	(a)(c)	Australia	**100**	-
SEGH Pty Limited	(a)(c)	Australia	**100**	-
Solgen Energy Pty Limited	(a)(c)	Australia	**100**	-
Sol Install Pty Limited	(a)(c)	Australia	**100**	-
Sol Distribution Pty Limited	(a)(c)	Australia	**100**	-
Sunlease Pty Limited	(a)(c)	Australia	**100**	-
SolarServe Pty Limited	(a)(c)	Australia	**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)	Australia	**100**	100
AGL Gas Developments (Hunter) Pty Limited	(a)	Australia	**100**	100
AGL Gas Developments (PNG) Pty Limited	(a)	Australia	**100**	100
AGL Gas Developments (Sydney) Pty Limited	(a)	Australia	**100**	100
AGL Generation Holdco Pty Ltd		Australia	**99.99**	99.99
AGL Loy Yang Pty Ltd	(a)	Australia	**75**	75
AGL Loy Yang Partnership	(a)	Australia	**75**	75
AGL Loy Yang Projects Pty Ltd	(a)	Australia	**75**	75
AGL Generation Proprietary Limited	(b)	Australia	**100**	100
AGL Loy Yang Pty Ltd	(b)	Australia	**25**	25
AGL Loy Yang Partnership	(b)	Australia	**25**	25
AGL Loy Yang Projects Pty Ltd	(b)	Australia	**25**	25

Notes to the Consolidated Financial Statements

For the year ended 30 June 2021

27. Subsidiaries (cont.)

Name of subsidiary	Note	Country of incorporation	Ownership interest and voting power held 2021 %	2020 %
Loy Yang Marketing Holdings Pty Limited	(b)	Australia	**100**	100
AGL Loy Yang Marketing Pty Ltd	(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 LYP 2 Pty Ltd	(b)	Australia	**100**	100
AGL LYP 3 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 LNG Pty Ltd	(a)	Australia	**100**	100
AGL Macquarie Pty Limited	(a)	Australia	**100**	100
AGL New Energy Pty Limited	(a)	Australia	**100**	100
AGL New Energy ACP Pty Limited	(a)	Australia	**100**	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 Shipping Pty Ltd	(a)	Australia	**100**	100
AGL Upstream Gas (Mos) Pty Limited	(a)	Australia	**100**	100
AGL Cooper Basin Pty Ltd	(a)	Australia	**100**	100
AGL Gas Storage Pty Ltd	(a)	Australia	**100**	100
AGL Upstream Infrastructure Investments Pty Limited	(a)	Australia	**100**	100
AGL Upstream Investments Pty Limited	(a)	Australia	**100**	100
AGL Wholesale Gas Limited	(a)	Australia	**100**	100
AGL Wholesale Gas (SA) Pty Limited	(a)	Australia	**100**	100
Barker Inlet Trust	(a)	Australia	**100**	100
Barn Hill Wind Farm Pty Ltd	(a)	Australia	**100**	100

27. Subsidiaries (cont.)

Name of subsidiary	Note	Country of incorporation	Ownership interest and voting power held 2021 %	2020 %
Click Energy Group Holdings Pty Limited	(a)(c)	Australia	**100**	-
Click Energy Pty Limited	(a)(c)	Australia	**100**	-
On the Move Pty Limited	(a)(c)	Australia	**100**	-
A.C.N 133 799 149 Pty Limited	(a)(c)	Australia	**100**	-
M2C Services Pty Limited	(a)(c)	Australia	**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
GRCI Australia Pte Ltd		Singapore	**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
Perth Energy Holdings Pty Limited	(a)	Australia	**100**	100
Perth Energy Pty Limited	(a)	Australia	**100**	100
WA Power Exchange Pty Limited	(a)	Australia	**100**	100
Western Energy Holdings Pty Limited	(a)	Australia	**100**	100
Western Energy Pty Limited	(a)	Australia	**100**	100
Powerdirect Pty Ltd	(a)	Australia	**100**	100
Silverton Wind Farm Holdings Pty Limited	(a)	Australia	**100**	100
Silverton Wind Farm Developments Pty Limited	(a)	Australia	**100**	100
Silverton Wind Farm Transmission Pty Limited	(a)	Australia	**100**	100
Southern Phone Company Limited	(a)	Australia	**100**	100
The Australian Gas Light Company	(a)	Australia	**100**	100
Wellington North Solar Farm Pty Limited	(d)	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 31.

(b) Parties to a Deed of Cross Guarantee with AGL Generation Proprietary Limited as detailed in Note 31.

(c) Acquired during the financial year as detailed in Note 28.

(d) Sold on 13 July 2020.

(e) Incorporated on 17 June 2021.

28. Acquisition of subsidiaries and businesses

2021

Acquisition of Click Energy Group Holdings Pty Limited

On 30 September 2020, AGL completed the purchase of 100% of the outstanding share capital of Click Energy Group Holdings Pty Ltd, a wholly owned subsidiary of ASX-listed amaysim Australia Limited, for $109 million. The acquisition includes approximately 215,000 energy services to customers, increasing AGL's total services provided to almost 4.2 million services to homes and businesses across Australia.

Acquisition of SEGH Pty Limited

On 31 March 2021, AGL completed the purchase of 100% of the outstanding share capital of SEGH Pty Limited. Solgen operates a large solar wholesale distribution, engineering, procurement and construction (EPC) business, delivering more than 15,000 projects in the past decade.

Acquisition of Epho Holding Pty Limited

On 31 March 2021, AGL completed the purchase of 100% of the outstanding share capital of Epho Holding Pty Limited. Epho specialises in the construction and maintenance of large-scale solar systems and has delivered more than 400 projects nationwide.

Acquisition of OVO Energy Pty Limited

On 29 March 2021, AGL completed the purchase of 51% of the outstanding share capital of OVO Energy Pty Ltd. As part of the agreement, OVO Energy Australia will work to adapt Kaluza, an AI-enabled platform, for Australia and serve a growing customer base with innovative products and services.

2020

Acquisition of Perth Energy Holdings Pty Limited

On 2 September 2019, AGL completed the purchase of 100% of the outstanding share capital of Perth Energy Holdings Pty Ltd based on an enterprise value of $93 million. Perth Energy was Western Australia's leading independent energy retailer, marketing electricity and gas to small and medium size enterprises and commercial and industrial users. The business also owns and operates the 120 MW Kwinana Swift dual fuel peaking power station.

Acquisition of Southern Phone Company Limited

On 18 December 2019, AGL completed the purchase of 100% of the outstanding share capital of Southern Phone Company Limited for consideration of $28 million. Southern Phone Company is a provider of fixed line, mobile and internet communications services in regional Australia with 167,000 broadband and mobile accounts nationwide.

29. Disposal of subsidiaries and businesses

2021

On 13 July 2020, AGL completed the divestment of Wellington North Solar Farm Pty Limited.

2020

There were no disposals of subsidiaries and businesses made during the year ended 30 June 2020.

30. Joint operations

Joint operation	Principal activities	Interest 2021 %	Interest 2020 %
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 - ATP 701, 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	**16.67**	16.67
PL 15	Gas production	**75**	75
PL 30 (Riverslea)	Oil production	**10**	10
PL 74 (Major)	Oil production	**16**	16
Others			
North Queensland Energy Joint Venture	Sale of gas and electricity	**50**	50

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.

	2021 $m	2020 $m
Current assets		
Cash and cash equivalents	**1**	4
Trade and other receivables	**1**	3
Total current assets	**2**	7
Non-current assets		
Property, plant and equipment	**-**	1
Total non-current assets	**-**	1
Total assets	**2**	8

AGL's share of capital expenditure commitments and contingent liabilities of joint operations are disclosed in Notes 24 and 25 respectively.

ACCOUNTING POLICY

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 accounting standards applicable to the particular assets, liabilities, revenues and expenses.

31. Deeds of cross guarantee

The wholly-owned Australian subsidiaries identified in Note 27 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 during FY21:

- Click Energy Group Holdings Pty Limited, Click Energy Pty Limited, On the Move Pty Limited, A.C.N 133 799 149 Pty Limited and M2C Services Pty Limited pursuant to an Assumption Deed dated 2 October 2020;
- Epho Holding Pty Limited, Epho Services Pty Limited, Epho Pty Limited, Epho Asset Management Pty Limited and BTPS 1 Pty Limited pursuant to an Assumption Deed dated 10 May 2021;
- SEGH Pty Limited, Solgen Energy Pty Limited, Sol Install Pty Limited, Sol Distribution Pty Limited, Sunlease Pty Limited and SolarServe Pty Limited pursuant to an Assumption Deed dated 10 May 2021.

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	
	2021 $m	2020 $m Restated	2021 $m	2020 $m
Revenue	**8,769**	10,164	**-**	-
Other income	**330**	200	**-**	-
Expenses	**(10,971)**	(9,905)	**-**	-
Share of profits of associates and joint ventures	**9**	17	**136**	53
Profit before net financing costs, depreciation and amortisation	**(1,863)**	476	**136**	53
Depreciation and amortisation	**(490)**	(504)	**-**	-
(Loss)/profit before net financing costs	**(2,353)**	(28)	**136**	53
Finance income	**60**	64	**1**	1
Finance costs	**(267)**	(190)	**(1)**	(1)
Net financing costs	**(207)**	(126)	**-**	-
(Loss)/profit before tax	**(2,560)**	(154)	**136**	53
Income tax benefit/(expense)	**797**	203	**(41)**	(154)
(Loss)/profit for the year	**(1,763)**	49	**95**	(101)

Statement of comprehensive income

(Loss)/profit for the period	**(1,763)**	49	**95**	(101)
Other comprehensive income				
Items that will not be reclassified subsequently to profit or loss				
Remeasurement loss on defined benefit plans	**68**	(3)	**14**	(5)
Fair value gain on the revaluation of equity instrument financial assets	**66**	3	**-**	-
Income tax relating to items that will not be reclassified subsequently	**(40)**	(4)	**(4)**	1
	94	(4)	**10**	(4)
Items that may be reclassified subsequently to profit or loss				
Cash flow hedges	**73**	(35)	**-**	-
Cost of hedging subject to basis adjustment	**(2)**	(3)	**-**	-
Income tax relating to items that may be reclassified subsequently	**(21)**	21	**-**	-
	50	(17)	**-**	-
Other comprehensive (loss)/income for the year, net of income tax	**144**	(21)	**10**	(4)
Total comprehensive income for the year	**(1,619)**	28	**105**	(105)

31. Deeds of cross guarantee (cont.)

Statement of financial position

	AGL Energy Limited		AGL Generation Pty Ltd	
	2021 $m	2020 $m Restated	2021 $m	2020 $m
Current assets				
Cash and cash equivalents	68	113	-	-
Trade and other receivables	1,626	1,366	-	-
Inventories	342	320	-	-
Current tax assets	245	103	-	-
Other financial assets	125	64	-	-
Other assets	79	69	-	-
Assets classified as held for sale	223	-	-	-
Total current assets	2,708	2,035	-	-
Non-current assets				
Trade and other receivables	81	25	-	-
Inventories	46	59	-	-
Other financial assets	2,789	2,723	3,810	3,650
Investments in associates and joint ventures	117	135	-	-
Property, plant and equipment	2,741	3,218	-	-
Intangible assets	2,280	2,724	-	-
Deferred tax assets	1,053	392	-	-
Other assets	16	3	-	-
Total non-current assets	9,123	9,279	3,810	3,650
Total assets	11,831	11,314	3,810	3,650
Current liabilities				
Trade and other payables	1,570	1,081	-	-
Borrowings	295	29	-	-
Provisions	224	238	-	-
Current tax liabilities	71	-	217	143
Other financial liabilities	957	979	-	-
Other liabilities	10	9	-	-
Total current liabilities	3,127	2,336	217	143
Non-current liabilities				
Borrowings	2,779	2,962	-	-
Provisions	1,090	337	-	-
Deferred tax liabilities	-	-	234	256
Other financial liabilities	1,507	106	69	66
Other liabilities	123	143	-	-
Total non-current liabilities	5,499	3,548	303	322
Total liabilities	8,626	5,884	520	465
Net assets	3,205	5,430	3,290	3,185
Equity				
Issued capital	5,601	5,603	2,878	2,878
Reserves	15	(50)	-	-
(Accumulated losses)/retained earnings	(2,411)	(123)	412	307
Total equity	3,205	5,430	3,290	3,185

31. Deeds of cross guarantee (cont.)

Summary of movements in (accumulated losses)/retained earnings

	AGL Energy Limited		AGL Generation Pty Ltd	
	2021 $m	2020 $m Restated	2021 $m	2020 $m
(Accumulated losses)/retained earnings at beginning of financial year	**(123)**	554	**307**	412
Profit for the year	**(1,763)**	49	**95**	(101)
Dividends paid	**(573)**	(719)	**-**	-
Remeasurement gain/(loss) on defined benefit plans, net of tax	**48**	(7)	**10**	(4)
(Accumulated losses)/retained earnings at end of financial year	**(2,411)**	(123)	**412**	307

32. 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.

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

	2021 $m	2020 $m
Current service cost	**17**	19
Net interest expense	**4**	5
Expense recognised in profit or loss as part of employee benefits expenses	**21**	24

Amounts recognised in other comprehensive income

Remeasurements		
Return on plan assets (excluding amounts included in net interest expense)	**(65)**	4
Actuarial gain/(loss) arising from changes in demographic assumptions	**5**	(1)
Actuarial (gain) arising from changes in financial assumptions	**(34)**	(4)
Actuarial (gain) arising from experience	**(3)**	(11)
Remeasurement (gain) on defined benefit plans recognised in other comprehensive income	**(97)**	(12)

32. Defined benefit superannuation plans (cont.)

Amounts included in the Consolidated Statement of Financial Position

	Note	2021 $m	2020 $m
Present value of funded defined benefit obligations		**757**	769
Fair value of plan assets		**(691)**	(614)
Net defined benefit liability		**66**	155

Recognised in the Consolidated Statement of Financial Position as follows:			
Defined benefit superannuation plan asset	12	**(25)**	(3)
Defined benefit superannuation plan liability	21	**91**	158
Net defined benefit liability		**66**	155

Net liability at beginning of financial year	**155**	145
Transfer to defined contribution superannuation plans	**3**	6
Expense recognised in profit or loss	**21**	24
Amounts recognised in other comprehensive income	**(97)**	(12)
Employer contributions	**(16)**	(8)
Net liability at end of financial year	**66**	155

Movements in the present value of defined benefit obligations

Opening defined benefit obligations	**769**	796
Current service cost	**20**	26
Interest expense	**20**	22
Contributions by plan participants	**6**	6
Actuarial gain/(loss) arising from changes in demographic assumptions	**5**	(1)
Actuarial gain arising from changes in financial assumptions	**(34)**	(4)
Actuarial gain arising from experience	**(3)**	(11)
Benefits paid	**(20)**	(56)
Taxes, premiums and expenses paid	**(3)**	(3)
Contributions to accumulation section	**(3)**	(6)
Closing defined benefit obligations	**757**	769

Movements in the fair value of plan assets

Opening fair value of plan assets	**614**	651
Interest income	**16**	18
Return/(loss) on plan assets (excluding amounts included in net interest expense)	**65**	(4)
Employer contributions	**16**	8
Contributions by plan participants	**6**	6
Benefits paid	**(20)**	(56)
Taxes, premiums and expenses paid	**(3)**	(3)
Transfer to defined contribution superannuation plans	**(3)**	(6)
Closing fair value of plan assets	**691**	614

32. 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:

2021	EF %	EISS %	SSS, SASS, and SANCS %
Australian equities	**18**	**24**	**20**
International equities	**20**	**22**	**33**
Fixed interest securities	**16**	**17**	**6.0**
Property	**8**	**13**	**8.0**
Cash	**11**	**7**	**12**
Alternatives/other	**27**	**17**	**21**
2020			
Australian equities	15	22	18
International equities	20	25	30
Fixed interest securities	16	18	8
Property	7	13	8
Cash	13	6	10
Alternatives/other	29	16	26

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:

2021	EF %	EISS %	SSS, SASS, & SANCS %
Discount rate active members	**2.9**	**2.9**	**3.2**
Discount rate pensioners	**2.9**	**2.9**	**-**
Expected salary increase rate	**2.5**	**3.5**	**2.4**
Expected pension increase rate	**2.0**	**2.0**	**-**
2020			
Discount rate active members	2.6	2.6	3.1
Discount rate pensioners	2.6	2.6	-
Expected salary increase rate	2.5 - 3.5	2.5	3.2
Expected pension increase rate	2.3	2.3	-

32. 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 2021 $m	Decrease 2021 $m	Increase 2020 $m	Decrease 2020 $m
Discount rate (0.5 percentage point movement)	**(43)**	**47**	(46)	50
Expected salary increase rate (0.5 percentage point movement)	**15**	**(15)**	17	(16)
Expected pension increase rate (0.5 percentage point movement)	**14**	**(13)**	11	(10)

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 $14 million to the defined benefit plans during the year ending 30 June 2022.

The weighted average duration of the defined benefit obligation as at 30 June 2021 was EF 11 years; EISS 11 years; and SSS, SASS and SANCS 13 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 2021 was $44 million (2020: $43 million).

ACCOUNTING POLICY

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.

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.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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.

33. 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
2021					
28 September 2020	**-**	**233,496**	**$14.39**	**(6,486)**	**227,010**
28 September 2019	**137,475**	**-**	**-**	**(11,799)**	**125,676**
28 September 2018	**128,076**	**-**	**-**	**(22,784)**	**105,292**
29 September 2017	**76,836**	**-**	**-**	**(26,129)**	**50,707**
Total Share Reward Plan shares	**342,387**	**233,496**		**(67,198)**	**508,685**
2020					
28 September 2019	-	145,277	$19.08	(7,802)	137,475
28 September 2018	138,424	-	-	(10,348)	128,076
29 September 2017	81,586	-	-	(4,750)	76,836
30 September 2016	95,452	-	-	(95,452)	-
Total Share Reward Plan shares	315,462	145,277		(118,352)	342,387

The expense recognised in profit or loss, as part of employee benefits expense during the year in relation to the SRP, was $3 million (2020: $3 million).

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 four-year performance period (prior to FY20, a three-year performance period applied). 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.

In FY20, the LTI performance period was extended from three years to four years to better reflect the business planning cycle. To ensure executives a smooth transition to the extension of the performance period, a Bridging Grant was made at the same quantum as the FY20 LTI to supplement the new four-year grant by providing an opportunity for LTI vesting every year. The Bridging Grant will be tested after three years. The Bridging Grant is a one-off grant; in FY21, no further bridging arrangements were made. The Bridging Grant is not applicable for new/incoming executives.

33. Share-based payment plans (cont.)

Current LTI Plans

For the FY20 and FY19 plans, the performance rights are subject to two performance hurdles, weighted equally, based on:

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

For the FY21 plan, the performance rights are subject to three performance hurdles, weighted equally, based on:

- Relative Total Shareholder Return (Relative TSR);
- Return on Equity (ROE); and
- Carbon Transition metrics

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.

Carbon Transition is calculated through three transition metrics. These metrics are based off emissions intensity, controlled renewable capacity and green and carbon neutral revenue.

The performance period for the outstanding LTI plans as at 30 June 2021 are as follows:

- FY21: Four years from 1 July 2020 to 30 June 2024
- FY20: Four years from 1 July 2019 to 30 June 2023
- FY20: Bridging Grant: Three years from 1 July 2019 to 30 June 2022
- FY19: Three years from 1 July 2018 to 30 June 2021

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			
LTI Plan	FY21	FY20	FY20 Bridging Grant	FY19
Below 50th percentile	Nil	Nil	Nil	Nil
50th – 75th percentile	50 – 100%	50 – 100%	50 – 100%	50 – 100%
At or above 75th percentile	100%	100%	100%	100%

ROE vesting schedule

Percentage of performance rights which vest	AGL's average ROE per LTI plan			
LTI plan	FY21	FY20	FY20 Bridging Grant	FY19
Nil	Below 5.0%	Below 8.5%	Below 8.5%	Below 10%
50 – 90%	5.0% - 6.5%	8.5% – 10.5%	8.5% – 10.5%	10% – 12%
90 – 100%	6.5% - 8.0%	10.5% – 12.5%	10.5% – 12.5%	12% – 14%
100%	At or above 8.0%	At or above 12.5%	At or above 12.5%	At or above 14%

Carbon Transition vesting schedule

Percentage of performance rights which vest FY21	Controlled intensity in FY24	% Controlled renewable & storage capacity at 30 June 2024	Green & carbon neutral products & services in FY24
0%	above 0.895	below 28%	below 15.5%
50 - 100%	0.895 - 0.845	28% - 34%	15.5% - 20%
100%	below 0.845	above 34%	above 20%

Details of performance rights movements in the FY21 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
2021							
FY21 LTI – 28 Oct 2020	**Relative TSR**	-	**258,299**	**$3.86**	-	**(9,915)**	**248,384**
FY21 LTI – 28 Oct 2020	**ROE**	-	**258,299**	**$10.64**	-	**(9,915)**	**248,384**
FY21 LTI – 28 Oct 2020	**Carbon Transition**	-	**258,299**	**$10.64**	-	**(9,915)**	**248,384**
Total share rights		-	**774,897**	**$8.38**	-	**(29,745)**	**745,152**

33. Share-based payment plans (cont.)

Details of performance rights movements in the FY20 Bridging Grant LTI Plan and the FY20 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
2021							
FY20 LTI – 18 Oct 2019	**Relative TSR**	**297,945**	**-**	**$8.76**	**-**	**(58,727)**	**239,218**
FY20 LTI – 18 Oct 2019	**ROE**	**297,917**	**-**	**$16.02**	**-**	**(58,728)**	**239,189**
FY20 Bridging Grant – 18 Oct 2019	**Relative TSR**	**223,048**	**-**	**$8.63**	**-**	**(37,631)**	**185,417**
FY20 Bridging Grant – 18 Oct 2019	**ROE**	**223,030**	**-**	**$16.81**	**-**	**(37,632)**	**185,398**
Total share rights		**1,041,940**	**-**	**$12.53**	**-**	**(192,718)**	**849,222**
2020							
FY20 LTI – 18 Oct 2019	Relative TSR	-	301,573	$8.76	-	(3,628)	297,945
FY20 LTI – 18 Oct 2019	ROE	-	301,544	$16.02	-	(3,627)	297,917
FY20 Bridging Grant – 18 Oct 2019	Relative TSR	-	227,408	$8.63	-	(4,360)	223,048
FY20 Bridging Grant – 18 Oct 2019	ROE	-	227,389	$16.81	-	(4,359)	223,030
Total share rights		-	1,057,914	$12.53	-	(15,974)	1,041,940

Details of performance rights movements in the FY19 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
2021							
FY19 LTI – 24 Oct 2018	**Relative TSR**	**146,545**	**-**	**$7.18**	**-**	**(19,278)**	**127,267**
FY19 LTI – 24 Oct 2018	**ROE**	**146,520**	**-**	**$16.12**	**-**	**(19,278)**	**127,242**
FY19 LTI – 14 December 2018	**Relative TSR**	**1,392**	**-**	**$9.78**	**-**	**-**	**1,392**
FY19 LTI – 14 December 2018	**ROE**	**1,392**	**-**	**$17.13**	**-**	**-**	**1,392**
Total share rights		**295,849**	**-**	**$11.68**	**-**	**(38,556)**	**257,293**
2020							
FY19 LTI – 24 Oct 2018	Relative TSR	164,230	-	$7.18	-	(17,685)	146,545
FY19 LTI – 24 Oct 2018	ROE	164,205	-	$16.12	-	(17,685)	146,520
FY19 LTI – 14 December 2018	Relative TSR	2,779	-	$9.78	-	(1,387)	1,392
FY19 LTI – 14 December 2018	ROE	2,779	-	$17.13	-	(1,387)	1,392
Total share rights		333,993	-	$11.68	-	(38,144)	295,849

33. 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.

	2021	2020	
	FY21 LTI	FY20 LTI	FY20 Bridging Grant
Grant date	**28 Oct 2020**	18 Oct 2019	18 Oct 2019
Weighted average fair value at grant date	**$8.38**	$12.72	$12.39
Share price at grant date	**$12.93**	$19.13	$19.13
Expected volatility	**23.0%**	21.0%	21.0%
Expected dividend yield	**5.3%**	4.8%	4.8%
Risk free interest rate (based on government bonds)	**0.2%**	0.8%	0.8%

The expense recognised in profit or loss as part of employee benefits expense during the year in relation to performance rights granted to executives under the LTI Plan was nil (2020: $6 million).

Shares purchased on-market

During the financial year ended 30 June 2021, 308,720 (2020: 345,413) AGL shares were purchased on-market at an average of $14.66 (2020: $19.06) per share, for a total consideration of $4,525,545 (2020: $6,584,566), 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
2021					
Employees	**331,984**	**293,063**	**$11.06**	**(71,438)**	**553,609**
Total share purchase plan shares	**331,984**	**293,063**		**(71,438)**	**553,609**
2020					
Employees	220,272	141,479	$19.14	(29,767)	331,984
Total share purchase plan shares	220,272	141,479		(29,767)	331,984

33. 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).

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	Weighted average fair value per share $	Released during the year Number	Balance at 30 June Number
2021					
Former Managing Director and Chief Executive Officer	**21,378**	**-**	**-**	**-**	**21,378**
Employees	**28,065**	**19,964**	**$14.27**	**(35,492)**	**12,537**
Total restricted equity plan shares	**49,443**	**19,964**		**(35,492)**	**33,915**
2020					
Former Managing Director and Chief Executive Officer	3,476	21,378	$19.03	(3,476)	21,378
Employees	33,945	14,588	$18.41	(20,468)	28,065
Total restricted equity plan shares	37,421	35,966		(23,944)	49,443

Shares purchased on-market

During the financial year ended 30 June 2021, 313,027 (2020: 177,445) AGL shares were purchased on-market at an average price of $11.26 (2020: $19.06) per share, for a total consideration of $3,526,583 (2020: $3,381,877), to satisfy employee entitlements pursuant to the SPP and REP.

ACCOUNTING POLICY

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.

34. 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:

	2021 $000	2020 $000
Short-term employee benefits	**6,100**	8,666
Post-employment benefits	**227**	234
Termination benefits	**-**	1,023
Share-based payments	**686**	2,644
Total remuneration to key management personnel	**7,013**	12,567

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

Amounts owing by joint ventures and joint operations

	2021 $000	2020 $000
ActewAGL Retail Partnership	**45,189**	48,653
North Queensland Energy Joint Venture	**188**	188

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 and joint operations

	2021 $000	2020 $000
Powering Australian Renewables (PowAR)	**17,842**	16,318

The amount owing is unsecured, interest free and will be net settled in cash.

34. Related party disclosures (cont.)

Trading transactions with joint ventures and joint operations

	2021 $000	2020 $000
ActewAGL Retail Partnership		
AGL sold gas and electricity to the ActewAGL Retail Partnership on normal commercial terms and conditions.		
Net amounts received	**324,895**	373,149
Powering Australian Renewables (PowAR)		
AGL has purchased electricity and environmental products from PowAR on normal commercial terms and conditions.		
Net amounts (paid)	**(35,951)**	(18,516)
AGL received management fees from PowAR for overseeing the operation and construction of its generation assets.		
Net amounts received	**3,522**	1,762
North Queensland Energy Joint Venture		
North Queensland Energy Joint Venture (NQE) pays management fees to AGL as the operator of NQE.		
Net amounts received	**750**	750

35. 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:

	2021 $m	2020 $m
Cash at bank and on hand	**88**	100
Short-term deposits	**-**	41
Total cash and cash equivalents	**88**	141

35. Cash and cash equivalents (cont.)

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

	2021 $m	2020 $m Restated
(Loss)/profit for the year	**(2,058)**	1,007
Share of profits of associates and joint ventures	**(9)**	(17)
Dividends received from joint ventures	**23**	15
Depreciation and amortisation	**707**	720
Share-based payment expense	**-**	9
(Gain) in fair value of financial instruments	**(393)**	(308)
Net gain on disposal of property, plant and equipment	**1**	9
Non-cash finance costs	**113**	64
Capitalised finance costs	**(2)**	(9)
Impairment and onerous contract expenses	**3,737**	-
Impairment of investments in associates	**-**	14
Other non-cash expenses	**-**	6
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	**(324)**	137
(Increase) in inventories	**(1)**	(14)
(Increase) in derivative financial instruments	**(85)**	(3)
(Increase)/decrease in other financial assets	**(17)**	471
(Increase)/decrease in other assets	**(103)**	39
Increase/(decrease) in trade and other payables	**391**	(196)
(Decrease) in provisions	**(80)**	(31)
Increase in other liabilities	**54**	25
(Increase)/decrease in tax assets and liabilities	**(704)**	174
Net cash provided by operating activities	**1,250**	2,112

(c) Reconciliation of changes in liabilities arising from financing activities

Year ended 30 June 2021	Balance at beginning of financial year $m	Net proceeds/ (repayments) $m	Non-cash movements $m	Balance at end of financial year $m
Liabilities arising from financing activities				
USD senior notes	**1,164**	**-**	**(145)**	**1,019**
Medium term notes	**599**	**(599)**	**-**	**-**
Bank loans	**985**	**965**	**-**	**1,950**
CPI bonds	**75**	**(8)**	**-**	**67**
Other loans	**122**	**(122)**	**-**	**-**
Lease liabilities	**174**	**(26)**	**11**	**159**
Deferred transaction costs	**(11)**	**(4)**	**5**	**(10)**
	3,108	**206**	**(129)**	**3,185**

35. Cash and cash equivalents (cont.)

Year ended 30 June 2020	Balance at beginning of financial year $m	Net proceeds/ (repayments) $m	Non-cash movements $m	Balance at end of financial year $m
Liabilities arising from financing activities				
USD senior notes	1,054	-	110	1,164
Medium term notes	599	-	-	599
Bank loans	820	165	-	985
CPI bonds	81	(6)	-	75
Other loans	133	(11)	-	122
Lease liabilities	172	(17)	19	174
Deferred transaction costs	(9)	(5)	3	(11)
	2,850	126	132	3,108

ACCOUNTING POLICY

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 and accounts relating to dividend payments held in escrow.

36. Financial instruments

(a) Classes and categories of financial instruments and their fair values

The following table combines information about:

- Classes of financial instruments based on their nature and characteristics;
  - Amortised cost
  - Fair value through profit or loss ('FVTPL')
  - Fair value through other comprehensive income ('FVOCI')
- The carrying amounts of financial instruments;
- Fair values of financial instruments (except financial instruments when carrying amount approximates their fair value); and
- Fair value hierarchy levels of financial assets and financial liabilities for which fair value was disclosed.

36. Financial instruments (cont.)

	Carrying value						
	Financial assets			Financial liabilities			
2021 $m	FVTPL	FVOCI	Amortised cost	FVTPL	FVOCI	Amortised cost	Total
Cash and cash equivalents	-	-	88	-	-	-	88
Other financial assets	-	213	-	-	-	-	213
Trade and other receivables	-	-	1,889	-	-	-	1,889
Future deposits and margin calls	-	-	76	-	-	-	76
Derivative financial instruments	1,195	5	-	(412)	-	-	788
Borrowings	-	-	-	(969)	-	(2,057)	(3,026)
Finance lease liabilities	-	-	-	-	-	(159)	(159)
Trade and other payables	-	-	-	-	-	(1,838)	(1,838)
Deferred consideration	-	-	-	-	-	(168)	(168)
Total	1,195	218	2,053	(1,381)	-	(4,222)	(2,137)

	Carrying value						
	Financial assets			Financial liabilities			
2020 $m	FVTPL	FVOCI	Amortised cost	FVTPL	FVOCI	Amortised cost	Total
Cash and cash equivalents	-	-	141	-	-	-	141
Other financial assets	-	122	-	-	-	-	122
Trade and other receivables	-	-	1,571	-	-	-	1,571
Future deposits and margin calls	-	-	59	-	-	-	59
Derivative financial instruments	1,147	-	-	(731)	-	-	416
Borrowings	-	-	-	(1,114)	-	(1,820)	(2,934)
Finance lease liabilities	-	-	-	-	-	(174)	(174)
Trade and other payables	-	-	-	-	-	(1,351)	(1,351)
Deferred consideration	-	-	-	-	-	(187)	(187)
Total	1,147	122	1,771	(1,845)	-	(3,532)	(2,337)

(b) 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.

36. Financial instruments (cont.)

2021	Carrying Amount $m	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets					
Equity instruments at FVOCI					
Unlisted equity securities	8	-	-	8	8
Unlisted investment funds	205	-	-	205	205
Derivative financial instruments					
Cross currency swap contracts - cash flow and fair value hedges	96	-	96	-	96
Interest rate swap contracts - cash flow hedges	13	-	13	-	13
Forward foreign exchange contracts - cash flow hedges	2	-	2	-	2
Energy derivatives - economic hedges	1,084	210	214	660	1,084
Other	5	-	-	5	5
Total financial assets	**1,413**	**210**	**325**	**878**	**1,413**
Financial liabilities					
Derivative financial instruments					
Interest rate swap contracts - cash flow hedges	(37)	-	(37)	-	(37)
Forward foreign exchange contracts - cash flow hedges	(2)	-	(2)	-	(2)
Energy derivatives - economic hedges	(373)	(135)	(101)	(137)	(373)
Total financial liabilities	**(412)**	**(135)**	**(140)**	**(137)**	**(412)**

2020	Carrying Amount $m	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets					
Equity instruments at FVOCI					
Unlisted investment funds	122	-	-	122	122
Derivative financial instruments					
Cross currency swap contracts - cash flow and fair value hedges	248	-	248	-	248
Forward foreign exchange contracts - cash flow hedges	-	-	-	-	-
Energy derivatives - cash flow hedges	-	-	-	-	-
Energy derivatives - economic hedges	899	354	156	389	899
Total financial assets	1,269	354	404	511	1,269
Financial liabilities					
Derivative financial instruments					
Interest rate swap contracts - cash flow hedges	(71)	-	(71)	-	(71)
Energy derivatives - cash flow hedges	(31)	-	(31)	-	(31)
Energy derivatives - economic hedges	(629)	(227)	(347)	(55)	(629)
Total financial liabilities	(731)	(227)	(449)	(55)	(731)

Management has 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.

36. Financial instruments (cont.)

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments:

- Receivables/payables with a remaining life of less than six 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.
- The fair value of forward foreign exchange contracts is calculated as the present value of expected 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. 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.
- 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.
- 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.
- The fair value of lease liabilities is estimated as the present value of future cash flows discounted where the effect of discounting is material.
- 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.

	2021 $m	2020 $m
Opening balance	**456**	255
Total gains or losses recognised in profit or loss		
Settlements during the year	**33**	(132)
Changes in fair value	**229**	277
Acquisition	**(7)**	-
Transfer from Level 3 to Level 2[1]	**-**	50
Premiums	**5**	(23)
Purchases	**25**	29
Closing balance	**741**	456

1. Contract fell into observable market curve during the financial year.

The total gains or losses for the year included a gain of $189 million relating to energy derivative Level 3 contracts held at the end of the reporting period (2020: a gain of $172 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 4.

The sensitivity of Level 3 contracts with significant unobservable inputs, where the inputs are higher by 10 percent is $(166) million and lower by 10 percent is $166 million (profit after tax increase/(decrease)). Input changes were applied to forward prices with references to electricity market and emissions schemes, cost-based indexes, contract volumes and management's assumptions on long-term commodity curves.

(c) 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 2020.

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.

36. Financial instruments (cont.)

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:

	2021 $m	2020 Restated $m
Current borrowings	**305**	38
Non-current borrowings	**2,880**	3,070
Total borrowings	**3,185**	3,108
Adjustment for cross currency swap hedges and deferred borrowing costs	**(100)**	(244)
Adjusted total borrowings	**3,085**	2,864
Cash and cash equivalents	**(88)**	(141)
Net debt	**2,997**	2,723
Total equity	**5,506**	7,972
Hedge reserve	**25**	74
Adjusted equity	**5,531**	8,046
Net debt	**2,997**	2,723
Adjusted total capital	**8,528**	10,769
Gearing ratio	**35.1%**	25.3%

(d) 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.

(e) Interest rate risk management

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

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

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

Floating rate instruments	2021 $m	2020 $m
Financial assets		
Cash and cash equivalents	**88**	141
Total financial assets	**88**	141
Financial liabilities		
USD senior notes (after effect of cross currency swaps)	**860**	860
Bank loans	**1,950**	985
Other loans	**-**	122
Interest rate swap contracts	**(1,600)**	(1,555)
Total financial liabilities	**1,210**	412

36. Financial instruments (cont.)

Interest rate swap contracts - cash flow hedges

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

Outstanding hedging instruments cash flow hedge - receive floating, pay fixed contracts	Average contracted fixed interest rate		Notional principal amount		Carrying value of outstanding hedging instruments	
	2021 %	2020 %	2021 $m	2020 $m	2021 $m	2020 $m
Less than 1 year	**2.65**	3.47	**255**	345	**(5)**	(7)
1 to 2 years	**1.60**	2.85	**470**	405	**(8)**	(17)
2 to 3 years	**1.63**	2.66	**400**	270	**(10)**	(15)
3 to 4 years	**0.65**	2.92	**50**	200	**-**	(12)
4 to 5 years	**1.24**	0.65	**50**	50	**(1)**	(1)
5 years or more	**1.34**	1.16	**875**	625	**-**	(19)
Total			**2,100**	1,895	**(24)**	(71)

	Financial year	2021 $m	2020 $m
Aggregate notional amount of variable rate borrowings		**2,100**	1,895
Aggregate notional principal of the outstanding interest rate swaps		**2,100**	1,895
Included in this amount:			
Forward interest rate swap contracts		**500**	340
Of which:			
Commences in	**2021**	**-**	40
Commences in	**2022**	**150**	150
Commences in	**2023**	**100**	100
Commences in	**2024**	**200**	-
Commences in	**2025**	**50**	50

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, some hedges have been de-designated due to forecast change. All underlying forecast transactions remain highly probable.

36. Financial instruments (cont.)

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)	
	2021 $m	2020 $m	2021 $m	2020 $m
Interest rates +0.5% (50 basis points)	(4)	-	4	(5)
Interest rates -0.5% (50 basis points)	4	-	(4)	5

(f) 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 $2 million and to not enter into forward foreign exchange contracts until a firm commitment is in place.

AGL enters into contracts to purchase plant and equipment denominated in foreign currencies. AGL enters into forward foreign exchange contracts to hedge the exchange rate risk arising from these anticipated future purchases, which are designated as cash flow hedges. During the year, no hedges were de-designated and all underlying forecast transactions remain highly probable to occur as per original forecast.

There were $139 million of forward foreign exchange contracts outstanding at the end of the reporting period (2020: $27 million). The fair value of those contracts is not material.

	Average exchange rate		Contract value (foreign currency)		Contract value (local currency)		Carrying value of outstanding hedging instruments	
Cash Flow Hedge - Outstanding contracts	2021	2020	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m
Buy JPY								
0 to 6 months	72.41	-	1,002	-	14	-	(2)	-
6 - 12 months	72.08	72.82	300	1,903	4	26	(1)	-
1 - 2 years	71.24	71.53	100	100	1	1	-	-
Buy US dollars								
0 to 6 months	0.76	-	90	-	117	-	2	-
Buy Euro								
0 to 6 months	0.63	-	2	-	3	-	-	-
Sell US dollars								
0 to 6 months	-	0.686	-	1	-	2	-	-

36. Financial instruments (cont.)

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 2021 was an asset of $96 million (2020: asset of $248 million), of which $54 million (2020: $141 million) is in a cash flow hedge relationship, $43 million (2020: $106 million) is in a fair value hedge relationship and $(1) million (2020: $1 million) relates to the currency basis of the cross currency swaps.

The following tables detail the cross currency swap contracts in hedges outstanding at the end of the reporting period:

	Average interest rate		Average exchange rate		Contract value (foreign currency)		Contract value (local currency)		Fair value/ carrying amount	
Outstanding contracts	2021 %	2020 %	2021	2020	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m
Buy US dollars										
1 to 5 years	**2.72**	3.33	**0.888**	0.888	**300**	165	**338**	186	**86**	68
5 years or more	**2.73**	3.31	**0.757**	0.787	**395**	530	**522**	674	**10**	180

Foreign currency exchange rate sensitivity

The following sensitivity analysis has been determined based on the exposure to foreign currency exchange 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 the Australian dollar had weakened or strengthened by 10% against the respective foreign currencies where all other variables remain 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)	
	2021 $m	2020 $m	2021 $m	2020 $m
AUD exchange rates +10.0%	**-**	-	**(16)**	(11)
AUD exchange rates -10.0%	**-**	-	**20**	14

(g) 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.

36. Financial instruments (cont.)

The following table details the fair value of energy derivatives outstanding at the end of the reporting period:

	2021 $m	2020 $m
Energy derivative financial assets - current		
Energy derivatives - economic hedges	**447**	568
	447	568
Energy derivative financial assets - non-current		
Energy derivatives - economic hedges	**637**	331
	637	331
Energy derivative financial liabilities - current		
Energy derivatives - cash flow hedges	**-**	31
Energy derivatives - economic hedges	**264**	580
	264	611
Energy derivative financial liabilities - non-current		
Energy derivatives - economic hedges	**109**	49
	109	49

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 2021 were nil MWh (2020: 1 million MWh). Energy derivatives are either designated in cash flow hedge relationships or remain non-designated. AGL will only apply hedge accounting to existing energy hedge relationships and will not apply hedge accounting to any new energy derivative arrangements.

	Average purchase price		Quantity		Carrying value of outstanding hedging instruments	
Hedging instruments - outstanding contracts	2021 $	2020 $	2021 m MWh	2020 m MWh	2021 $m	2020 $m
Buy electricity	-	76.18	-	1	-	(59)

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 9 *Financial Instruments*. 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 (loss)/gain on fair value of financial instruments.

36. Financial instruments (cont.)

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)	
	2021 $m	2020 $m	2021 $m	2020 $m
Energy forward price +10%	**(127)**	(126)	**-**	2
Energy forward price -10%	**130**	124	**-**	(2)

The movement in profit after tax is mainly attributable to an increase/decrease in the fair value of certain energy derivative instruments which are not hedge accounted by AGL. The movement in other comprehensive income is due to the reclassification and/or amortisation of historical hedge accounted derivatives.

(h) Hedge effectiveness

The following table details the effectiveness of the hedging relationships and the amounts reclassified from hedging reserve to profit or loss:

	Cash flow hedges				Fair Value Hedges
2021	USD CCIRS $m	IRS $m	FX $m	Energy $m	USD CCIRS $m
Carrying amount of the hedging instrument					
- Assets	**54**	**13**	**2**	**-**	**43**
- Liabilities	**-**	**(37)**	**(3)**	**-**	**-**
Total carrying amount of the hedging instrument	**54**	**(24)**	**(1)**	**-**	**43**
Change in value of hedging instrument	**(87)**	**47**	**(1)**	**31**	**(63)**
Change in value of hedged item	**87**	**(47)**	**1**	**(31)**	**66**
Change in value of the hedging instrument recognised in reserve	**(16)**	**18**	**-**	**-**	**n/a**
Amount recognised in profit or loss on discontinued hedge relationships	**-**	**2**	**-**	**-**	**-**
Hedge ineffectiveness recognised in profit or loss[1]	**-**	**-**	**-**	**-**	**(3)**
Amount reclassified from hedge reserve to profit or loss[2]	**(71)**	**29**	**-**	**31**	**n/a**
Balance in cash flow hedge reserve for continuing hedges	**(15)**	**(20)**	**-**	**-**	**n/a**

1. Included in the line item 'Gain on fair value of financial instruments' within other expenses in the Consolidated Statement of Profit or Loss.
2. The profit or loss from foreign exchange movement of hedging instrument largely offsets by the profit or loss from the foreign exchange movement of the borrowings in an effective hedge relationship.

36. Financial Instruments (cont.)

	Cash flow hedges				Fair Value Hedges
2020	USD CCIRS $m	IRS $m	FX $m	Energy $m	USD CCIRS $m
Carrying amount of the hedging instrument					
- Assets	141	-	-	-	106
- Liabilities	-	(70)	-	(31)	-
Total carrying amount of the hedging instrument	141	(70)	-	(31)	106
Change in value of hedging instrument	24	(13)	(1)	(59)	90
Change in value of hedged item	(24)	13	1	59	(93)
Change in value of the hedging instrument recognised in reserve	15	(33)	(1)	(27)	n/a
Amount recognised in profit or loss on discontinued hedge relationships	-	-	-	-	-
Hedge ineffectiveness recognised in profit or loss[1]	-	(1)	-	-	3
Amount reclassified from hedge reserve to profit or loss[2]	9	20	-	(32)	n/a
Balance in cash flow hedge reserve for continuing hedges	(7)	(70)	-	(31)	n/a

1. Included in the line item 'Gain on fair value of financial instruments' within other expenses in the Consolidated Statement of Profit or Loss.
2. The profit or loss from foreign exchange movement of hedging instrument largely offsets by the profit or loss from the foreign exchange movement of the borrowings in an effective hedge relationship.

(i) 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 3.95 million residential, small business and large commercial and industrial services to customers, in New South Wales, Victoria, South Australia, Queensland and Western Australia. Ongoing credit evaluation is performed on the financial condition of customers and, where appropriate, an allowance for expected credit loss 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.

(j) 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.

36. Financial instruments (cont.)

2021	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	1,838	-	-	-	-	1,838
USD senior notes	22	22	257	272	678	1,251
Bank loans	12	287	201	1,549	-	2,049
CPI bonds	6	6	13	40	14	79
Lease liabilities	14	14	27	57	230	342
Deferred consideration	-	37	38	121	42	238
	1,892	366	536	2,039	964	5,797

2020	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	1,351	-	-	-	-	1,351
USD senior notes	23	23	47	349	962	1,404
Medium term notes	15	15	615	-	-	645
Bank loans	7	7	90	953	-	1,057
CPI bonds	6	6	12	39	28	91
Other loans	7	7	14	40	74	142
Lease liabilities	10	10	22	67	234	343
Deferred consideration	2	37	37	118	84	278
	1,421	105	837	1,566	1,382	5,311

36. 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.

2021	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	**(12)**	**(12)**	**(208)**	**(228)**	**(626)**	**(1,086)**
Cross currency swap contracts - receive leg	**20**	**20**	**255**	**265**	**626**	**1,186**
Net receive/(pay)	**8**	**8**	**47**	**37**	**-**	**100**
Net settled						
Interest rate swap contracts	**(14)**	**(12)**	**(11)**	**(7)**	**-**	**(44)**
Forward foreign exchange contracts	**(2)**	**(1)**	**-**	**-**	**-**	**(3)**
Energy derivatives	**(147)**	**(164)**	**(157)**	**(172)**	**(124)**	**(764)**
	(155)	**(169)**	**(121)**	**(142)**	**(124)**	**(711)**

2020	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	(12)	(12)	(25)	(252)	(781)	(1,082)
Cross currency swap contracts - receive leg	22	22	44	342	908	1,338
Net receive/(pay)	10	10	19	90	127	256
Net settled						
Interest rate swap contracts	(17)	(14)	(22)	(20)	(2)	(75)
Energy derivatives	(198)	(161)	(195)	(121)	(49)	(724)
	(205)	(165)	(198)	(51)	76	(543)

36. Financial instruments (cont.)

ACCOUNTING POLICY

Financial assets

Non-derivative financial assets

Classification

AGL classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on AGL's business model for managing financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether AGL has made an irrevocable election at the time of initial recognition to account for the equity instrument at fair value through other comprehensive income. AGL reclassifies debt investments when and only when its business model for managing those assets changes.

Measurement

At initial recognition, AGL measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on AGL's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which AGL classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt instrument that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.
- Fair value through other comprehensive income (FVOCI): Assets that are held for collecting contractual cash flows and through sale on specified dates. A gain or loss on a debt investment that is subsequently measured at FVOCI is recognised in other comprehensive income.
- Fair value through profit or loss (FVTPL): Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented net in the statement of profit or loss within other gains/(losses) in the period in which it arises.

Equity instruments

On initial recognition, AGL elects to classify each equity instrument as FVTPL or FVOCI. AGL subsequently measures all equity investments at fair value. Where AGL has elected to present fair value gains or losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains or losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when AGL's right to receive payments is established. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value. Changes in the fair value of equity instrument financial assets classified as FVTPL are recognised in expenses in the statement of profit or loss as applicable.

Derivative financial instruments

Derivative financial instruments are stated at fair value, with changes in fair value recognised in the statement of profit or loss. Where derivative financial instruments qualify for hedge accounting, recognition of changes in fair value depends on the nature of the item being hedged. Hedge accounting is discontinued when the hedging relationship is revoked, the hedging instrument expires, is sold, terminated, exercised, or no longer qualifies for hedge accounting.

AGL documents at the inception of the hedging transaction the economic relationship between hedging instruments and hedged items including whether the instrument is expected to offset changes in cash flows of hedged items. AGL documents its risk management objective and strategy for undertaking various hedge transactions at the inception of each hedge relationship.

Fair value hedge

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.

36. Financial instruments (cont.)

ACCOUNTING POLICY

Hedge accounting is discontinued 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 hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity, limited to the cumulative change in fair value of the hedged item on a present value basis from the inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within other expenses.

When option contracts are used to hedge forecast transactions, AGL may elect to designate only the intrinsic value of the option contract as the hedging instrument. Gains or losses relating to the effective portion of the change in intrinsic value of the option contracts are recognised in the cash flow hedge reserve in equity. Gains or losses related to the time value element of the option are recognised in a cost of hedging reserve.

When cross-currency contracts are used to hedge forecast transactions, AGL may elect to designate only the change in fair value of the cross-currency contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the cross-currency contracts are recognised in the cash flow hedge reserve in equity. The change in the currency basis spread element of the contract that relates to the hedged item is recognised within other comprehensive income in the costs of hedging reserve within equity. In some cases, AGL may designate the full change in fair value of the cross-currency contract (including currency basis spread) as the hedging instrument. In such cases, the gains or losses relating to the effective portion of the change in fair value of the entire cross-currency contract are recognised in the cash flow hedge reserve within equity.

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss, as follows:

- The gain or loss relating to the effective portion of hedge contracts are ultimately recognised in profit or loss as the hedged item affects profit or loss within expenses.
- The gain or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings is recognised in profit or loss within 'finance costs'.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss. Hedge ineffectiveness is recognised in profit or loss within other expenses.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2021

37. 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.

Financial position

	2021 $m	2020 $m Restated
Assets		
Current assets	**301**	278
Non-current assets	**13,902**	12,947
Total assets	**14,203**	13,225
Liabilities		
Current liabilities	**544**	297
Non-current liabilities	**9,245**	6,924
Total liabilities	**9,789**	7,221
Equity		
Issued capital	**5,601**	5,603
Reserves		
Employee equity benefits reserve	**(1)**	-
Hedge reserve	**(25)**	(53)
Retained earnings	**(1,161)**	454
Total equity	**4,414**	6,004

Financial performance

Profit for the year	**(1,047)**	740
Other comprehensive Income/(loss)	**2**	(8)
Total comprehensive income for the year	**(1,045)**	732

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 27 and 31 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 2021, the Parent Entity had commitments for the acquisition of property, plant and equipment of $4 million (2020: $3 million) and its share of joint operations capital commitments was nil (2020: nil).

Notes to the Consolidated Financial Statements

For the year ended 30 June 2021

38. Summary of other 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 1.

(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 12 August 2021.

(b) Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for derivative financial instruments and equity instrument 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 for the first time for the financial year commencing 1 July 2020. These did 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) Foreign currency transactions and balances

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

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

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

(f) Standards and Interpretations on issue not yet adopted

The following accounting standards, accounting standard amendments and interpretations are due for adoption for the year ending 30 June 2023:

- AASB 2014-10 *Amendments to Australian Accounting Standards: Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture (AASB 10 and AASB 128)*
- AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments (AASB 1, AASB 3, AASB 9, AASB 116, AASB 137and AASB 141)*

The standards and interpretations listed above are not expected to have a material impact on AGL's financial results or financial position on adoption.

(g) Change in accounting policy

Following clarifying guidance from the International Financial Reporting Interpretations Committee (IFRIC), AGL adopted a change in accounting policy in relation to the treatment of configuration and customisation costs related to cloud computing arrangements, commonly referred to as Software as a Service (SaaS). Under the revised accounting policy, costs that would have been previously capitalised are treated as operating expenditure where the entity cannot demonstrate the ability to control the relevant software. In accordance with Australian Accounting Standards the change in accounting policy has been adopted retrospectively and prior comparative periods have been restated. The tables below show the impact of the change in accounting policy on previously reported financial results:

Impact on Consolidated Statement of Financial Position

	30 June 2020 $m	SaaS Restatement $m	**Restated 30 June 2020 $m**	30 June 2019 $m	SaaS Restatement $m	**Restated 30 June 2019 $m**
Assets						
Intangible assets software at cost	1,288	(216)	**1,072**	1,072	(172)	**900**
Accumulated amortisation	(748)	68	**(680)**	(569)	35	**(534)**
Deferred tax asset	252	45	**297**	261	42	**303**
Net Assets	8,075	(103)	**7,972**	8,438	(95)	**8,343**
Equity						
Retained earnings	2,552	(103)	**2,449**	2,248	(95)	**2,153**
Total equity	8,075	(103)	**7,972**	8,438	(95)	**8,343**

Impact on Consolidated Statement of Comprehensive Income

	30 June 2020 $m	SaaS Restatement $m	**Restated 30 June 2020 $m**	30 June 2019 $m	SaaS Restatement $m	**Restated 30 June 2019 $m**
Expenses	(9,820)	(44)	**(9,864)**	(11,236)	(75)	**(11,311)**
Depreciation and amortisation	(753)	33	**(720)**	(625)	15	**(610)**
Profit before tax	1,425	(11)	**1,414**	1,279	(60)	**1,219**
Income tax expense	(410)	3	**(407)**	(374)	18	**(356)**
Profit attributable to the shareholders of AGL Energy Limited	1,015	(8)	**1,007**	905	(42)	**863**

Impact on Consolidated Statement of Cash Flows

	30 June 2020 $m	SaaS Restatement $m	**Restated 30 June 2020 $m**	30 June 2019 $m	SaaS Restatement $m	**Restated 30 June 2019 $m**
Payments to suppliers and employees	(10,836)	(44)	**(10,880)**	(12,440)	(75)	**(12,515)**
Net cash generated from operating activities	2,156	(44)	**2,112**	1,599	(75)	**1,524**
Payments for property, plant and equipment and other assets	(758)	44	**(714)**	(915)	75	**(840)**
Net cash used in investing activities	(879)	44	**(835)**	(904)	75	**(829)**

Impact on Basic and Diluted Earnings per share

Statutory earnings per share	30 June 2020	SaaS Restatement	**Restated 30 June 2020**	30 June 2019	SaaS Restatement	**Restated 30 June 2019**
Basic EPS	158.4 cents	(1.2 cents)	**157.2 cents**	138.0 cents	(6.4 cents)	**131.6 cents**
Diluted EPS	158.2 cents	(1.2 cents)	**157.0 cents**	137.8 cents	(6.4 cents)	**131.4 cents**

39. Subsequent events

Powering Australian Renewables Contribution

On 3 August 2021 AGL completed a $358 million capital contribution into Powering Australian Renewables (PowAR) to fund its 20% interest in PowAR's acquisition of Tilt Renewables Limited's Australian business.

Updated Segment Reporting

On 30 June 2021 AGL confirmed its intent to execute a demerger of its retail business and form two listed energy businesses, Accel Energy and AGL Australia. Subsequent to year end, the internal reporting structure of AGL has been updated, effective 1 July 2021, to align to the two new businesses. The new reporting structure will lead to new segments to be disclosed in the financial reports of AGL for the half year ended 31 December 2021 and later reports.

New Segments

The new segments are:

- Accel - Operations: comprises the power generation portfolio and other assets of Accel Energy. The segment will include the costs associated with the operation and maintenance of Accel's generation fleet and other assets.
- Accel - Trading and Origination: comprises the wholesale electricity and C&I customer portfolio of Accel. This segment includes the revenues for the sale of energy to the AGL Australia Customer segment and wholesale and C&I customers, along with costs of generation, and the outcomes of the trading and hedging strategies employed.
- AGL Australia - Customer: comprises the consumer and large business customer portfolios responsible for the retailing of electricity, gas, solar and energy efficiency products and services to residential, small and large business customers and the retailing of telecommunications. This segment includes revenue from the sale of energy, telecommunications and other products to customers, the cost of supply and operating costs to support AGL Australia's 4.2 million customer services.
- AGL Australia - Supply and Trading: comprises the wholesale electricity, gas and eco markets trading and operating activities of AGL Australia. This segment sources the electricity and gas required to serve AGL Australia's customers. It also operates and maintains the flexible generation assets owned by AGL Australia. This segment earns inter-segment revenues through sales to the AGL Australia Customer segment.
- AGL Australia - Investments: comprises AGL Australia's interests in the ActewAGL Retail Partnership, Powering Australian Renewables, Energy Impact Partners, Activate Capital Partners, and other investments.

Segment Methodology

Revenue and costs previously reported as Integrated Energy have been allocated between the segments Accel Energy Operations; Accel Energy Trading & Origination; and AGL Australia Trading & Supply. The allocation methodology mirrors the asset distribution that is expected in the demerger. Where a direct allocation of revenue or costs could not be achieved, AGL has applied the following methodology:

- an allocation was determined using AGL's existing transfer pricing, adjusted for market-based estimates of the transfer of value relating to the new allocation of generation and gas assets, as if these segments had been in place previously and is consistent with the methodology used for reporting to the existing CODM effective 1 July 2021; or
- an allocation was determined using management's best estimate of the underlying cost structure for each segment under the new segment structure.

For those Large Business customers remaining with Accel Energy, the revenue and costs which are based on the existing transfer price associated with these customers historically recorded within Customer Markets have been included within Accel Energy Trading & Origination.

Whilst the allocation of revenue or costs does not result in any change in the underlying performance of the AGL Group, the identification of new segments has resulted in an increase in inter-segment revenue. This relates to some intra-segment transactions primarily within the existing Integrated Energy segment which were previously eliminated and are now recognised as inter-segment transactions between the newly created segments.

The tables below include the financial results for the years ended 30 June 2021, 2020 and 2019 presented on a basis consistent with the new segment structure. Other segment disclosures not included below are consistent with those in Note 1.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2021

2021	Accel Energy Operations $m	Accel Energy Trading and Origination $m	AGL Australia Customer $m	AGL Australia Supply and Trading $m	Investments $m	Other $m	**Total $m**
Revenue							
Total segment revenue	139	4,614	7,423	2,058	-	-	14,234
Inter-segment revenue	(33)	(1,874)	(38)	(1,347)	-	-	(3,292)
External revenue	106	2,740	7,385	711	-	-	10,942
Underlying earnings before interest, tax, depreciation and amortisation (Underlying EBITDA)	(529)	1,788	336	372	9	(310)	1,666
Depreciation and amortisation	(440)	(1)	(134)	(70)	-	(62)	(707)
Underlying EBIT	(969)	1,787	202	302	9	(372)	959
Net financing costs							(224)
Underlying profit before tax							735
Underlying income tax expense							(199)
Underlying profit after tax							536
Non-controlling interests							1
Underlying profit after tax (attributable to AGL shareholders)							537
Segment assets	5,350	820	2,766	3,455	326	309	13,026
Segment liabilities	1,882	2,271	656	800	2	167	5,778
Other segment information							
Share of profits of associates and joint ventures	-	-	-	-	9	-	9
Investments in associates and joint ventures	-	-	-	-	117	-	117
Additions to non-current assets	461	-	86	97	-	66	710
Other non-cash expenses	-	-	(127)	-	-	(3)	(130)

2020	Accel Energy		AGL Australia				
	Operations $m	Trading and Origination $m	Customer $m	Supply and Trading $m	Investments $m	Other $m	Total $m
Revenue							
Total segment revenue	140	5,851	7,542	2,373	-	-	15,906
Inter-segment revenue	(39)	(2,142)	(32)	(1,533)	-	-	(3,746)
External revenue	101	3,709	7,510	840	-	-	12,160
Underlying earnings before interest, tax, depreciation and amortisation (Underlying EBITDA)	(511)	2,022	288	568	18	(359)	2,026
Depreciation and amortisation	(478)	(4)	(117)	(65)	-	(56)	(720)
Underlying EBIT	(989)	2,018	171	503	18	(415)	1,306
Net financing costs							(179)
Underlying profit before tax							1,127
Underlying income tax expense							(319)
Underlying profit after tax							808
Segment assets	5,313	629	2,416	3,861	249	455	12,923
Segment liabilities	793	440	566	330	-	182	2,311
Other segment information							
Share of profits of associates and joint ventures	-	-	-	-	17	-	17
Investments in associates and joint ventures	4	-	-	-	131	-	135
Additions to non-current assets	451	10	78	123	-	59	721
Other non-cash expenses	-	-	(119)	-	-	(9)	(128)

2019	Accel Energy		AGL Australia				
	Operations $m	Trading and Origination $m	Customer $m	Supply and Trading $m	Investments $m	Other $m	Total $m
Revenue							
Total segment revenue	141	6,823	7,408	2,580	1	-	16,953
Inter-segment revenue	(30)	(2,037)	(14)	(1,626)	-	-	(3,707)
External revenue	111	4,786	7,394	954	1	-	13,246
Underlying earnings before interest, tax, depreciation and amortisation (Underlying EBITDA)	(465)	2,111	256	609	33	(334)	2,210
Depreciation and amortisation	(434)	(2)	(93)	(63)	-	(18)	(610)
Underlying EBIT	(899)	2,109	163	546	33	(352)	1,600
Net financing costs							(193)
Underlying profit before tax							1,407
Underlying income tax expense							(409)
Underlying profit after tax							998
Segment assets	5,353	1,215	2,507	3,820	235	326	13,456
Segment liabilities	778	663	533	333	-	188	2,495
Other segment information							
Share of profits of associates and joint ventures	1	-	-	-	32	-	33
Investments in associates and joint ventures	4	-	-	-	146	-	150
Additions to non-current assets	460	24	116	260	60	86	1,006
Other non-cash expenses	-	-	(120)	-	-	(6)	(126)

Directors' Declaration

For the year ended 30 June 2021

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 37(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 2021;

d. there are reasonable grounds to believe that AGL Energy Limited and the subsidiaries identified in Note 26 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 2021.

Signed on behalf of the Board.

Peter Botten
Chairman

12 August 2021

Deloitte.

Deloitte Touche Tohmatsu
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Sydney, NSW, 2000

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www.deloitte.com.au

12 August 2021

The Board of Directors
AGL Energy Limited
200 George Street
Sydney NSW 2000

Dear Board Members,

Auditor's Independence Declaration to 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 report of AGL Energy Limited for the year ended 30 June 2021, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

Yours faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Jason Thorne
Partner
Chartered Accountants

Deloitte.

Deloitte Touche Tohmatsu
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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 2021, 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 2021 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 (including Independence Standards)* (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.

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Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Carrying amount of property, plant and equipment and intangible assets	

As disclosed in Note 15 and 16, as at 30 June 2021 property, plant and equipment totaling $6,283 million and intangible assets totaling $3,302 million, including goodwill of $2,440 million, are included in the consolidated statement of financial position.
 	
Management conducts annual impairment tests (or more frequently if impairment indicators exist) to assess the recoverability of the carrying value of property, plant and equipment and intangible assets. This assessment is performed through the preparation of discounted cash flow models.
 	
An impairment expense of $1,817 million, as disclosed in Note 4, was recorded during the year. Impairment of $1,173 million was allocated to property, plant and equipment and $626 million was allocated to goodwill. The total impairment expense includes $1,413 million in relation to the AGL Generation Fleet cash generating unit (CGU) as the carrying value of this CGU exceeded its recoverable amount.
 	
The evaluation of the recoverable amounts requires significant judgement by management in determining the key assumptions supporting the expected future cash flows of the business and the utilisation by the Group of the relevant assets including:
• forecasting future energy prices in the short and long term;
• forecasting future energy demand;
• forecasting long-term growth rates; and
• applying appropriate discount rates.
	Our procedures included, but were not limited to:
	• obtaining an understanding of the key controls associated with the valuation models prepared by management and approved by the Board used to assess the recoverable amount of each CGU and the resulting impairment charge;
	• evaluating management's methodologies and their documented basis for key assumptions utilised in the discounted cash flow valuation models, which are disclosed in Note 16;
	• in conjunction with our valuation specialists assessing and challenging:
	   o the identification of each CGU, including the allocation of goodwill and the associated identification and allocation of cash flows for the purposes of assessing the recoverable amounts of each CGU;
	   o the key assumptions for future energy prices, future energy demand and long-term growth rates used in the forecast cash flows, considering the impact of COVID-19, by comparing them to historical results, economic data and industry forecasts; and
	   o the discount rate applied by comparing to independent estimates, third party evidence and broker consensus data;
	• checking the mathematical accuracy of the cash flow models;
	• agreeing forecast cash flows to the latest forecasts approved by the Board;
	• assessing the historical forecasting accuracy;
	• challenging the sensitivity analyses in terms of future energy prices and long-term growth rates considering the impact of COVID-19, used in the cash flow forecasts in addition to the discount rate used considering independent estimates, third party evidence, economic data and industry forecasts; and
	• assessing the consideration by management of the sensitivity analyses to a change in key assumptions that either individually or collectively would be required for property, plant and equipment or intangible assets to be further impaired and considering the likelihood of such movement in those key assumptions arising.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
	We have also assessed the appropriateness of the disclosures included in Note 4, Note 15 and Note 16 to the financial statements.

Financial instruments
 	
AGL enters into various financial instruments including derivative financial instruments which are recorded at fair value to economically hedge the Group's exposure to variability in interest rates, foreign exchange movements and energy prices.
 	
These financial instruments include long term energy purchase and supply contracts which in some cases have significant contractual volumes and/or pricing linked to commodity prices.
 	
As at 30 June 2021, derivative financial assets totaled $1,200 million (current assets of $463 million and non-current assets of $737 million, as disclosed in Note 11), and derivative financial liabilities totaled $412 million (current liabilities of $290 million and non-current liabilities of $122 million, as disclosed in Note 20).
 	
Significant judgement is required by management in the valuation of and accounting for these financial instruments including:
• understanding and applying contract terms;
• forecasting future energy prices in the short and long term;
• forecasting future emissions trading outcomes and prices; and
• applying appropriate discount rates.
	Our procedures included, but were not limited to:
	• obtaining an understanding of the internal risk management process and the systems and key controls associated with the origination and maintenance of complete and accurate information relating to contracts containing financial instruments;
	• obtaining an understanding of the relevant contract terms in financial instruments to assess the appropriateness of the relevant accounting applied; and
	• in conjunction with our treasury specialists, testing on a sample basis the existence and valuation of financial instruments including:
	    o assessing hedge effectiveness where appropriate;
	    o evaluating the integrity of the valuation models; and
	    o assessing the incorporation of the contract terms and the key assumptions into the valuation models, including future price assumptions and discount rates by comparing to market data.
	
	We have also assessed the appropriateness of the disclosures included in Note 11, Note 20 and Note 36 to the financial statements.

Unbilled revenue and accrued distribution costs Unbilled revenue of $726 million, as disclosed in Note 9, represents the estimated value of electricity and gas supplied to customers between the date of the last meter reading and 30 June 2021 where no invoice has been issued to the customer at the end of the reporting period. Accrued distribution costs of $359 million, as disclosed in Note 17, represents the estimated distribution costs related to energy consumption between the date of the last invoice from the distributor and 30 June 2021.	Our procedures included, but were not limited to: • obtaining an understanding of the process flows and key controls management has in place to determine the estimate of unbilled revenue and accrued distribution costs; • understanding and challenging management's assumptions relating to volume, customer pricing and distribution tariff rates used in determining unbilled revenue and accrued distribution costs by:

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Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Significant management judgment is required in the calculation of unbilled revenue and accrued distribution costs. Management exercise this judgement in the calculation of: • consumption profile for electricity and gas retail portfolios; • pricing applicable to customers between the last invoice date and the end of the reporting period; and • application of consumption profiles of portfolios against relevant published distribution tariff rates.	o on a sample basis, agreeing data underlying the calculation of the estimated volumes to supporting systems, having performed sample testing of the key controls in those systems; o comparing the prices applied to customer consumption with historical and current data; and o comparing the distribution tariff rates applied to relevant published distribution tariff rates. • in conjunction with our data analytics specialists: o calculating an independent estimate of the expected unbilled revenue at 30 June 2021 using historical customer consumption, purchase volumes and pricing data, and comparing this to the reported unbilled revenue; and o calculating an independent estimate of the expected accrued distribution costs at 30 June 2021 utilising information supplied by distributors and tariff data and comparing this to the reported accrued distribution. We also assessed the appropriateness of the disclosures in Note 2, Note 9 and Note 17 to the financial statements.
Provision for environmental rehabilitation The Group is required to restore and rehabilitate the environment disturbed by electricity and gas generation operations. This is governed by a combination of regulatory and legislative requirements. As at 30 June 2021 the consolidated statement of financial position included provisions for environmental rehabilitation of $1,452 million (current provisions of $52 million and non-current provisions of $1,400 million, as disclosed in Note 19). Significant management judgment is required in the calculation of the provision for environmental rehabilitation. Management exercise this judgement in the calculation of key inputs to the provision including: • life of the operational site;	Our procedures included, but were not limited to: • obtaining an understanding of the process flows and key controls management has in place to determine the provision for environmental rehabilitation; • evaluating the competency and objectivity of the independent expert engaged by the Group to assist with the assessment of the rehabilitation obligations across the electricity and gas operations of the Group; • comparing the rehabilitation costs estimated within the Group's portfolio to the independent expert's assessment of the rehabilitation cost estimate; • evaluating the Group's assessment of significant changes in future cost estimates from the prior year, with a focus on the impact on the timing and the amount of expenditure required;

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter

• cost of performing the rehabilitation activities;
• expected timing of the rehabilitation activities;
• regulatory and legislative requirements; and
• economic assumptions including the discount rate and inflation rates applied to future cash outflows associated with rehabilitation activities to bring them to their present value.
	• assessing the discount rates and inflation rates applied by comparing to market data; and
	• in conjunction with our internal rehabilitation specialists:
	  ○ evaluating the closure and rehabilitation plans with regard to applicable regulatory and legislative requirements;
	  ○ evaluating the methodology used by the independent expert against industry practice;
	  ○ assessing the reasonableness of the timing of cash flows and cost estimates against the closure and rehabilitation plans and industry practice; and
	  ○ assessing and challenging the discount rate and inflation rates applied to future cash outflows associated with rehabilitation activities applied by comparing to market data.
	
	We also assessed the appropriateness of the disclosures in Note 19 to the financial statements.

Provision for onerous contracts As at 30 June 2021, the Group has recorded a provision for onerous contracts relating to long-term offtake arrangements for various power purchase agreements and gas transportation agreements in the consolidated statement of financial position totaling $2,034 million (current provisions of $147 million and non-current provisions of $1,887 million, as disclosed in Note 19). The valuation of the provision for onerous contracts requires significant judgement by management in determining the key assumptions supporting the present value of expected future cash flows including: • forecasting future energy and renewable energy certificate prices through the duration of the offtake arrangements; • applying appropriate inflation rates; and • applying appropriate discount rates.	Our procedures included, but were not limited to: • obtaining an understanding of the process flows and key controls management has in place to identify and determine the provision for onerous contracts; • evaluating management's methodology and the documented basis for key assumptions utilised in the onerous contract valuation model, as disclosed in the Note 19; • assessing the terms of the agreements to ensure completeness of unavoidable costs; • checking the mathematical accuracy of the cash flow models and net present value calculations; • in conjunction with our treasury specialists, assessing and challenging the forecast future energy and renewable energy certificate price assumptions by comparison to market data; • agreeing the cost of purchasing and selling the contracted volumes to the latest forecasts approved by the Board; and • assessing the inflation rates and discount rates applied by comparing to market data.

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Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
	We have also assessed the appropriateness of the disclosures included in Note 19 to the financial statements.

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 2021, 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.

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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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 65 to 89 of the Directors' Report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of AGL Energy Limited, for the year ended 30 June 2021 complies with section 300A of the *Corporations Act 2001.*

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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

Jason Thorne
Partner
Chartered Accountants
Sydney, 12 August 2021

Deloitte.

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Independent Limited Assurance Report to the Management of AGL Energy Limited

Conclusion

We have undertaken a limited assurance engagement on AGL Energy Limited's ('AGL') subject matter detailed below (the 'Subject Matter') presented in the 2021 Annual Report for the year ended 30 June 2021.

<table>
<tr><th>Subject Matter</th><th>Reporting Criteria</th></tr>
<tr><td>Selected Annual KPI scorecard disclosures

The following performance data in respect of selected Annual KPI Scorecards Disclosures within the 2021 Annual Report Business Value Driver tables on pages 21-28.
▪ Customers:
  ▪ Ombudsman complaints
  ▪ Number of customers on Staying Connected
  ▪ Average level of debt of customers on Staying Connected
  ▪ Customer churn
▪ Communities & Relationships:
  ▪ Community contribution
▪ People:
  ▪ TIFR employees
  ▪ TIFR (employees + contractors)
  ▪ Fatalities (employees + contractors)
  ▪ High potential near miss: recordable incident ratio
  ▪ Material breaches of Code of Conduct
  ▪ Key talent retention
▪ Environment:
  ▪ Operated scope 1 + 2 emissions (MtCO2-e)
  ▪ Controlled generation intensity (tCO2-e/MWh)
  ▪ Emissions intensity of total revenue (ktCO2-e/$m)
  ▪ Controlled renewable and battery capacity (%)
  ▪ Revenue from green energy and carbon neutral products (%)
  ▪ Environmental Regulatory Reportable incidents
▪ Systems & Processes:
  ▪ Reportable privacy incidents
  ▪ Major IT incidents</td>
<td>AGL's definitions and approaches as described in the 'Glossary for the Business Value Drivers' section of FY21 Annual Report and on AGL's website at www.agl.com.au .</td></tr>
</table>

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Based on the procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that the Subject Matter is not prepared, in all material respects, in accordance with the Reporting Criteria for the year ended 30 June 2021.

Basis for Conclusion

We conducted our limited assurance engagement in accordance with Australian Standard on Assurance Engagements ASAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information ("ASAE 3000"), issued by the Australian Auditing and Assurance Standards Board.

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

AGL's responsibilities

The Management of AGL are responsible for;

- Ensuring that the Subject Matter is properly prepared in accordance with the Reporting Criteria;
- confirming the measurement or evaluation of the underlying Subject Matter against the applicable criteria, including that all relevant matters are reflected in the subject matter information
- designing, establishing and maintaining internal controls to ensure that the Subject Matter is properly prepared in accordance with the Reporting Criteria
- selecting and applying appropriate reporting criteria; maintaining adequate records and making estimates that are reasonable in the circumstances.

Our Independence and Quality Control

We have complied with the independence and other relevant ethical requirements relating to assurance engagements and apply Auditing Standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements* in undertaking this assurance engagement.

Assurance Practitioner's responsibilities

Our responsibility is to express a limited assurance conclusion on the Subject Matter based on the procedures we have performed and the evidence we have obtained.

ASAE 3000 requires that we plan and perform our procedures to obtain limited assurance about whether, anything has come to our attention that causes us to believe that the Subject Matter is not properly prepared, in all material respects, in accordance with the Reporting Criteria.

A limited assurance engagement in accordance with ASAE 3000 involves identifying areas where a material misstatement of the subject matter information is likely to arise, addressing the areas identified and considering the process used to prepare the subject matter information. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance opinion about whether the subject matter information has been properly prepared, in all material respects, in accordance the Reporting Criteria.

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Our procedures included:

- Review of AGL's processes relating to stakeholder identification, engagement and responsiveness, including an assessment of stakeholder engagement outcomes and how this process and the outcomes have been presented in the 2021 Annual Report
- Review of AGL's process to identify and determine material issues to be included in the 2021 Annual Report with examination of underlying assessments and evidence on a sample basis
- Interviews with a selection of AGL executives and senior management, including AGL's sustainability management team concerning the overall governance structure, corporate sustainability strategy and policies used for managing and reporting sustainability performance across the business
- In respect of the FY21 Selected Annual KPI scorecard disclosures
    - interviews with a selection of AGL management responsible for selected FY21 Annual KPI scorecard disclosures to understand the compilation and review processes
    - conducting site visits at a sample of facilities
    - applying analytical and other review procedures including assessing relationships between the reported information and other financial and non-financial data
    - examination of evidence for a small number of transactions or events
    - analysing and inspecting on a sample basis, the key systems, processes and procedures and controls relating to the collation, validation, presentation and approval process of the information included in the 2021 Annual Report.
    - review underlying evidence on a sample basis to corroborate that the information is prepared and reported in line with the relevant reporting criteria.''

Inherent limitations

Because of the inherent limitations of an assurance engagement, together with the inherent limitations of any system of internal control there is an unavoidable risk that it is possible that fraud, error, or non-compliance with laws and regulations, where there has been concealment through collusion, forgery and other illegal acts may occur and not be detected, even though the engagement is properly planned and performed in accordance with Standards on Assurance Engagements. Additionally, non-financial data may be subject to more inherent limitations than financial data, given both its nature and the methods used for determining, calculating, and sampling or estimating such data.

Restricted Use

This report has been prepared for use by the management of AGL for the purpose of assisting directors and management in their reporting of the Selected Annual KPI scorecard disclosures. We disclaim any assumption of responsibility for any reliance on this report or on the Subject Matter to which it relates, to any person other than the management of AGL or for any purpose other than that for which it was prepared.

Matters relating to electronic presentation of information

It is our understanding that AGL may publish a copy of our report on their website. We do not accept responsibility for the electronic presentation of our report on the AGL website. The security and controls over information on the web site is not evaluated or addressed by the independent auditor. The examination of the controls over the electronic presentation of this Report on the AGL web site is beyond the scope of this engagement.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

P Dobson
Partner
Sydney, 12 August 2021

Shareholding Information

The following information is provided regarding the Issued Capital of AGL as at 16 July 2021:

1. The Issued Capital consisted of 623,033,791 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 148,145 holders of ordinary shares.
3. There were 10,772 holders of less than a marketable parcel of 62 shares.

Distribution schedule of ordinary shares

	Securities	%	No. of Holders	%
100,001 and Over	335,503,742	53.85	103	0.07
10,001 to 100,000	81,846,808	13.14	3,982	2.69
5,001 to 10,000	54,802,068	8.80	7,781	5.25
1,001 to 5,000	117,602,834	18.88	51,600	34.83
1 to 1,000	33,278,339	5.34	84,679	57.16
Total	**623,033,791**	**100.00**	**148,145**	**100.00**

Substantial shareholders of AGL

In a substantial holding notice dated 15 March 2017, BlackRock Group advised that as at 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 26 November 2019, Vanguard Group advised that as at 22 November 2019, it had an interest in 38,926,303 ordinary shares, which represented 6.03% of AGL's ordinary shares at this time.

In a substantial holding notice dated 1 February 2021, State Street Corporation advised that as at 28 January 2021, it had an interest in 38,131,163 ordinary shares, which represented 6.12% of AGL's ordinary shares at this time.

Shareholdings by geographic region

	Securities	%	No. of Holders	%
Australia	616,801,867	99.00	145,213	98.02
Hong Kong	400,552	0.06	89	0.06
New Zealand	4,264,498	0.68	1,853	1.25
United Kingdom	439,284	0.07	284	0.19
USA and Canada	557,505	0.09	465	0.31
Others	570,085	0.09	241	0.16
	623,033,791	**100.00**	**148,145**	**100.00**

Shareholding Information

20 largest holders of ordinary shares

Twenty Largest Holders as at 16 July 2021	Fully-Paid Ordinary Shares	% of Total Issued Shares
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	152,695,368	24.51
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	72,739,508	11.68
CITICORP NOMINEES PTY LIMITED	37,251,955	5.98
NATIONAL NOMINEES LIMITED	10,560,688	1.70
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	7,258,163	1.16
BNP PARIBAS NOMS PTY LTD <DRP>	4,243,340	0.68
BNP PARIBAS NOMINEES PTY LTD SIX SIS LTD <DRP A/C>	4,236,118	0.68
MILTON CORPORATION LIMITED	3,570,141	0.57
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	3,536,254	0.57
ARGO INVESTMENTS LIMITED	2,292,000	0.37
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD <DRP A/C>	2,026,196	0.33
NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	1,875,635	0.30
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	1,657,147	0.27
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	1,572,539	0.25
CARLTON HOTEL LIMITED	1,378,556	0.22
THE SENIOR MASTER OF THE SUPREME COURT <COMMON FUND NO 3 A/C>	1,303,858	0.21
BROADGATE INVESTMENTS PTY LTD	1,263,150	0.20
WOODROSS NOMINEES PTY LTD	1,066,377	0.17
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	979,013	0.16
MR ZENG YANG	850,000	0.14
	312,356,006	**50.13**

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, Computershare, 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.

Computershare also offers shareholders the ability to register and create a portfolio view of their holdings. Registration is free and enables shareholders to view and update multiple holdings in AGL (or other clients Computershare act as registry for) using a single login. To create a portfolio, please go to **www-au.computershare.com/investor**

Share Registry

Shareholders with enquiries about their shareholdings can also contact AGL's Share Registry:
Computershare Investor Services Pty Limited
GPO Box 2975
Melbourne Victoria 3001 Australia

Telephone: 1800 824 513 (free call within Australia)
International: +61 3 9415 4253
Email: aglenergy@computershare.com.au
Website: **www-au.computershare.com/Investor**

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 34.0 cents per share, unfranked, will be paid on 29 September 2021. The dividend will operate on a fully underwritten basis. 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 Computershare'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 2021 interim dividend and a 1.5% discount will apply to the 2021 final dividend.

On-market share buy-back and shares purchased on-market

AGL Energy is not currently undertaking an on-market share buy-back.

During the financial year ended 30 June 2021, 706,825 AGL shares were purchased on-market at an average price of $13.45 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 copy. Shareholders seeking a printed copy of the Annual Report should contact Computershare. The online Annual Report is available at **www.2021annualreport.agl.com.au**. Past annual reports are also available via 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

Glossary for the Business Value Drivers

All data relates to the year ended 30 June 2021 unless specified otherwise.

Term	Explanation
Net Promoter Score (NPS)	NPS is a measure of overall brand performance and is based on how likely a customer would be to recommend AGL Energy as an energy provider. AGL Energy's NPS is measured quarterly via an external survey that asks customers across all energy retailers "On a scale of 0-10, how likely is it that you would recommend Retailer X to a friend or colleague?" The NPS is calculated by subtracting the percentage of zeros to sixes from the percentage of nines and tens. The performance measure relates to the NPS measured in Q4 of the reporting year. In April 21, AGL Energy moved to a new survey supplier to collect NPS. The survey methodology used by the new supplier is consistent with the previous survey approach.
Ombudsman complaints	Reported figures represent complaints to the various state energy Ombudsman offices that are provided to AGL Energy for resolution. Enquiries and complaints referred to other agencies or instances where the customer has been advised by the Ombudsman to contact AGL Energy directly are not included. Numbers are based on complaints figures provided by the Ombudsmen of New South Wales, Victoria, Western Australia and South Australia. Complaints recorded for Queensland are based on AGL Energy's internal complaints reporting systems until November 2017, after which time AGL Energy started receiving monthly reports from the Queensland Ombudsman. Click Energy complaint volumes are included from April 2021 onwards.
Number of customers on Staying Connected	Staying Connected is AGL Energy's program for energy customers who have been identified to be in financial hardship. The performance measure relates to the number of customers on the program as of 30 June in the reporting year.
Average level of debt of customers on Staying Connected	The average level of energy debt calculated represents the outstanding debt at the customer (rather than account) level as of 30 June in the reporting year. Debt levels include GST.
Total average debt across mass market customer portfolio	The average energy debt represents the outstanding debt at the customer (rather than account) level as of 30 June in the relevant reporting year. Debt levels include GST. Data excludes 'unknown customers' and commercial and industrial customers.
Total services to customers	Data comprises AGL Energy's gas and electricity residential, small and large business, and wholesale customer energy services. From FY20, data also includes AGL Energy's telecommunications customers, reflecting each internet, mobile and voice 'services-in-operation' (SIO) connected.
Customer churn	'Churn' is defined as a completed transfer of a customer to a competing retailer. This measure relates to residential and small business energy customers only and does not include commercial and industrial customers. Data for FY21 includes Click Energy customers (acquired during FY21).
RepTrak score	The RepTrak score reflects the most recent score reported to AGL Energy by RepTrak at the time of publication of the Annual Report. FY18 to FY21 scores reflect the score for the June quarter.
Community contribution	Data includes the AGL Energy matched component only of donations raised to the Employee Giving program and fundraising events, not the donations given by employees. Matched amounts are included in the year in which the employee donations were made (even though the matched payment may have been made after the close the financial year). Data is exclusive of GST. FY21 data includes management costs which have not been included in prior years. In FY21 management costs were approximately $1.6m. FY21 data includes investments accrued in the financial year. The Energy Literacy Program, which accounts for over $980k, has been included in the FY21 data, following improvements made to the processes for identifying and gathering social investment data.
Underlying effective tax rate	AGL Energy's underlying income tax expense expressed as a percentage of AGL Energy's underlying profit.
Total injury frequency rate (TIFR)	The rate is calculated as 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. The safety performance of Southern Phone Company and Perth Energy (both acquired during FY20) and Click Energy, Epho and Solgen (acquired during FY21) is included from FY21.
High potential near miss: recordable incident ratio	A Recordable Incident is a safety or environment incident that resulted in the injury or illness of a person requiring Lost Time or Medical Treatment, or an Environment Regulatory Reportable event. A High Potential Near Miss is an unplanned Event or error that did not result in injury, illness, equipment/property damage or fire but where the potential to do so is ranked high or above as per AGL Energy's FIRM matrix. This includes a high potential first aid, compliance breach of permits, critical controls and/or lifesaving rules. A High Potential environment near miss is classified as any event where no actual regulatory breach or unauthorised environmental impact occurred but where the potential for this to occur is ranked high or above as per AGL Energy's FIRM framework. FY21 data includes Southern Phone Company and Perth Energy (both acquired during FY20) and Click Energy, Epho and Solgen (acquired during FY21).
Employee engagement	Engagement scores are calculated using the Aon Hewitt's Employee Engagement Model, utilising the ORC International methodology. From FY20, engagement is measured using the Culture Amp platform, with the methodology applied in the calculation of the scores being consistent with prior years. Southern Phone and Perth Energy employees (acquired during FY20) are included from FY21. Click Energy, Solgen or Epho employees (acquired during FY21) were not included in the FY21 Engagement Survey. The measure of 62% in FY18 is taken from the results of an engagement pulse survey conducted in early FY19 and was considered a reflection of FY18 employee engagement.
Gender mix in senior leadership pipeline (SLP)	Senior Leadership Pipeline refers to employees in Management Groups A, B, ELT and ET (excluding CEO), in accordance with AGL Energy's Position Framework. These are equivalent to Hay Level roles 18 and above. Employees from Perth Energy (acquired during FY20) and Click Energy (acquired during FY21) are included from

Glossary for the Business Value Drivers

Term	Explanation
	FY21. FY21 data does not include employees from Solgen (73) or Epho (28), as they were not fully integrated into AGL Energy's human resource systems as at 30 June 2021. FY21 data does not include Southern Phone Company's 276 employees as they do not use AGL Energy's job sizing methodology to enable inclusion in the comparative Senior Leadership cohort.
Material breaches of Code of Conduct	Performance measure relates to the number of substantiated material breaches of AGL Energy's Code of Conduct. Material breaches are those ranked 'High' or above according to AGL Energy's FIRM framework.
Attrition (total workforce)	Calculated based on the total number of voluntary departures per full-time equivalent. Includes fixed term, permanent full-time, and permanent part-time employees; excludes casuals, labour hire and contract workers. Employees from Perth Energy (acquired during FY20) and Click Energy (acquired during FY21) are included from FY21. FY21 data does not include employees from Solgen (73) or Epho (28), as they were not fully integrated into AGL Energy's human resource systems as at 30 June 2021. FY21 data does not include Southern Phone Company's 276 employees as the human resources data systems currently used by this business are not fully integrated with AGL Energy's systems, accordingly comparable data is not readily available.
Key talent retention	The performance measures relate to employees identified as 'key talent' from AGL Energy's enterprise leadership team (ELT) and direct reports. Employees from Southern Phone Company and Perth Energy (both acquired during FY20) are excluded from FY21 as they were not integrated into AGL Energy's systems when the 30 June 2020 baseline was established. FY21 data does not include Click Energy, Solgen or Epho employees as these businesses were acquired after the 30 June 2020 baseline was established.
Operated scope 1 & 2 emissions ($MtCO_2e$)	Total scope 1 and 2 emissions from facilities over which AGL Energy had operational control during the period. Operational control is defined by the National Greenhouse and Energy Reporting Act 2007. Data is based on measured emissions from material sources, which make up approximately 99% of total scope 1 and 2 emissions, with estimates for minor sources.
Controlled generation intensity (tCO_2e/MWh)	Total scope 1 and 2 emissions divided by total sent out generation of electricity generation facilities which fit within AGL Energy's controlled boundary[1]. This metric also forms part of AGL Energy's Sustainability Linked Loan metrics. Emissions data is based on measured emissions from material sources, which make up approximately 99% of total scope 1 and 2 emissions, with estimates for minor sources.
Controlled renewable and electricity storage capacity (%)	The proportion of total controlled renewable and electricity storage capacity (MW) in AGL Energy's total controlled[1] generation capacity (MW), based on the registered capacity as at 30 June in the reporting year. For assets in the NEM the capacity is as per AEMO's NEM Registration and Exemption List; for Kwinana Swift Power Station the capacity is based on the maximum capacity as per AEMO's Wholesale Electricity Market data. Capacity for assets which are not operational is excluded. This metric also forms part of AGL Energy's Sustainability Linked Loan metrics.
Emissions intensity of total revenue ($ktCO_2e$/\$million)	Total scope 1and 2 emissions from facilities over which AGL Energy had operational control during the period divided by AGL Energy's total revenue. Operational control is defined by the National Greenhouse and Energy Reporting Act 2007. Emissions data is based on measured emissions from material sources, which make up approximately 99% of total scope 1 and 2 emissions, with estimates for minor sources.
Revenue from green energy and carbon neutral products and services (%)	The percentage of total revenue derived from green energy and carbon neutral products and services, based on the following: • Total revenue represents AGL Energy's total reported revenue • Green energy revenue represents: green revenue excluding state-based green schemes; RET revenue from green charges passed through to customers; and other revenue from state-based charges passed through to customers.
Environmental regulatory reportable incidents	Comprises incidents that trigger mandatory notification provisions under legislation and/or environmental licences.
Pool generation volume	Pool generation volume refers to electricity that AGL Energy generates that is sold into the National Electricity Market and the Western Australian Wholesale Energy Market (together termed "the pool") and considers marginal loss factors, non-scheduled generation and auxiliary usage.
Equivalent availability factor (EAF)	EAF measures the percentage of rated energy available when required. Power stations included are Liddell, Bayswater, Loy Yang A, Torrens Island, and Somerton power stations, AGL's hydroelectric power stations, and wind and solar farms under AGL Energy's operational control (excluding Silverton and Coopers Gap). Barker Inlet Power Station is included from FY21. Site EAF is weighted by megawatt (MW) capacity.
Reportable privacy incidents	Data comprises 'eligible data breaches' as defined in the Privacy Act 1988.
Major IT incidents	Data relates to the number of major IT incidents impacting a technology service, system, network or application ranked as 'critical' or 'high' in accordance with AGL Energy's IT incident management processes. Data for FY21 includes Perth Energy (acquired during FY20) and Click Energy (acquired during FY21) and any incidents related to Southern Phone services that are sold through AGL Energy's multi-product offerings (NBN and mobile). Data excludes Solgen and Epho (acquired during FY21).

1. AGL Energy's controlled boundary includes all electricity assets (generation and/or storage) for which AGL Energy has: ownership; and/or operational control as defined by the National Greenhouse and Energy Reporting Act 2007; and/or contracted rights to control the dispatch of electricity of the asset.

Corporate Directory and Financial Calendar

Directory

AGL Energy Limited
ABN 74 115 061 375

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 2552

Web: agl.com.au

Financial calendar[3]

12 August 2021
Full Year result and final dividend announced

26 August 2021
Record date of final dividend

27 August 2021
Record date of final DRP

22 September 2021
Annual General Meeting

29 September 2021
Payment date of final dividend

10 February 2022
Interim result and interim dividend announced (indicative)

3. The above dates are indicative only and may be subject to change.

agl

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