In an evolving energy market, we are guided by two key strategic imperatives: prospering in a carbon-constrained future, and building customer advocacy. Our strategic framework, with its three pillars of embracing transformation, driving productivity and unlocking growth, is about addressing these key imperatives and enabling the delivery of our main objectives in a structured way.

Refer to our strategy for further information.

This section focuses on:

- **Profitability**: We announced a record Underlying Profit after tax and improved returns to our shareholders. Our strong cash flow has enabled us to increase dividend payments and undertake an on-market share buy-back.

- **Electricity generation**: We are the largest generator in the National Electricity Market, and we also operate the largest portfolio of renewable generation assets in Australia.

- **Energy sales**: A core part of our strategic framework is to unlock growth, and an important way that we are doing this is by building our digital capability and enhancing our customers’ experience, as we move from being a mass retailer to a personalised retailer.

- **Supply chain**: With more than 5,000 suppliers, we recognise that our suppliers can have a strong influence on our sustainability performance. We have been working to improve our procurement framework, and on adopting a consistent approach to procurement across our business.

- **Taxation and transparency**: We are committed to meeting all tax compliance obligations, and to providing transparent information about the taxes we pay and the taxation policies we employ.
**Profitability**

**Drive value and earnings growth**

- **Met**
- **Not met**
- **In Progress**

<table>
<thead>
<tr>
<th>FY17 targets</th>
<th>FY17 performance</th>
<th>Status</th>
<th>FY18 target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underlying Profit: in line with earnings guidance to be released at AGL's FY16 Annual General Meeting on 28 September 2016</td>
<td>Underlying Profit: $802 million, slightly above the guidance range of $720-800 million</td>
<td><img src="http://" alt="Icon" /></td>
<td>Underlying Profit after tax: In line with earnings guidance for FY18</td>
</tr>
</tbody>
</table>

We delivered an Underlying Profit after tax of $802 million in FY17, up 14% compared with $701 million in FY16, and slightly above the guidance range of $720 million to $800 million provided on 28 September 2016. The principal drivers of the increase were higher wholesale electricity prices, disciplined customer price management and cost reduction initiatives. Offsetting this increase was a decline in wholesale and consumer gas margins reflecting the curtailment of gas supply, higher commodity costs and lower customer accounts.

**Underlying Profit after tax**

![Graph showing Underlying Profit after tax from FY13 to FY17](image)

**Notes**

- Underlying Profit reflects the actual performance of AGL’s business by adjusting statutory profit (reported in accordance with Australian Accounting Standards) by fair value movements and one-off significant items.
- AGL has restated the result for FY13 to reflect the adoption of the revised accounting standard, AASB 119 Employee Benefits.

**View in data centre**

---

This information is included in an interactive online report at [http://agl2017.reportonline.com.au/sustainabilityreport](http://agl2017.reportonline.com.au/sustainabilityreport). Visit this website to access the full FY17 Sustainability Report, sustainability data centre and other online features. This report is subject to the **important information** statement which is also available on this website.
In September 2016, the Board announced the decision to increase AGL’s target payout ratio to 75% of Underlying Profit after tax in such cases that a minimum franking level of 80% can be maintained. This is a change from the previous ‘progressive’ dividend policy, which targeted an increase in annual dividend consistent with profit growth, and had resulted in a payout ratio of between 60% and 65% in each of the five financial years to FY16.

The Board of Directors declared dividends totalling 91 cents per share for the full FY17, reflecting a payout ratio of 75% consistent with the new dividend policy, and up 34% compared with FY16 dividends declared of 68 cents. The FY17 dividends were 80% franked.

Our total shareholder return of 42.4% was considerably higher than the 14.6% return for the broader Australian share-market (S&P/ASX100 Accumulation Index). Over five years, our total shareholder return was 117% compared with 77% for the Index.

AGL provided earnings guidance for FY18 with its full-year results on 10 August 2017 for Underlying Profit after tax of $940 million to $1.04 billion, subject to normal trading conditions and to any adverse impacts arising from policy and regulatory uncertainty.

On 14 February 2017, Moody’s reaffirmed our credit rating, stating that the “Baa2 issuer rating reflects AGL Energy Ltd’s (AGL) strong retail market position, and the low cost, scale and operating track record of its generation fleet. These credit strengths put the company in a good position to navigate the challenges presented by the evolving energy marking in Australia”.

Our credit rating and disciplined management of financial risk enhances our ability to fund our operations and growth, providing AGL access to a wide range of funding sources. Our strong cash flow has enabled us to increase dividend payments and undertake an on-market share buy-back of 18.9 million shares (as of 30 June 2017) for a total consideration of $473 million and still maintain our credit rating. 

Visit the data centre for our financial performance summary, as well as key economic performance indicators, including return on equity and ratio of consumer net operating expenditure to gross margin. Detailed financial information is also available in our FY17 Annual Report.

---

**Related Information**

- Annual Report
- Financial Results
We are the largest generator in the National Electricity Market (NEM), and we have the largest privately operated portfolio of renewable generation assets in Australia.

We operate 10,246 MW of electricity generation assets across Australia, 1,890 MW of which is renewable. More than 80% of our generating capacity is situated in New South Wales and Victoria, where our two largest customer bases are located.

The current and future earning potential of our generation portfolio is influenced by many factors, including the wholesale market price, the operational efficiency of the assets and their availability and ability to start reliably.

Visit the data centre to view or download the following information about our generation portfolio:

- installed capacity of operated generation assets
- electricity output
- equivalent availability factor, which measures the percentage of rated energy that is available when required
- wind farm generation, which shows the capacity factor for each wind farm.

Our assets have some of the lowest short-run marginal costs in both the New South Wales and Victorian markets, and the portfolio is flexible enough to rapidly respond to market signals. This is expected to provide near to short term opportunities. In the longer term, these assets may be impacted by climate change and other energy market related policies. The AGL Greenhouse Gas Policy provides a pathway to managing these risks.

Over the last few years, the wholesale electricity price has risen. This has been driven by a number of factors, including:

- retirement of old, coal fired generation from the market, such as the recent high-profile closure of Hazlewood, a 53 year old brown coal plant in Victoria, and the Northern Power station in South Australia
- the increasing cost of gas resulting in higher costs for gas-fired generation
- the cost of new capital to replace ageing generation fleet within the NEM, within which about 75% of thermal plants now exceed their original design life.

As Australia progressively decarbonises its electricity system, some energy market analysts predict that a higher proportion of renewable energy output is likely to increase volatility within the NEM energy-only gross pool market. Government policy support to close old generation assets is also required to facilitate new investment in renewables. We have taken a leadership position on these issues, as discussed in the public policy engagement section. We developed the Powering Australian Renewables Fund (PARF) last year as a potential solution to encourage investment in renewable energy. Further information is available in the renewable energy section.
AGL sees opportunities for further investment in two main categories:

- **Renewables**: AGL has continued to make disciplined investments to grow our renewable generation portfolio. During FY17, we started construction of the Silverton Wind Farm in New South Wales on behalf of the PARF. We also progressed the development of the Coopers Gap Wind Farm project in Queensland.

- **Complementary firm capacity**: In an environment where the cost of renewables is falling and the gas price is high, it is unlikely that a long-term investment case can be made for baseload gas as a replacement for baseload coal. However, there may be a case for the development of gas fired peaking plants to provide a firm output from intermittent renewable plant.

Using our scenario planning processes, we are undertaking a detailed state-by-state assessment of Australia’s potential energy generation requirements over the coming decades. This assessment will assist in determining the low-emissions generation and storage technologies in which we may invest as we begin to withdraw aging coal-fired generation from the National Electricity Market.

We are also continuing to review the operation of our existing portfolio to ensure it is running at its optimal efficiency and assess against market conditions. In June 2017, we announced an investment of $295 million to develop a 210 MW reciprocating engine, gas-fired power station to be built alongside our Torrens Island Power Station in South Australia. Construction is expected to commence in the first quarter of FY18, and the power station is expected to be operational during FY19. In March 2017, we applied for a two-year extension to the Project Approval for the proposed Dalton Power Station in southern New South Wales. We are examining whether to pursue the project in order to meet peak energy security needs.

In March 2016, we announced a $63 million project to install a Distributed Control System (DCS) at the Bayswater Power Station. Installation of the new DCS is expected to commence in September 2017, to enhance safety, improve power station reliability and enable the plant to operate more efficiently.

1. Operated capacity as of 30 June 2017.
3. A DCS is a semi-automated system that monitors, controls and instructs the various parts of a power station, to help manage efficient performance and operation.
4. Capacity based on AEMO nameplate capacity except where registered capacity is greater than the nameplate capacity, the registered capacity is used. NEM data from AEMO - NEM Registration and Exemption List as at 07/06/2017 (Excluding the Playford B and Hazelwood power stations).

---

**Related Information**

AGL Greenhouse Gas Policy
Annual Report
Financial Results
Powering Australian Renewables Fund
A core part of our strategic framework is to **unlock growth**. An important way that we are doing this is by building our digital capability and enhancing our customers’ experience.

We’re moving from being a mass retailer to a personalised retailer – using smarter solutions, technology and services to empower our customers. We’re transitioning from being an owner and operator of large generation assets to an orchestrator of large and small assets, allowing energy to be generated, stored and shared by individuals.

The decline in residential electricity demand per customer that has been occurring since 2009-10 continues to show signs of flattening\(^\text{1}\). Despite an expected population growth of 30%, the Australian Energy Market Operator (AEMO) has forecast that consumption of grid-supplied electricity is likely to remain relatively flat for the next 20 years\(^\text{2}\).

The retail market is increasingly competitive. Total customer electricity sales volumes increased by 4.8% to 39,650 GWh. Consumer customer electricity sales volumes decreased by 5.1% driven by lower average customer numbers and lower average consumption driven by unfavourable customer mix changes across the residential and small business portfolios. Business customer sales volumes also decreased as a result of strategic retention activities within a competitive price driven market. Wholesale customer sales volumes increased by 33.2%, driven by increased commercial load from new and existing Wholesale Customers. Total customer gas sales volume decreased by 1.9% to 229.8 PJ due to the loss of some large business customers, partially offset by increased generation at AGL Torrens.

Our customer churn was 16.4%, and was once again lower than the 20.2% churn experienced in the rest of the market, evidence of the **strong focus** that has been placed on retaining high value customers.

### Visit our Data Centre - Customer churn

In July 2017, we moved into the Western Australian gas retail market. Our current business plan is to achieve 100,000 customers in 24 months and we have earmarked a total operating and capital expenditure of around $50 million for the project.

We continued to prioritise product innovation during FY17. For further information, refer to the **customer experience** and **distributed energy services** sections of the report.

### Key performance metrics

We use a number of measures to monitor the efficiency of our consumer energy business.

Total customer accounts decreased by 0.7% across the portfolio. Electricity customer accounts declined 0.4%, largely due to the loss of some multisite accounts. Gas customer accounts declined 1.1% largely as a result of the disconnection of unidentified energy consumers.

Consumer gross margin per customer account increased $1 or 0.5% to $217 reflecting disciplined and effective price and discount management within a highly competitive market and a continued focus on high value customers through strategic marketing and disconnection of unidentified customers. Consumer EBIT per customer account decreased $4 or 3.7% to $104, due largely to an increase in consumer bad debts expense driven by increased customer pricing, as well as higher advertising spend as a result of our rebranding activities and our entry into the Western Australian gas retail market. The introduction of charges for customer paper bills and over the counter payments had a favourable impact on consumer net operating costs, as did continued growth in digital billing customers. The consumer net operating costs to gross margin ratio increased by 2.2 percentage points to 52.1%.

---

“\(^\text{1}\)The future of energy is about pushing the boundaries and creating new solutions”

– Amer Hussein, Manager Government and Community Relations

“\(^\text{2}\)Over 3.6 million customer accounts”
The cost of serving each customer account has increased by $1 to $70/account as a decrease in labour costs was more than offset by higher bad debts expense and increased depreciation costs reflecting further investment in growth initiatives to better serve our customers.

**New Energy**

New Energy, AGL's 'innovation accelerator', is well positioned for success, focused on investing in strategic partnerships and bringing new products and technologies to the market, leading transformation within the energy sector.

In FY17, as part of New Energy's broader innovation strategy, we committed to a ten-year partnership with the Energy Impact Partners global coalition.

**Through Energy Impact Partners we have access to leading-edge technologies and strategic international partnerships with other energy companies, where we can collaborate to increase revenues, reduce costs and provide customers with smarter energy solutions through innovation.**

Energy Impact Partners is a private equity firm that invests in emerging technologies, products, services and business models throughout the electricity supply chain, from generation to consumption. The strategic partnership with Energy Impact Partners provides greater reach for our technology scanning and incubation, and a ready process to bring new solutions to scale. It is also a channel to international markets, strategic partnerships and finance for our innovative Australian technology partners.

In FY17 our South Australian Virtual Power Plant went live. When fully developed, the 5 MW peaking capacity of the plant will make it the world's largest residential virtual power plant. Batteries installed in homes throughout Adelaide are being orchestrated to simultaneously aggregate the battery discharge via smart software in a cloud-based platform, giving critical mass to the VPP generation capabilities. We estimate that our customers in the VPP trial will save around $500 per year on their energy bill, in addition to receiving a heavily discounted battery. The demonstration is also proving the value of batteries in the energy transition – offering an alternative capacity to thermal plants as they close, enabling high penetration of renewables in the South Australian grid by allowing intermittent renewable energy to be used when it's needed, rather than when it's produced. It is anticipated installation of all 1,000 batteries will be completed by the second half of 2018.

New Energy has also converted the meters of 17,000 AGL solar customers in New South Wales to digital meters following changes to the feed in-tariff structure. These changes have enabled our customers to derive greater value from their solar systems by enabling them to self-consume the energy they have generated, in addition to exporting energy to the grid.

**Wholesale gas portfolio**

We have continued to pursue multiple options to strengthen supply in gas and to develop our portfolio in response to a dynamic and volatile market. We have secured flexible transportation arrangements with both Epic Energy and APA, which have enabled bi-directional movement of gas. This helps us to meet both household and generation demand responsibly. We also executed a binding heads of agreement with Cooper Energy. This doubles the proposed supply to AGL from Cooper Energy's project in the Gippsland Basin to 12 PJ for eight years from 2019. Meanwhile, we continued to engage with other domestic suppliers to source further competitive supply and to leverage the flexibility provided by our strong storage position.

In November 2016, we announced an investment of $17 million into a feasibility study for a potential LNG Import Facility in Eastern Australia as part of our approach to maintaining future security and stability of gas supply. On 10 August 2017 we announced Crib Point in Victoria as the preferred location, with a final investment decision on the project targeted for 2018.

Our gas storage facilities at Newcastle and Silver Springs continue to provide a strategic reserve of natural gas, helping to secure continuity of supply during periods of peak demand or supply disruptions.

1. See Australia's National Electricity Market: Optimising Policy to Facilitate Demand-Side Response.
2. 2016 National Electricity Forecasting Report, AEMO.
Supply chain

Work with our suppliers to ensure their commitment to our sustainable practices (outlined in the AGL Supplier Code of Conduct) to meet the expectations of AGL and the community.

<table>
<thead>
<tr>
<th>FY17 targets</th>
<th>FY17 performance</th>
<th>Status</th>
<th>FY18 target</th>
</tr>
</thead>
<tbody>
<tr>
<td>AGL Supplier Agreements signed in FY17 to include the AGL Supplier Code of Conduct: 100%</td>
<td>AGL Supplier Agreements signed in FY17 to include the AGL Supplier Code of Conduct: 100%</td>
<td>🏆</td>
<td>AGL Supplier Agreements signed in FY18 to include the AGL Supplier Code of Conduct: 100%</td>
</tr>
<tr>
<td>Proportion of material suppliers evaluated for compliance with the AGL Supplier Code of Conduct: 80%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

With more than 4,500 suppliers, we recognise that our suppliers can have a strong influence on our sustainability performance. We have been working on improving our procurement framework and adopting a consistent approach across our business.

In FY17, we implemented a new company-wide ‘Procure to Pay’ Policy, which sets out principles to guide our procurement activities. One of our guiding principles is to ‘maximise sustainable procurement activities’ to reduce the social and environmental impacts of activities along our supply chain. Specifically, this requires all our people to seek opportunities to meet our sustainability targets by:

- implementing our sustainability principles and values
- selecting suppliers with similar sustainability values and commitments
- influencing suppliers to reduce the social and environmental impact of the products and services provided to us
- contributing to the development of local communities affected by our operations, through the creation of employment opportunities and the development of skills at a local level, and
- investing in long-term collaborations with suppliers to support the implementation of initiatives aimed at reducing the social and environmental impacts of their products/services.

Supporting the Procure to Pay Policy is our Supplier Code of Conduct, which outlines a minimum set of requirements that suppliers must adhere to when engaging in business with us. The Supplier Code of Conduct covers corporate governance, ethics, risk management, labour policies, human rights and discrimination, occupational health and safety, environmental management, community and supply chain.

All new suppliers who are engaged using AGL’s supplier agreements are required to comply with obligations outlined in our Supplier Code of Conduct. This requirement is embedded in our standard contract templates to ensure that it applies to all new contracts. In addition, they may be asked to complete a Supplier Code of Conduct Questionnaire. New suppliers identified as being of high value and/or risk may also be requested to complete a detailed Sustainable Procurement Questionnaire as part of their application to work with us. Where areas of non-compliance are identified, we require those suppliers to work with us in developing a Corrective Action Plan.

One hundred percent of AGL Supplier Agreements signed during FY17 included the requirement for the supplier to comply with our Supplier Code of Conduct. During FY17, over 93% of suppliers were engaged under our AGL Supplier Agreements. In instances where it is not feasible to engage suppliers under our standard supplier agreements, we undertake prequalification checks as part of our due diligence screening process. The checks may require the supplier (where relevant) to provide health and safety and environmental credentials, and provide referees. We may also use third parties to conduct checks on the commercial profiles of prospective suppliers.
In support of the small businesses who make up our supplier base, in FY17 we signed up to the Australian Supplier Payment Code. The Code is a business-led initiative launched by the Business Council of Australia that aims to ensure that small business suppliers are paid within 30 days of issuing a correct invoice. AGL joins 32 of Australia’s largest companies (including ANZ, Qantas, Telstra, BHP, Coles and Woolworths) in supporting the initiative. By signing up to the Code, AGL commits to:

- pay eligible Australian small business suppliers within 30 days of receipt of a correct invoice or receipt of a correct product from the supplier (whichever is the later), or on mutually agreed terms, or on terms that are consistent with a standard industry practice
- pay correct invoices from suppliers on time
- provide clear guidance to suppliers about the company’s payment procedures, and
- work with supplier businesses, where practicable, to apply technologies and practices that will speed up invoice reconciliation, approval and payment processes (e.g. online portals, electronic invoicing, Electronic Funds Transfer, payment cards, etc.).

1. A ‘material supplier’ is defined as a supplier whose spend with AGL is $15 million or greater per annum, and/or who supplies goods or services that are assessed as very high or extreme risk according to AGL’s Fully Integrated Risk Management (FIRM) matrix.

Related Information
AGL Supplier Code of Conduct
Australian Supplier Payment Code
Economic performance

Taxation and transparency

We are committed to meeting all tax compliance obligations, and to providing our stakeholders with information about the taxes we pay and the taxation policies we employ.

We have adopted the Board of Taxation’s voluntary Tax Transparency Code (TTC), and the tax-related disclosures in this report and our Financial Report meet the requirements of this Code.

Our Tax Risk Management Policy sets out clear objectives and accountabilities for managing tax risk. The policy is endorsed by the Board and reviewed every two years.

The key focus of this policy is to:

- ensure all tax obligations are satisfied
- ensure tax risks are identified, managed and communicated to relevant stakeholders, including senior management and Audit and Risk Management Committee
- maintain a co-operative and transparent relationship with taxing authorities, and
- ensure the management of tax risks is appropriately resourced.

Group Tax manages AGL’s tax strategy in accordance with the AGL Compliance Management Policy and the AGL Code of Conduct. Material tax risks and compliance issues are reported to the Chief Financial Officer and ultimately to the Board Audit and Risk Management Committee as part of our Governance Framework.

We manage our Australian tax obligations in line with the expectations of the Australian Tax Office (ATO). Due to our market capitalisation and gross revenue, AGL is defined as a ‘key taxpayer’ under the ATO’s Risk Differentiation Framework. We are therefore subject to increased levels of review by the ATO.

In the interests of good corporate citizenship and transparency, we engage regularly with the ATO in a cooperative manner. This open dialogue includes an annual pre-lodgement compliance review with the ATO.

We do not have any material operations outside Australia, and we have no tax obligations in any jurisdictions other than Australia. We have no international related party dealings. We do not engage in activities which artificially shift profits to low- or no-tax jurisdictions.

We have a strong history of paying fully franked dividends to our shareholders. The franking credits attached to the dividends paid by listed companies are a direct function of the income taxes paid each year. However, as announced at our FY16 Annual General Meeting, our dividend policy has been updated to target a payout ratio of approximately 75% of Underlying Profit after tax, franked to a minimum of 80%. The FY17 interim and final dividends were 80% franked. The reduction in franking is due to an increase in the payout ratio.

Under Australian taxation law, AGL has formed two tax consolidated groups (TCG) whereas for accounting purposes, they are consolidated and reported as one. AGL and its wholly owned subsidiaries form one TCG, and a non-wholly owned group, AGL Generation Holdco Pty Ltd (AGL Generation) form a second TCG. The latter TCG has prior year tax losses.

Performance

During FY17, we paid various taxes in Australia totalling $750.3 million, including income tax of $292 million. Visit the data centre to view our FY17 tax contribution summary.

Our effective tax rate on Underlying Profit after tax was 29.6% for FY17, which is in line with the Australian corporate tax rate of around 30%. Visit the data centre to view our effective tax rates in prior years.
We use Underlying Profit rather than statutory profit to determine the effective tax rate, as Underlying Profit provides a better reflection of the performance of our underlying and ongoing operations, and is the metric used to determine our dividend distribution.

Broadly, differences between AGL's effective tax rate and the corporate tax rate of 30% are related to:

- non-deductible expenses that are expensed for accounting
- benefits arising from research and development
- recognition of unbooked tax losses, and
- adjustments arising from accounting/tax differences on disposals.

**Reconciliation of Statutory Profit to taxable income**

Under the Australian Accounting Standards, income tax expense is calculated on Statutory Profit. There are differences between a company's income tax expense and the actual cash tax paid by the company, primarily because income tax expense includes amounts that were not paid/received during the financial year. These are referred to as deferred tax items.

There are a number of income and deduction items that are recognised at different points in time for accounting and tax purposes. Some examples of these items are: depreciation; capitalised interest expense; accrued expenses and provisions; unrealised gains and losses on derivatives; amortisation of intangibles; impairment of assets; and recoupment of prior year tax losses. Statutory Profit is adjusted for such differences to arrive at taxable income, which is taxed at 30%. The tax liability is then reduced for any tax offsets such as research and development expenditure.

In the final quarter of calendar year 2017, the ATO will publish details of gross revenue, taxable income and income tax for certain entities based upon tax returns for the year ended 30 June 2016.

Being in a capital intensive industry, our taxable income is generally lower than our Statutory Profit since tax depreciation is generally greater than accounting depreciation.

1. In February 2016 AGL announced that it made a US$20m investment (22% ownership) in a US company, Sunverge Energy Inc. AGL also has non-controlling interests in a US fund investing in companies focused on energy impact technologies and a US company developing smart home access products and services.
2. Statutory Profit is prepared in accordance with the Corporations Act 2001 and the Australian Accounting Standards, which comply with the International Financial Reporting Standards. Underlying Profit is the statutory profit adjusted for significant items (usually associated with the acquisition/disposal of investments, impairment of assets and major restructure costs) and changes in the fair value of financial instruments.

**Related Information**

AGL Compliance Management Policy
AGL Code of Conduct
AGL Dividend Policy