

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 2019, 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 2019 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of this report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the "Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.



We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p><i>IT systems implementation</i></p> <p>AGL is in the process of implementing a new Enterprise Resource Planning system ("S4/HANA"). This implementation, referred to as PT3, has a significant impact on the IT systems, the business cycle processes and the key business process controls integral to the financial report.</p> <p>The IT systems across AGL are complex and there are varying levels of integration. These systems are critical to the integrity of the financial reporting process. Consequently, the effectiveness of IT systems inclusive of the implementation of S4/HANA and related PT3 processes is a key aspect of our external audit.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • obtaining an understanding of the internal risk management process, the IT systems and controls integral to the financial reporting process; • identifying IT systems and business process controls to include in the scope of our internal control testing; • testing the design and implementation of the key IT controls relating to the financial reporting systems; • testing the design and implementation of key business process controls integral to financial reporting; and • testing the completeness and accuracy of data migrated as part of the PT3 implementation by re-performing management's reconciliations by profit centre and account, inclusive of underlying sub-ledgers.
<p><i>Unbilled revenue and unbilled distribution costs</i></p> <p>As at 30 June 2019, unbilled revenue of \$898 million disclosed in Note 9 represents the value of electricity and gas supplied to customers between the date of the last meter reading and the reporting date where no bill has been issued to the customer at the end of the reporting period.</p> <p>As at 30 June 2019, unbilled distribution costs of \$400 million disclosed in Note 17 represents the estimated distribution costs related to energy consumption between the date of the last invoice from the distributor and the end of the reporting period.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • obtaining an understanding of the process flows of key controls management has in place to determine the estimate of unbilled revenue and unbilled distribution costs; • understanding and challenging management's assumptions relating to volume, customer pricing and distribution tariff rates used in determining unbilled revenue and unbilled distribution costs by: <ul style="list-style-type: none"> ○ on a sample basis agreeing data underlying the calculation of the

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p>Significant management judgment is required to estimate electricity and gas consumption, pricing applicable to customers between the last customer invoice date and the end of the reporting period and applicable distribution tariff rates between the date of the last invoice from the distributor and the end of the reporting period.</p>	<p>estimated volumes to supporting systems, having performed sample testing of the key controls in those systems;</p> <ul style="list-style-type: none"> ○ comparing the prices applied to customer consumption with historical and current data; and ○ comparing the distribution tariff rates applied to current tariff tables. <ul style="list-style-type: none"> • in conjunction with our data analytics specialists: <ul style="list-style-type: none"> ○ calculating an independent estimate of the expected unbilled revenue at 30 June 2019 using AGL’s historical customer consumption, AGL’s purchase volumes and pricing data, and comparing our independent estimate to AGL’s reported unbilled revenue. ○ calculating an independent estimate of the expected unbilled distribution costs accrual at 30 June 2019 utilising information supplied by distributors and tariff data, and comparing our independent estimate to AGL’s reported distribution costs payable. <p>We also assessed the appropriateness of the disclosures in Notes 2, Note 9 and Note 17 to the financial statements.</p>
<p><i>Financial instruments</i></p> <p>AGL enters into various financial instruments including derivative financial instruments to economically hedge the company’s exposure to variability in interest rates, foreign exchange movements and energy prices. These financial instruments include longer term energy purchase and supply contracts which in some cases have significant contractual volumes and/or pricing linked to commodity prices or emission trading schemes.</p> <p>As at 30 June 2019, derivative financial assets totaled \$764 million (current assets of \$267 million and non-current assets of \$497 million as disclosed in Note 11) and derivative financial liabilities totaled \$715 million (current liabilities of \$596 million and non-current liabilities of \$119 million as disclosed in Note 20). These financial instruments are recorded</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • obtaining an understanding of the internal risk management process, and the systems and controls associated with the origination and maintenance of complete and accurate information relating to financial instrument contracts; • obtaining an understanding of the key financial instrument contract terms to assess the appropriateness of the relevant accounting applied in the financial statements; • in conjunction with our treasury specialists, testing on a sample basis the existence and valuation of financial instrument contracts as at 30 June 2019. Our audit procedures included: <ul style="list-style-type: none"> ○ evaluating the integrity of the financial instrument valuation models, and



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<p>at fair value as required by the relevant accounting standard.</p> <p>Significant judgement is required in the valuation and accounting for these financial instruments including:</p> <ul style="list-style-type: none"> • understanding and applying contract terms; • forecasting future energy prices in the short and longer term; • forecasting future emissions trading outcomes and prices; and • applying discount rates. 	<ul style="list-style-type: none"> ○ assessing the incorporation of the contract terms and the key assumptions into the financial instrument valuation models, including future price assumptions and discount rates. <p>We have also assessed the appropriateness of the disclosures included in Note 11, Note 20 and Note 36 to the financial statements.</p>

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 2019, but does not include the financial report and our auditor’s report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor’s Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:



- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 58 to 81 of the Directors' Report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of AGL Energy Limited, for the year ended 30 June 2019 complies with section 300A of the *Corporations Act 2001*.



Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

A handwritten signature in black ink, appearing to read "J Thorne".

Jason Thorne
Partner
Chartered Accountants
Sydney, 8 August 2019