



Appendix 4E

AGL Energy Limited

ABN 74 115 061 375

Preliminary Final Report

Results for announcement to the market for the financial year ended 30 June 2007

Extracts from this report for announcement to the market

\$A Million

Revenue	Up	880.0%	To	3,765.3
Profit after income tax attributable to Shareholders of the Parent Entity	Up	800.2%	To	410.5
Dividends	Amount per ordinary share		Franked amount per ordinary share	
Final dividend	26.0 ¢		26.0 ¢	
Interim dividend	9.5 ¢		9.5 ¢	
Record date for determining entitlements to the dividends:				
Final dividend	6 September 2007 payable on 28 September 2007			
Interim dividend	9 March 2007 paid on 22 March 2007			
Brief explanation of revenues, profit after income tax and dividends:				
An analysis of these results is in the Directors' Report of the preliminary final report attached to this announcement.				
Profit after income tax includes significant items as detailed in Note 6.				
The final dividend in respect of ordinary shares for the year ended 30 June 2007 has not been recognised in the preliminary final report as it was declared subsequent to 30 June 2007.				

With the exception of entities associated with the acquisition of Sun Gas and Powerdirect, the controlled entities of AGL Energy Limited as at 30 June 2007 were acquired by the Company at various dates prior to completion of the demerger transaction on 25 October 2006. Therefore, neither the results of the current period nor the prior year comparatives are representative of what the reported results would have been if the controlled entities had been held by AGL Energy Limited for the entirety of both periods. Sun Gas was acquired on 1 February 2007 and the Powerdirect entities were acquired on 1 March 2007.



AGL Energy Limited and Subsidiaries
Preliminary Final Report
For the financial year ended 30 June 2007

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AGL Energy Limited and Subsidiaries
ABN 74 115 061 375

Directors' Report for the year ended 30 June 2007 (Incorporating the commentary by Directors and dividend announcement made to the Australian Securities Exchange Limited on 22 August 2007)

The Directors report on the AGL Energy Limited consolidated entity for the year ended 30 June 2007 in accordance with the Corporations Act 2001.

Results

Underlying profit after income tax attributable to Shareholders (excluding significant items) was \$496.4 million resulting in basic earnings per share of 179.6 cents. This amount included unrealised fair value gains from electricity derivatives of \$414.4 million before tax (see note 4).

The result for the year included the following one-off significant items after tax as detailed in Note 6:

	\$m
Demerger costs	(40.7)
Impairment of IT assets	(15.9)
Redundancy / Restructure costs	(23.3)
Project expenditure write off	(3.2)
Sun Gas integration costs	(2.8)
Total significant items after income tax	<u>(85.9)</u>

	Excluding Significant items		Including Significant items	
	30 June 2007	30 June 2006	30 June 2007	30 June 2006
	\$m	\$m	\$m	\$m
Profit before net financing costs, depreciation and amortisation and income tax (EBITDA)	972.6	191.4	849.9	191.4
Depreciation and amortisation	(163.5)	(51.8)	(163.5)	(51.8)
Profit before net financing costs and income tax (EBIT)	809.1	139.6	686.4	139.6
Finance income	36.9	9.8	36.9	9.8
Finance costs	(132.2)	(76.3)	(132.2)	(76.3)
Net financing costs	(95.3)	(66.5)	(95.3)	(66.5)
Profit before income tax (PBT)	713.8	73.1	591.1	73.1
Income tax	(217.4)	(27.5)	(180.6)	(27.5)
Profit after income tax attributable to Shareholders of the Parent Entity	496.4	45.6	410.5	45.6

With the exception of entities associated with the acquisition of Sun Gas and Powerdirect, the controlled entities of AGL Energy Limited as at 30 June 2007 were acquired by the Company at various dates prior to completion of the demerger transaction on 25 October 2006. Therefore, neither the results of the current period nor the prior year comparatives are representative of what the reported results would have been if the controlled entities had been held by AGL Energy Limited for the entirety of both periods. Sun Gas was acquired on 1 February 2007 and the Powerdirect entities were acquired on 1 March 2007.



AGL Energy Limited and Subsidiaries Financial Commentary – Discussion and Analysis of Financial Statements

In this report AGL Energy refers to AGL Energy Limited (or the Parent Entity), AGL refers to AGL Energy and its subsidiaries (or the Consolidated Entity) and the former AGL Group refers to The Australian Gas Light Company and its subsidiaries.

As required by Australian Accounting Standards, the AGL consolidated financial report for the year ended 30 June 2007 incorporates the results of AGL Energy's subsidiaries from the date AGL Energy obtained control of those subsidiaries through to 30 June 2007.

AGL Energy obtained control of its subsidiaries at various times throughout the period (refer Note 14) as a consequence of the internal restructuring that took place in preparation for the demerger of AGL Energy from The Australian Gas Light Company and the acquisition of Sun Gas and Power Direct. As a result, the Income Statement, Cash Flow Statement and Statement of Recognised Income and Expense presented in the financial report contain the results of those subsidiaries only from the date control was obtained and not for the full year.

Further, as AGL Energy was a pre-existing legal entity within the former AGL Group, the comparative information presented in the preliminary final financial report represents the financial information of AGL Energy and its subsidiaries as they existed in the prior period and therefore is not directly comparable to the financial information for the current period.

Profit Attributable to Shareholders

Profit after income tax and excluding significant items was \$496.4 million resulting in basic earnings per share of 179.6 cents. Reported profit was \$410.5 million resulting in basic earnings per share of 148.5 cents.

Final Dividend

The Directors have declared a 2007 final dividend of 26.0 cents per share for the year, franked to 26.0 cents (100%). This dividend relates to earnings of AGL for the period 1 January 2007 until 30 June 2007. A dividend of 25.5 cents per share was paid by The Australian Gas Light Company on 23 October 2006 in respect of earnings of The Australian Gas Light Company for the period 1 July 2006 to 25 October 2006. An interim dividend of 9.5 cents per share was paid by AGL Energy on 22 March 2007 in respect of earnings for the period 26 October 2006 to 31 December 2006. Including the stub dividend, AGL Energy shareholders will have received a total dividend of 61.0 cents per share.

The Record date to determine Shareholders' entitlements to the final dividend is 6 September 2007 with payment on 28 September 2007. Shares will commence trading ex-dividend to the final dividend on 31 August 2007.

Review of Operations

Profit (including significant items) before net finance costs and income tax was \$686.4 million (2006 \$139.6 million) arising from the following activities:

Retail Energy EBIT \$107.1 million (2006 \$25.1 million)

During the year to 30 June 2007, Retail Energy contributed \$107.1 million to profit before finance costs. These results reflect business performance of the entities within the group from the date they were transferred into or acquired by the AGL Energy group. These transfers were all completed within the first half of the current financial year and the second half of the prior financial year. The result also includes two newly acquired businesses in the second half of the financial year, Sun Gas and Powerdirect.

Retail Energy is responsible for serving and growing AGL's strong national cornerstone position in Australia's downstream gas and electricity markets.

Key business priorities for Retail Energy are driving down cost to serve while organically and non-organically growing its customer base including high-value dual fuel accounts.



AGL Energy Limited and Subsidiaries

Financial Commentary – Discussion and Analysis of Financial Statements

Merchant Energy EBIT \$736.8 million (2006 \$115.1 million)

For the year to 30 June 2007, Merchant Energy's contribution to profit before finance costs and income tax increased from \$115.1 million to \$736.8 million. The significant increase in profit contribution was due to substantial unrealised fair value gains of \$414.4 million from the electricity contract portfolio during a year when marked to the increasingly volatile forward electricity market. AGL's electricity contract book at year end had a positive value of approximately \$3.9 billion. A portion of this unrealised value manifested in earnings as certain contracts were deemed to be trading in nature by accounting standards. Also contributing, was the acquisition during the current and prior year of businesses from The Australian Gas Light Company in preparation for the demerger of AGL Energy and the purchase of new businesses during or since the prior year.

Wholesale Energy and Power Generation EBIT \$608.0 million (2006 \$67.9 million)

AGL's increasing Wholesale Energy and Power Generation business comprises an integrated portfolio of generation, contracting and hedging activities whose primary objective is to effectively manage AGL's energy costs.

Wholesale Gas

AGL's increasing Wholesale Gas division is responsible for sourcing and managing AGL's gas supply and transportation portfolio to maximise wholesale price competitiveness for AGL. Wholesale Gas also supplies other retailers and internal and third party gas-fired generators.

Energy Services

The Energy Services division is responsible for maximising customer specific opportunities to make businesses more sustainable and energy efficient. The Energy Services business continues to build upon its centres of excellence including program maintenance, gas combustion, customer energy infrastructure, customer based asset development and energy efficiency related carbon benefits.

Power Generation and Trading

AGL's power generation portfolio includes the gas-fired peaking generators, Somerton in Victoria and Hallett in South Australia, AGL's 32.5% investment in Loy Yang Power and AGL Hydro (formerly Southern Hydro). On 2 July 2007 AGL acquired the 1,280MW Torrens Island gas-fired power station (TIPS) and sold its 180MW gas-fired peaking plant at Hallett for a net payment of \$300 million, substantially enhancing the generation portfolio.

Power Generation – Investments

The equity contribution for the year from the 32.5% investment in Loy Yang Power was \$21.6 million. There was no prior year contribution to earnings from this investment.

Upstream Gas EBIT \$128.8 million (2006 \$47.2 million)

AGL's Upstream Gas business includes the Gas Development and HC Extraction operations. The business objectives are to:

- invest in upstream gas production and development assets that will underpin AGL's long-term growth;
- secure competitively-priced sources of gas;
- reduce risk by diversifying sources of supply; and
- maintain an appropriate balance between equity and contract supplies to provide portfolio flexibility and minimise cost and risk.

The Gas Development division contributed EBIT of \$118.7 million, an increase of \$75.7 million over the prior year. This comprised \$115.9 million (2006 \$42.9 million) from the PNG oil joint ventures and \$2.8 million (2006 \$0.1 million) from the CSM joint ventures and investments.



AGL Energy Limited and Subsidiaries Financial Commentary – Discussion and Analysis of Financial Statements

PNG Upstream Investment

AGL's share of PNG oil production for the year was 2.44 million barrels (2006 1.25 million barrels), while oil liftings totalled 2.53 million barrels (2006 1.06 million barrels) at a realised sales price of US\$73.70 per barrel (2006 US\$69.37 per barrel) after taking into account the impact of settled hedges. Oil sales totalled \$230.9 million (2006 \$94.4 million) comprising revenue of \$237.4 million (2006 \$98.8 million) and a \$6.5 million loss (2006 \$4.4 million loss) on oil option amortisation. The EBIT contribution for the year was \$115.9 million (2006 \$42.9 million), after depreciation and amortisation of \$84.6 million (2006 \$38.2 million), comprising underlying EBIT of \$110.9 million (2006 \$51.1 million) and a gain of \$5.0 million (2006 \$8.2 million loss) in respect of the portfolio of oil hedge contracts.

Camden Gas Project and Other Sydney Basin Joint Ventures

AGL has a 50% operating interest in the Camden Gas Project joint venture. The Project has been producing CSM for a number of years and development activities continued over the past year aimed at increasing production. AGL also has 50% non-operating interests in a number of exploration joint ventures in the Camden and Hunter Valley regions. Exploration activities continued during the year aimed at defining and assessing the potential of CSM resources across the Sydney Basin.

As the joint ventures were acquired in the prior year, this is AGL's first full year of ownership. AGL's share of gas sales from the Camden Gas Project for the year was 2.3 PJ (2006 1.3 PJ). Gas sales revenue totalled \$7.4 million (2006 \$4.2 million) and the EBIT contribution from all the joint ventures was \$0.6 million (2006 \$0.1 million), after depreciation and amortisation of \$4.0 million (2006 \$2.2 million).

Moranbah Gas Project Joint Ventures

On 22 August 2006 AGL announced it had completed the acquisition of a 50% non-operating interest in the Moranbah Gas Project joint venture for US\$68.7 million (approximately \$93 million). The Project has been producing CSM since 2004 and sales volumes continued to trend up over the past year. The assets acquired also include a 99% interest in the ATP 364P exploration joint venture (although Arrow Energy Limited has sole exploration rights) and other rights including a 5% override royalty.

AGL's share of gas sales from the Moranbah Gas Project since acquisition was 6.7 PJ. Gas sales revenue totalled \$14.3 million and the EBIT contribution was \$1.3 million, after depreciation and amortisation of \$8.4 million.

QGC Share Investment

On 8 March 2007 AGL completed the acquisition of 204,616,102 shares (27.5%) in QGC at a price of \$1.60 per share (\$327.4 million). Following the concurrent QGC buyback in which AGL did not participate, AGL's equity interest increased to 27.6%. The EBIT contribution from the investment since acquisition was \$0.8 million.

CSM Energy Share Investment

On 19 June 2007 AGL completed the acquisition of a 35% share investment in CSM Energy Limited at a cost of \$3 million. CSM Energy is an unlisted public company with a focus on pursuing coal mine methane extraction and commercialisation businesses. There was no EBIT contribution from this asset for the year.

H C Extractions (HCE)

HCE produces LPG and naphtha by processing refinery off-gases supplied by the adjacent Caltex oil refinery in Kurnell, Sydney, with all production sold back to Caltex. During the year production was down due to the planned shutdown that is scheduled every four years. Production has since returned to normal operating capacity. The business benefited during the year from high Saudi Contract propane prices offset by a higher US dollar exchange rate.



AGL Energy Limited and Subsidiaries Financial Commentary – Discussion and Analysis of Financial Statements

Energy Investments – contribution \$25.2 million (2006 \$nil million)

ActewAGL (50% AGL ownership)

ActewAGL contributed \$10.9 million in EBIT for the year to 30 June 2007. Warmer weather resulting in lower electricity and gas volumes was offset by improved margins. Despite increased competitive pressure, retail customer numbers were in line with the previous period.

Elgas (50% AGL ownership)

AGL's 50% interest in Auscom Holdings (Elgas), which distributes and retails LPG in Australia, made a \$6.5 million equity contribution, for the year to 30 June 2007.

Elgas's earnings are in line with expectations. The supply reliability offered by the Sydney LPG Cavern led to stronger than expected volumes during the year as a number of refineries experienced production problems.

Gas Valpo (100% AGL ownership)

AGL's wholly owned investment in Gas Valpo, a natural gas distribution company in Chile, contributed \$8.9 million to earnings before interest and tax.

Alinta AGL (33 % AGL ownership)

AlintaAGL provides natural gas to 566,000 customers and electricity to 1,656 Commercial & Industrial customers within Western Australia. AlintaAGL is also the owner and developer of cogeneration plants through its relationship with Alcoa.

AlintaAGL Pty Limited contributed an equity share of losses of \$3.7 million to June 2007, for the period since acquisition.

Unallocated items - expense \$182.7 million (2006 expense \$0.6 million)

Unallocated expense items of \$182.7 million included \$58.2 million of Demerger costs, \$22.7 million impairment of IT assets, \$12.2 million of Redundancy / restructure costs and a \$4.5 million Project expenditure write off. The remainder represents the costs associated with the various corporate functions supporting group operations.

Finance costs - expense \$132.2 million (2006 expense \$76.3 million)

Finance costs of \$132.2 million includes interest expense on external borrowings and finance leases.

Income tax - expense \$180.6 million (2006 expense \$27.5 million)

Income tax expense of \$180.6 million represents income tax on profits earned from the time entities became part of the AGL Energy group



AGL Energy Limited and Subsidiaries

Directors in Office

The names of Directors of the Parent Entity who held office during or since the end of the financial year are:

	<i>First Appointed</i>
Mark Roderick Granger Johnson – Chairman	17 February 2006
Paul Anthony – Managing Director	23 May 2006
David Charles Keith Allen AO	17 February 2006
Carolyn Judith Hewson	17 February 2006
Maxwell Gilbert Ould	17 February 2006
Graham John Reaney	5 July 2006
Jeremy Charles Roy Maycock	9 October 2006
Sandra Veronica McPhee	9 October 2006
David Paul Craig	17 February 2006 (resigned 9 October 2006)

Rounding of Amounts to Nearest \$0.1 Million

The Company is an entity to which ASIC Class Order 98/100 applies and in accordance with that Class Order, amounts in the Financial Report and this Directors' Report have been rounded off to the nearest tenth of a million dollars, unless otherwise stated.

A handwritten signature in black ink that reads 'Mark Johnson'.

Mark Johnson
Chairman



AGL Energy Limited and Subsidiaries
Consolidated Income Statement
For the year ended 30 June 2007

	Note	2007 \$m	2006 \$m
Revenue	2	3,765.3	384.2
Other income	3	38.3	2.9
Expenses	4	(2,989.8)	(195.7)
Share of profits of associates and jointly controlled entities using the equity method	9	36.1	-
Profit before net financing costs, depreciation and amortisation		849.9	191.4
Depreciation and amortisation		(163.5)	(51.8)
Profit before net financing costs		686.4	139.6
Finance income		36.9	9.8
Finance costs		(132.2)	(76.3)
Net financing costs	5	(95.3)	(66.5)
Profit before income tax		591.1	73.1
Income tax expense		(180.6)	(27.5)
Profit after income tax attributable to shareholders of the Parent Entity		410.5	45.6
Earnings per share – including significant items			
Basic for profit for the year (cents)		148.5	- ¹
Diluted for profit for the year (cents)		148.5	- ¹
Earnings per share – excluding significant items			
Basic for profit for the year (cents)		179.6	- ¹
Diluted for profit for the year (cents)		179.5	- ¹
Weighted average number of ordinary shares			
Basic (millions)		276.4	- ¹
Diluted (millions)		276.6	- ¹

¹ The weighted average number of ordinary shares was 2 and earnings per share including significant items and earnings per share excluding significant items was 2,277,712,150 cents per share.



AGL Energy Limited and Subsidiaries
Consolidated Balance Sheet
For the year ended 30 June 2007

	2007 \$m	2006 \$m
Current assets		
Cash and cash equivalents	279.9	58.5
Trade and other receivables	1,702.3	187.0
Inventories	27.9	21.6
Current tax assets	30.6	-
Other financial assets	5,102.5	428.1
Other assets	15.3	3.4
Non-current assets classified as held for resale	117.0	-
Total current assets	7,275.5	698.6
Non-current assets		
Trade and other receivables	1.4	0.1
Investments accounted for using the equity method	534.4	-
Exploration and evaluation assets	66.2	51.5
Oil and gas assets	505.1	498.4
Property, plant and equipment	1,101.6	845.4
Intangible assets	3,204.9	847.0
Other financial assets	1,392.2	37.8
Other assets	26.2	4.2
Total non-current assets	6,832.0	2,284.4
Total assets	14,107.5	2,983.0
Current liabilities		
Trade and other payables	1,482.3	58.5
Borrowings	406.3	5.8
Provisions	21.2	9.9
Current tax liabilities	10.3	4.3
Other financial liabilities	2,192.7	2,342.1
Other liabilities	1.5	0.9
Total current liabilities	4,114.3	2,421.5
Non-current liabilities		
Borrowings	2,041.4	288.2
Provisions	32.6	13.5
Deferred tax liabilities	1,340.3	36.8
Other financial liabilities	35.6	91.7
Other liabilities	25.7	1.3
Total non-current liabilities	3,475.6	431.5
Total liabilities	7,589.9	2,853.0
Net assets	6,517.6	130.0
Equity		
Issued capital	3,858.9	-
Other contributed equity	-	123.9
Reserves	2,137.5	(17.3)
Retained earnings	521.2	23.4
Total equity	6,517.6	130.0



AGL Energy Limited and Subsidiaries
Consolidated Cash Flow Statement
For the year ended 30 June 2007

	2007 \$m	2006 \$m
Cash flows from operating activities		
Receipts from customers	4,737.9	474.3
Payments to suppliers and employees	(4,328.7)	(102.1)
Dividends received	26.4	-
Finance income received	20.2	1.2
Finance costs paid	(94.3)	(10.9)
Income tax paid	(71.9)	(23.8)
Net cash provided by operating activities	<u>289.6</u>	<u>338.7</u>
Cash flows from investing activities		
Payments for property, plant and equipment	(150.2)	(39.5)
Payments for exploration and evaluation assets	(20.3)	(49.4)
Payments for oil and gas assets	(147.3)	(534.0)
Payments for investments	(452.3)	-
Payments for acquisition of businesses/subsidiaries	(1,308.9)	(1,440.4)
Proceeds from sale of property, plant and equipment	48.4	0.2
Net cash used in investing activities	<u>(2,030.6)</u>	<u>(2,063.1)</u>
Cash flows from financing activities		
Proceeds from issue of shares, net of transaction costs	911.9	-
Proceeds from borrowings	2,528.3	3.7
Repayment of borrowings	(142.4)	(3.9)
Loans advanced	(247.0)	-
Proceeds from loan repayments	9.6	-
Loans (repaid) / advanced to other related parties	(1,043.5)	1,775.8
Dividends paid	(35.8)	-
Net cash provided by financing activities	<u>1,981.1</u>	<u>1,775.6</u>
Net increase in cash and cash equivalents	240.1	51.2
Cash and cash equivalents at the beginning of the financial year	52.8	-
Effects of exchange rate changes on the balance of cash held in foreign currencies	(13.7)	1.6
Cash and cash equivalents at the end of the financial year	<u><u>279.2</u></u>	<u><u>52.8</u></u>



AGL Energy Limited and Subsidiaries
Consolidated Statement of Recognised Income and Expense
For the year ended 30 June 2007

	2007 \$m	2006 \$m
Cash flow hedges:		
Gain/(loss) taken to equity	3,482.2	(53.6)
Transferred to profit or loss for the period	(257.9)	-
Net gain on hedge of net investments in foreign operations	70.8	2.3
Translation of foreign operations	(78.1)	6.7
Actuarial gain on defined benefit superannuation plans	9.9	-
Share of actuarial gain on defined benefit superannuation plans attributable to associates	5.2	-
Share of net decrements in reserves attributable to associates and joint venture entities	(174.3)	-
Income tax on items taken directly to or transferred from equity	(994.7)	27.3
Net income/(expenses) recognised directly in equity	2,063.1	(17.3)
Profit for the period	410.5	45.6
Total recognised income and expense for the period	2,473.6	28.3

Reconciliation of Consolidated Statement of Recognised Income and Expense to equity movements

	Reserves \$m	Retained earnings \$m
Opening balance at 30 June 2006	(17.3)	23.4
Current period movements	2,051.0	12.1
Adjustment on acquisition of subsidiaries, associates and jointly controlled entities in respect of the AGL Energy demerger	103.1	111.0
Movement in reserves not reflected in statement of recognised income and expense above		
Share-based payment transactions	0.7	-
Profit for the period	-	410.5
Dividend paid	-	(35.8)
Closing balance at 30 June 2007	2,137.5	521.2



AGL Energy Limited and Subsidiaries
Notes to the Financial Statements
For the year ended 30 June 2007

Note 1 – Summary of significant accounting policies

AGL Energy Limited (Parent Entity) is a company limited by shares and incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX).

The financial report includes the consolidated financial statements which comprise the Parent Entity and its subsidiaries (together referred to as the consolidated entity). This financial report does not include all the notes of the type normally included in an annual report.

(a) Basis of preparation

The preliminary final financial report has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law. The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (A-IFRS).

The financial report has been prepared on the basis of historical cost, except for derivative financial instruments which have been measured at fair value.

The Parent Entity is a company of the kind referred to in Australian Securities and Investments Commission Class Order 98/0100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report are rounded off to the nearest tenth of a million dollars unless otherwise stated. The financial report is presented in Australian dollars, unless otherwise noted.

New standards and interpretations issued not yet adopted

The following standards have been identified as those which may impact the consolidated entity in the period of initial application. They are available for early adoption at 30 June 2007, but have not been applied in preparing this financial report:

AASB 7 Financial Instruments: Disclosures

This standard is applicable to annual reporting periods beginning on or after 1 January 2007. It will not impact the results of the consolidated entity but will require extensive additional disclosures with respect to the consolidated entity and the company's financial instruments.

AASB 8 Operating Segments

This standard is applicable for annual reporting periods beginning on or after 1 January 2009. It will not impact the results of the consolidated entity but may impact the disclosure of results of the consolidated entity.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report.

(b) Principles of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Parent Entity. Control exists when the Parent Entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The financial statements of subsidiaries have been prepared for the same reporting period as the Parent Entity, using consistent accounting policies. Adjustments have then been made to bring into line any dissimilar accounting policies that may exist across the consolidated entity.

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

Investments in subsidiaries are measured at cost in the Parent Entity's financial statements.



AGL Energy Limited and Subsidiaries
Notes to the Financial Statements
For the year ended 30 June 2007

Note 1 – Summary of significant accounting policies (continued)

(c) Investments and joint venture arrangements

Associates and jointly controlled entities

Associates are those entities over which the consolidated entity exercises significant influence, but not control. Jointly controlled entities are those entities over whose activities the consolidated entity has joint control.

In the consolidated financial statements, investments in associates and jointly controlled entities are accounted for using the equity method. Under this method, the consolidated entity's share of the post-acquisition profits and losses is recognised in the income statement and its share of post-acquisition movement in reserves is recognised in reserves in the balance sheet. The cumulative post-acquisition movements are adjusted against the cost of the investment.

In the Parent Entity's financial statements, investments in associates and jointly controlled entities are accounted for under the cost method.

Jointly controlled operations and assets

The consolidated entity has certain contractual arrangements with other venturers to engage in joint venture activities that do not give rise to a jointly controlled entity. These arrangements involve the joint ownership of assets dedicated to the purposes of the joint venture.

The interests of the Parent Entity and the consolidated entity in unincorporated joint ventures are brought to account by recognising in the financial statements under the appropriate categories the consolidated entity's proportionate share of joint venture revenues, expenses, assets and liabilities.

Other

Investments in other entities are initially recorded at cost. After initial recognition, these investments are stated at fair value less any impairment.

(d) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. Cost is measured as the fair value of the assets given, liabilities incurred or assumed and shares issued in exchange for control of the acquiree, plus costs directly attributable to the business combination.

Except for non-current assets or disposal groups classified as held for sale which are measured at fair value less costs to sell, all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the net fair value of the consolidated entity's interest in the identifiable net assets. If, after reassessment, the cost of acquisition is less than the consolidated entity's interest in the net fair value of the identifiable net assets of the business combination, the difference is recognised in the income statement.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash in banks, cash on hand and short-term money market deposits. Bank overdrafts and short-term money market borrowings are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(f) Trade and other receivables

Trade and other receivables are recognised at amortised cost less impairment.

Collectibility of trade receivables is reviewed on an ongoing basis. An allowance for doubtful debts is raised when the collection of the full amount of the debt is no longer probable. Bad debts are written off when identified.

Unbilled revenue represents established gas and electricity services supplied to customers but unbilled at the reporting date.



AGL Energy Limited and Subsidiaries
Notes to the Financial Statements
For the year ended 30 June 2007

Note 1 – Summary of significant accounting policies (continued)

(g) Inventories

Stocks and materials are valued at the lower of cost and estimated net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a first-in-first-out basis.

(h) Loans

Loans are measured at amortised cost using the effective interest method less impairment.

(i) Property, plant and equipment

Purchased assets

Items of property, plant and equipment are initially brought to account at cost which includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. For major qualifying assets, cost includes, where applicable, finance and other costs incurred during construction or represents, where applicable, the fair value of assets acquired on the purchase of subsidiaries.

Property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the financial year the asset is derecognised.

Property, plant and equipment, other than freehold land, leasehold improvements and surplus properties held for sale, are depreciated on a straight line basis or at units of use basis at rates based upon the expected useful lives of the assets. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

Leasehold improvements are amortised over the periods of the relevant leases or the expected useful lives of the improvements, whichever are the shorter.

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

Freehold buildings	- 50 years;
Leasehold improvements	- lesser of lease period or 20 years; and
Plant and equipment	- 3 to 25 years.

Leased assets

Leases are classified as finance leases when the consolidated entity assumes substantially all the risks and rewards of ownership.

Assets held under finance leases are capitalised at the inception of the lease at their fair value or, if lower, at the present value of the minimum lease payments. The corresponding liability is included in the balance sheet as a finance lease liability.

Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in the income statement.

Finance leased assets are amortised on a straight line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

AGL Energy Limited and Subsidiaries
Notes to the Financial Statements
For the year ended 30 June 2007

Note 1 – Summary of significant accounting policies (continued)

(j) Oil and gas assets

The costs of oil and gas assets in the development phase are separately accounted for as tangible assets. When commercial operation commences, the accumulated costs are transferred to oil and gas assets in production. The costs of oil and gas assets in production are separately accounted for as tangible assets and include past exploration and evaluation costs, past development costs and the ongoing costs of continuing to develop reserves for production and to expand or replace plant and equipment and any associated land and buildings. These costs are subject to depletion using a unit of production method over the life of the estimated Proven plus Probable (2P) reserves. Depletion is not charged on costs carried forward in respect of assets in the development stage until production commences. Estimated reserves are determined on an annual basis.

(k) Exploration and evaluation assets

Exploration and evaluation expenditure for each area of interest is accounted for using the successful efforts method. This method requires all expenditure associated with exploration and evaluation to be expensed when incurred except for the costs of successful wells and acquisition of interests in new exploration assets including licences. The costs directly associated with drilling new wells are capitalised pending evaluation of the results of the well. When the oil or gas field reaches the stage of development, the accumulated exploration and evaluation assets are transferred to development assets.

(l) Intangible assets

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

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

Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill is not amortised, but is tested for impairment annually and whenever there is an indication that the goodwill may be impaired. Any impairment is recognised immediately in profit or loss and is not reversed in a subsequent period.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the synergies of the business combination.

Licences

Licences are carried at cost less any accumulated impairment losses. Licences are considered to have indefinite useful lives as they were either granted in perpetuity or there is evidence that the licences will be renewed beyond the initial term and the cost of renewal is not significant. Licences with indefinite useful lives are not amortised, but are tested for impairment annually and whenever there is an indication that the licences may be impaired. Any impairment is recognised immediately in profit or loss.

Customer relationships and contracts

Customer relationships and contracts arising from a business combination are carried at cost less accumulated amortisation and 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.



AGL Energy Limited and Subsidiaries
Notes to the Financial Statements
For the year ended 30 June 2007

Note 1 – Summary of significant accounting policies (continued)

(m) Impairment

At each reporting date, the consolidated entity reviews the carrying amount of its tangible (including oil and gas assets and exploration and evaluation assets) and intangible 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 the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill and other intangible assets with indefinite useful lives are tested for impairment annually and whenever there is an indication of impairment. An impairment of goodwill is not reversed in a subsequent period.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than the carrying amount of the asset or cash-generating unit, it is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

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 only to the extent 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 in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(n) Non-current assets held for sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition and the sale of the asset or disposal group is expected to be completed within one year from the date of classification.

(o) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year that are unpaid and arise when the consolidated entity becomes obliged to make future payments in respect of the purchase of these goods and services.

(p) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs.

Subsequent to initial recognition, borrowings are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Customer deposits are recognised on receipt of refundable deposits held as security over future gas and electricity usage by customers. Interest is accrued at nominal rates over the period the deposits are held.



AGL Energy Limited and Subsidiaries
Notes to the Financial Statements
For the year ended 30 June 2007

Note 1 – Summary of significant accounting policies (continued)

(q) Provisions

Provisions are recognised when the consolidated entity has a present legal or constructive obligation as a result of a past event, it is probable the obligation will be required to be settled 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 reporting date, 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.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the consolidated entity has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Environmental restoration

A provision for environmental restoration is recognised when there is a present obligation as a result of exploration, development and production activities having been undertaken, and it is probable that an outflow of economic benefits will be required to settle the obligation. The estimated future obligations include the costs of removing facilities and restoring the affected areas.

The provision for future restoration costs is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements. Future restoration costs are reviewed annually and any changes in the estimate are reflected in the present value of the restoration provision at the reporting date.

The initial estimate and changes in the estimate of the environmental restoration provision relating to exploration, development and production facilities is capitalised into the cost of the related asset and depreciated/amortised on the same basis as the related asset.

The unwinding of the effect of discounting on the provision is recognised as a finance cost.

(r) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO) is included as a current asset or liability in the balance sheet.

Cash flows are included in the cash flow statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.



AGL Energy Limited and Subsidiaries
Notes to the Financial Statements
For the year ended 30 June 2007

Note 1 – Summary of significant accounting policies (continued)

(s) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

Current tax is the expected tax payable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

The following temporary differences are not provided for: initial recognition of goodwill, initial recognition of assets or liabilities (other than as a result of a business combination) that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries, associates or jointly controlled entities to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax consolidation

The Parent Entity and all its wholly-owned Australian resident subsidiaries have formed a tax-consolidated group with effect from 25 October 2006 under Australian tax law. AGL Energy is the head entity in the tax-consolidated group.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'stand alone taxpayer' approach. Under this approach, each member in the tax-consolidated group measures its current and deferred taxes as if it continued to be a separate taxable entity in its own right. 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 Parent Entity (as head entity in the tax-consolidated group).

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

(t) Employee benefits

Liabilities for wages, salaries, annual leave and other employee benefits which are expected to be settled within twelve months of reporting date, are measured at undiscounted amounts using the remuneration wage and salary rates expected to apply at the time of settlement, plus relevant employment on-costs.

Liabilities for long service leave and other employee benefits, which are not expected to be settled within twelve months of reporting date, are measured as the present value of the estimated cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date.

Contributions to defined contributions superannuation plans are expensed when incurred.

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 each reporting date. Actuarial gains and losses are recognised in full, directly in retained earnings, in the period in which they occur.



AGL Energy Limited and Subsidiaries
Notes to the Financial Statements
For the year ended 30 June 2007

Note 1 – Summary of significant accounting policies (continued)

(t) Employee benefits (continued)

Past service cost is recognised immediately as an expense to the extent that the benefits are already vested, and otherwise is amortised on a straight line basis over the average period until the benefits become vested.

The defined benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation, adjusted for unrecognised past service cost, net of the fair value of the plan assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

(u) Share-based payment transactions

The consolidated entity provides benefits to employees (including Directors) in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares.

The fair value of share performance rights (SPRs) granted to eligible employees under the Long-Term Incentive Plan is recognised as an employee expense, with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period in which the employee becomes unconditionally entitled to the SPRs. The fair value of SPRs granted is measured using the Monte Carlo Simulation Method. The amount recognised as an expense is only adjusted when the SPRs do not vest due to non-market related conditions.

The fair value of shares granted to eligible employees under the Share Reward Plan is recognised as an employee expense, with a corresponding increase in equity. The fair value is the market value of the shares at the grant date.

(v) Foreign currency

The functional and presentation currency of AGL Energy and its Australian subsidiaries is Australian dollars. The functional currency of the subsidiaries in Chile is the Chilean Peso and for subsidiaries with operations in Papua New Guinea is the United States dollar.

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at reporting date are translated at the exchange rate ruling at reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the exchange rates ruling at the dates the fair value was determined.

Foreign exchange differences arising on translation are recognised in the income statement in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks (refer Note 1(w)).

Financial statements of foreign operations

Assets and liabilities of foreign operations are translated into Australian dollars at exchange rates ruling at reporting date. Revenues and expenses of foreign operations are translated at average exchange rates ruling during the year. Exchange differences arising on translation are recognised directly in the foreign currency translation reserve and recognised in profit or loss on disposal of the foreign operation.

(w) Derivative financial instruments and hedging

The consolidated entity uses derivative financial instruments to manage its exposure to interest rate, foreign exchange rate, electricity purchase price and certain commodity price risks arising in the normal course of business. The use of derivatives is subject to policies, procedures and limits approved by the Board of Directors. Derivative transactions are not entered into for speculative purposes.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. Derivatives are recognised in the balance sheet as assets when their fair value is positive and as liabilities when their fair value is negative.



AGL Energy Limited and Subsidiaries
Notes to the Financial Statements
For the year ended 30 June 2007

Note 1 – Summary of significant accounting policies (continued)

(w) Derivative financial instruments and hedging (continued)

Any gains or losses arising from changes in the fair value of derivatives is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which case, the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Hedges are classified as fair value hedges when they hedge the exposure to changes in the fair value of recognised assets or liabilities or firm commitments; cash flow hedges when they hedge exposure to variability in cash flows of recognised assets or liabilities, or highly probable forecast transactions; or hedges of net investments in foreign operations.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedge asset or liability that is attributable to the hedged risk.

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

Cash flow hedges

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

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

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

Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instruments relating to the effective portion of the hedge is recognised in the foreign currency translation reserve and the gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Gains and losses deferred in the foreign currency translation reserve are recognised immediately in profit or loss when the foreign operation is disposed of.

(x) Issued capital

Ordinary share capital is recognised at the fair value of the consideration received, less transaction costs directly attributable to the issue of new shares, net of tax.

(y) Other contributed equity

Other contributed equity represents deemed contributions on inter entity balances which were interest free. This equity is eliminated pursuant to the internal restructuring that took place in preparation for the demerger of AGL Energy from The Australian Gas Light Company.



AGL Energy Limited and Subsidiaries
Notes to the Financial Statements
For the year ended 30 June 2007

Note 1 – Summary of significant accounting policies (continued)

(z) Revenue recognition

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

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

Revenue from the provision of services, including revenue from construction contracts, represents consideration received or receivable determined, where appropriate, in accordance with the percentage of completion method, with the stage of completion of each contract determined by reference to the proportion that contract costs for work performed to date bears to the estimated total contract costs.

Revenue from the sale of crude oil is recognised after each shipment is loaded and title passes to the customer.

Dividend income is recognised when the shareholder's right to receive the payment is established.

(aa) Net financing costs

Interest income is recognised in the income statement as it accrues, using the effective interest method.

Finance costs comprise interest payable on borrowings calculated using the effective interest rate method, amortisation of borrowing costs relating to long-term financing facilities, unwinding of the effect of discounting on provisions and gains and losses on certain hedging instruments that are recognised in the income statement.

Finance costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

(ab) Earnings per share (EPS)

Basic EPS is calculated as profit after tax attributable to shareholders of the Parent Entity divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as profit after tax attributable to shareholders of the Parent Entity divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(ac) Use of estimates and judgements

In the application of the consolidated entity's accounting policies, management is required to make judgements, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.



AGL Energy Limited and Subsidiaries
Notes to the Financial Statements
For the year ended 30 June 2007

	2007 \$m	2006 \$m
Note 2 – Revenue		
Revenue from sales of goods	3,656.3	370.6
Revenue from rendering of services	109.0	13.6
	<u>3,765.3</u>	<u>384.2</u>
Note 3 – Other income		
Development fee income	20.1	-
Net gain on disposal of property, plant and equipment	0.1	-
Net foreign exchange gains	0.7	0.2
Other	17.4	2.7
	<u>38.3</u>	<u>2.9</u>
Note 4 – Expenses		
Cost of sales	2,949.8	212.4
Fair value gain on electricity derivatives	(414.4)	(70.3)
	<u>2,535.4</u>	<u>142.1</u>
Administration expenses	106.7	21.1
Employee benefits expense	174.9	18.3
Other expenses		
Demerger costs	58.2	-
Redundancy / restructure costs	33.3	-
Impairment of IT assets	22.7	-
Other	58.6	14.2
	<u>2,989.8</u>	<u>195.7</u>
Note 5 – Net financing costs		
Finance income		
Interest income		
Associates	24.4	-
Other related parties	-	8.5
Other entities	12.5	1.3
	<u>36.9</u>	<u>9.8</u>
Finance costs		
Interest expense		
Other related parties	18.9	65.0
Other entities	112.0	11.9
Less finance costs capitalised	(3.4)	(1.0)
Other finance costs	4.7	0.4
	<u>132.2</u>	<u>76.3</u>
Net financing costs	<u>95.3</u>	<u>66.5</u>



AGL Energy Limited and Subsidiaries
Notes to the Financial Statements
For the year ended 30 June 2007

	2007 \$m	2006 \$m
Note 6 – Significant items		
Profit before income tax includes the following significant items		
Demerger costs (Income tax income applicable \$17.5 million)	(58.2)	-
Impairment of IT assets (Income tax income applicable \$6.8 million)	(22.7)	-
Redundancy / restructure costs (Income tax income applicable \$10.0 million)	(33.3)	-
Project expenditure write off (Income tax income applicable \$1.3 million)	(4.5)	-
Sun Gas integration costs (Income tax income applicable \$1.2 million)	(4.0)	-
	<u>(122.7)</u>	-
Significant items before income tax	(122.7)	-
Income tax income applicable	36.8	-
Significant items after income tax	<u>(85.9)</u>	-
Note 7 – Dividends		
Recognised amounts		
Interim dividend paid 22 March 2007 (2006: nil)		
Franked amount (9.5 cents per share)(2006 – nil cents per share)	35.8	-
Unfranked amount (nil cents per share) (2006 – nil cents per share)	-	-
Total amount (9.5 cents per share)(2006 – nil cents per share)	<u>35.8</u>	-
Unrecognised amounts		
Proposed final dividend to be paid 28 September 2007 ⁽ⁱ⁾		
Franked amount (26.0 cents per share)	112.7	-
Unfranked amount (nil cents per share)	-	-
Total amount (26.0 cents per share)	<u>112.7</u>	-

(i) The proposed final dividend in respect of ordinary shares for the year ended 30 June 2007 has not been recognised in this financial report, as the final dividend was not declared on or before 30 June 2007.

Dividend Reinvestment Plan

The AGL Energy Board of Directors has approved the activation of the AGL Energy Dividend Reinvestment Plan (DRP). The DRP will be operable in conjunction with payment of the 2007 final dividend in September 2007.

Shares are allotted at the weighted average market price at which the Company's ordinary shares are traded on the ASX during the 5 trading days commencing on the second trading day after the dividend record date (6 September). The Board has determined that no discount will apply for the 2007 final dividend.



AGL Energy Limited and Subsidiaries
Notes to the Financial Statements
For the year ended 30 June 2007

	<u>2007</u>	<u>2006</u>
Note 8 – Net tangible asset backing		
Net tangible asset backing per ordinary share	\$7.64	N/A

Seasonality of operations

AGL operates in an environment that is dependent upon weather as one of the key drivers of supply and demand. Fluctuations in seasonal weather patterns, particularly those over the short term, can have a positive or negative effect on the reported result. AGL Energy prepares detailed forecasts of the key drivers of profitability and hedges associated risks. However, it is not possible to consistently predict this seasonality and some variability is common.



AGL Energy Limited and Subsidiaries
Notes to the Financial Statements
For the year ended 30 June 2007

Note 9 – Interests in associates, jointly controlled entities and jointly controlled operations and assets

	Ownership interest		Contribution to net profit	
	2007	2006	2007	2006
	%	%	\$m	\$m
Associates				
Greater Energy Alliance Corporation Pty Limited	32.5	-	21.6	-
Gascor Pty Limited	33.3	-	-	-
AlintaAGL Pty Limited	33.0	-	(3.7)	-
Queensland Gas Company Limited	27.6	-	0.8	-
CSM Energy Limited	35.0	-	-	-
Centre for Energy and Greenhouse Technology	40.0	-	-	-
Jointly controlled entities				
ActewAGL Retail Partnership	50.0	-	10.9	-
Auscom Holdings Pty Limited	50.0	-	6.5	-
The AGL-Petronas Consortium (APC)	50.0	-	-	-
			36.1	-

AGL Energy acquired a 33.0% ownership interest in AlintaAGL Pty Limited on 25 October 2006 and also holds options to acquire the remaining 67% from Alinta Limited.

AGL Energy acquired a 27.5% ownership interest in Queensland Gas Company Limited on 8 March 2007. Following the concurrent share buyback, AGL Energy's ownership increased to 27.6%.

AGL Energy acquired a 35.0% ownership interest in CSM Energy Limited on 19 June 2007.

During the financial year the consolidated entity acquired the other associates and jointly controlled entities from The Australian Gas Light Company prior to completion of the demerger transaction.

Jointly controlled operations and assets

Sydney Basin Exploration	50.0	50.0
Hunter Gas Project	50.0	50.0
Camden Gas Project	50.0	50.0
Moranbah Gas Project	50.0	-
PNG – PDL 2 Kutubu Oil Field	11.9	11.9
PNG – PDL 4 Gobe Main Oil Field	66.7	66.7
PNG – PDL 2 Moran Oil Field	11.9	11.9
PNG – Central Moran Capital Projects	5.4	5.4
PNG – PDL 4 SE Gobe Main Oil Field	27.3	27.3
PNG – PDL 2 SE Mananda	11.9	11.9
PNG – PL 3 Gobe Oil Pipeline	47.0	47.0
PNG Gas Project	10.0	10.0



AGL Energy Limited and Subsidiaries
Notes to the Financial Statements
For the year ended 30 June 2007

Note 10 – Segment information

Segment information is presented in respect of the consolidated entity's business and geographical segments. The primary format, business segments, is based on the consolidated entity's management and internal reporting structure. The consolidated entity comprises three main business segments – Retail Energy, Merchant Energy and Energy Investments.

Revenue is principally derived from:

- (i) Retail Energy – sale of natural gas and electricity
- (ii) Merchant Energy – generation and sale of electricity and wholesale sale of gas and upstream oil and gas investments
- (iii) Energy Investments – investments in energy entities
- (iv) Inter-segment pricing is on an “arms-length” commercial basis

Business segments	Retail Energy	Merchant Energy	Energy Investments	Elimination inter-segment revenue	Unallocated	Total
2007	\$m	\$m	\$m	\$m	\$m	\$m
Revenue	3,174.8	509.6	75.2	-	5.7	3,765.3
Inter-segment revenue	7.6	1,479.8	-	(1,487.4)	-	-
	3,182.4	1,989.4	75.2	(1,487.4)	5.7	3,765.3
Other income	0.1	29.4	-	-	8.8	38.3
Segment revenue	3,182.5	2,018.8	75.2	(1,487.4)	14.5	3,803.6
Segment EBIT result	107.1	736.8	25.2	-	(182.7)	686.4
Finance income	0.8	12.6	17.3	-	6.2	36.9
Finance costs	-	-	-	-	(132.2)	(132.2)
Profit before income tax	107.9	749.4	42.5	-	(308.7)	591.1
Income tax expense						(180.6)
Profit after income tax						410.5
Segment assets	3,224.7	9,903.8	629.2	-	349.8	14,107.5
Segment liabilities	540.8	4,529.5	51.7	-	2,467.9	7,589.9
Other segment information						
Significant items of expense (refer Note 6)	22.0	5.9	0.9	-	93.9	122.7
Share of profits of associates and jointly controlled entities using the equity method	-	22.4	13.7	-	-	36.1
Carrying value of investments accounted for using the equity method	0.9	333.1	200.4	-	-	534.4
Acquisition of non-current assets	1,104.3	1,016.8	1.8	-	49.2	2,172.1
Depreciation and amortisation	13.0	120.9	4.3	-	25.3	163.5
Impairment losses	-	0.5	-	-	22.7	23.2
Other non-cash expenses	31.5	9.1	0.7	-	7.0	48.3



AGL Energy Limited and Subsidiaries
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Note 10 – Segment information (continued)

Business segments	Retail Energy	Merchant Energy	Energy Investments	Elimination inter-segment revenue	Unallocated	Total
2006	\$m	\$m	\$m	\$m	\$m	\$m
Revenue	257.4	126.8	-	-	-	384.2
Inter-segment revenue	4.7	-	-	(4.7)	-	-
	262.1	126.8	-	(4.7)	-	384.2
Other income	-	2.7	-	-	0.2	2.9
Segment revenue	262.1	129.5	-	(4.7)	0.2	387.1
Segment EBIT result	25.1	115.1	-	-	(0.6)	139.6
Finance income	7.5	2.3	-	-	-	9.8
Finance costs	-	-	-	-	(76.3)	(76.3)
Profit before income tax	32.6	117.4	-	-	(76.9)	73.1
Income tax expense						(27.5)
Profit after income tax						45.6
Segment assets	152.7	2,821.1	-	-	9.2	2,983.0
Segment liabilities	175.7	658.5	-	-	2,018.8	2,853.0
Other segment information						
Significant items of expense (refer Note 6)	-	-	-	-	-	-
Share of profits of associates and jointly controlled entities using the equity method	-	-	-	-	-	-
Carrying value of investments accounted for using the equity method	-	-	-	-	-	-
Acquisition of non-current assets	0.1	2,131.8	-	-	-	2,131.9
Depreciation and amortisation	0.2	51.0	-	-	0.6	51.8
Impairment losses	-	-	-	-	-	-
Other non-cash expenses	2.3	1.0	-	-	-	3.3

Geographical segments

The consolidated entity's geographical segments are determined based on the location of the consolidated entity's assets.

	External revenues and other income		Assets		Acquisition of non-current assets	
	2007	2006	2007	2006	2007	2006
	\$m	\$m	\$m	\$m	\$m	\$m
Australia	3,497.2	301.0	13,393.6	2,341.2	2,124.9	1,600.0
Papua New Guinea	234.9	86.1	545.0	641.8	45.9	531.9
Other	71.5	-	168.9	-	1.3	-
	3,803.6	387.1	14,107.5	2,983.0	2,172.1	2,131.9



AGL Energy Limited and Subsidiaries
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	2007 \$m	2006 \$m
Note 11 – Contingent liabilities and contingent assets		
Contingent liabilities		
Guarantees and warranties in respect of controlled entities	15.9	-
Contingent consideration under contract ¹	51.0	92.2
	66.9	92.2

¹Contingent consideration under contract consists of the contingent payment of up to \$51.0 million which will be made if additional reserves are proven in the Camden Gas Project area by 31 December 2008, based upon an agreed reserve formula with reserves verified by an independent external expert. The \$41.2 million contingent consideration as at 30 June 2006 in respect of the final payment on the PNG Upstream Gas project has lapsed as a result of the PNG project not proceeding.

Other contingent liabilities

Claims and possible claims, indeterminable in amount, have arisen in the course of business against entities in the consolidated entity. Based on legal advice obtained, the directors of the Parent Entity believe that any resultant liability will not materially affect the financial position of the consolidated entity

The Parent Entity is also party to a Deed of Cross Guarantee as described in Note 14. There is no expectation of a liability as a result of this guarantee. As a result of this assessment the fair value has been deemed to be nil, hence no liability has been recorded.

Note 12 – Issued capital

	2007	2006	2007	2006
	Number of shares		\$m	
Movement in fully paid ordinary shares				
Balance at beginning of financial year	2	2	-	-
Issue of ordinary shares on demerger ⁽ⁱ⁾	377,005,465	-	2,940.7	-
Placement of ordinary shares ⁽ⁱⁱ⁾	56,550,000	-	933.1	-
Transaction costs, net of related income tax ⁽ⁱⁱⁱ⁾	-	-	(14.9)	-
Balance at end of financial year	433,555,467	2	3,858.9	-

(i) On 25 October 2006, 377,005,465 shares were issued to the shareholders of The Australian Gas Light Company in settlement of the intergroup loan payable to The Australian Gas Light Company on the demerger of AGL Energy Limited.

(ii) On 27 February 2007, 56,550,000 shares were issued at \$16.50 per share following an institutional share placement.

(iii) Transaction costs, net of related income tax, represent the costs associated with the share placement.



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Note 13 – Change in composition of entity

AGL Energy Limited demerger

On 26 April 2006, The Australian Gas Light Company and Alinta Limited agreed to merge their respective infrastructure businesses. The Australian Gas Light Company and Alinta Limited subsequently signed a Relationship Deed dealing with transitional and commercial issues arising from the proposed implementation of an AGL Scheme of Arrangement and an Alinta Scheme of Arrangement.

On 6 October 2006, The Australian Gas Light Company and Alinta Limited shareholders approved the merger of AGL's infrastructure assets with Alinta and the subsequent separation of AGL Energy Limited as a separate listed entity. This was subsequently approved by the Federal Court of Australia on 9 October 2006, and AGL Energy Limited began trading on a deferred settlement basis on the Australian Securities Exchange on 12 October 2006.

On 25 October 2006, AGL Energy Limited successfully separated from The Australian Gas Light Company. In preparation for the transaction a number of internal restructuring transactions took place whereby AGL Energy Limited acquired 100% of the issued capital of certain entities from The Australian Gas Light Company. The entities were acquired during the current and preceding periods for consideration equal to the book value of the underlying net assets of the entities acquired and settled via intergroup payables which were subsequently converted to share capital (see Note 12). This transaction is not reflected in the cash flow statement. The aggregate book value of the net assets acquired by AGL Energy Limited was \$561 million (2006: \$18 million).

Acquisition of Sun Gas Retail

On 1 February 2007, the consolidated entity acquired 100% of the issued capital of Sun Gas Retail Pty Ltd from the Queensland Government, for \$74.2 million including costs directly attributable to the acquisition of \$2.5 million. The business included approximately 70,800 residential and industrial and commercial gas customers located primarily in south-east Queensland.

From the date of acquisition, the business has contributed \$3.8 million to operating profit before finance costs and income tax. It is not practicable to determine the profit or revenue for the consolidated entity as if the acquisition had taken place at the beginning of the year due to the complexity in the management of the gas portfolio and the level of history available from which to determine and analyse seasonality.

Acquisition of Powerdirect

On 1 March 2007, the consolidated entity acquired 100% of the issued capital of Powerdirect Australia Pty Ltd and Powerdirect Utility Services Pty Ltd from the Queensland Government, for \$1,234.0 million including costs directly attributable to the acquisition of \$5.8 million. The business included approximately 473,200 residential, small-to-medium enterprise and industrial and commercial electricity customers located primarily in south-east Queensland.

From the date of acquisition, the business has contributed \$20.0 million to operating profit before finance costs, income tax and mark to market adjustments on derivative instruments. It is not practicable to determine the profit or revenue for the consolidated entity as if the acquisition had taken place at the beginning of the year because AGL manages its electricity price risk as a portfolio. This means that the electricity hedging transactions undertaken by AGL prior to the acquisition of Powerdirect would have been different had it owned Powerdirect. Furthermore, it is not possible to determine the electricity hedging contracts that existed within Powerdirect as of 1 July 2006 but had expired prior to the acquisition date.



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Note 13 – Change in composition of entity (continued)

The provisional fair value of the identifiable assets and liabilities of each acquisition as at the respective dates of acquisition are:

	Sun Gas Retail fair value on acquisition 2007 \$m	Powerdirect fair value on acquisition 2007 \$m	Total fair value on acquisition 2007 \$m
Assets			
Trade and other receivables	26.2	196.0	222.2
Inventories	0.1	0.8	0.9
Other assets	-	1.9	1.9
Other financial assets	-	222.3	222.3
Property, plant and equipment	0.4	49.5	49.9
Intangible assets	46.9	236.2	283.1
	<u>73.6</u>	<u>706.7</u>	<u>780.3</u>
Liabilities			
Trade and other payables	19.0	222.6	241.6
Borrowings	4.4	24.1	28.5
Other financial liabilities	-	70.1	70.1
Provisions	0.4	1.8	2.2
	<u>23.8</u>	<u>318.6</u>	<u>342.4</u>
Fair value of identifiable net assets	<u>49.8</u>	<u>388.1</u>	<u>437.9</u>
Goodwill on acquisition	24.4	845.9	870.3
	<u>74.2</u>	<u>1,234.0</u>	<u>1,308.2</u>
Consideration			
Cash paid including directly attributable costs	74.2	1,234.0	1,308.2
Less net cash acquired	-	(0.7)	(0.7)
Net cash outflow	<u>74.2</u>	<u>1,234.7</u>	<u>1,308.9</u>

Subject to the finalisation of the provisional acquisition accounting, all identifiable intangible assets have been recognised separately from goodwill. Goodwill arises from various portfolio benefits that will arise from integrating the activities of the Powerdirect and Sun Gas Retail business with that of AGL. The acquisition has augmented AGL's position as the largest energy retailer in Australia and enhanced its competitive position by reducing average cost per account across the entire retail business. The addition of a Queensland retail portfolio base will support future generation developments and participation in any future privatisation of generation facilities in Queensland.



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Note 14 – Controlled entities

	Date acquired	Country of incorporation	Ownership interest	
			2007 %	2006 %
AGL Limited	24 October 2006	New Zealand	100	-
AGL ACT Retail Investments Pty Limited	12 October 2006	Australia	100	-
AGL Chile Operations SA	11 October 2006	Chile	100	-
AGL Corporate Services Pty Limited	1 September 2006	Australia	100	-
AGL Electricity (VIC) Pty Limited	30 September 2006	Australia	100	-
AGL Energy Limited	24 October 2006	New Zealand	100	-
AGL Energy Foundation Limited	13 July 2006	Australia	100	-
AGL Energy Sales & Marketing Limited	1 March 2006	Australia	100	100
AGL Energy Services Pty Limited	1 March 2006	Australia	100	100
AGL Energy Services (Queensland) Pty Limited (formerly Powerdirect Utility Services Pty Ltd)	1 March 2007	Australia	100	-
AGL Finance Pty Limited	11 October 2006	Australia	100	-
AGL Gas Developments (Hunter) Pty Limited	27 January 2000	Australia	100	100
AGL Gas Developments (PNG) Pty Limited	16 May 1979	Australia	100	100
AGL Gas Developments (Sydney) Pty Limited	27 January 1999	Australia	100	100
AGL Gas Production (Camden) Pty Limited	30 June 2005	Australia	100	100
AGL Gas Trading Pty Limited	1 March 2006	Australia	100	100
AGL HP1 Pty Limited	30 November 2005	Australia	100	100
AGL HP2 Pty Limited	30 November 2005	Australia	100	100
AGL HP3 Pty Limited	30 November 2005	Australia	100	100
AGL Hydro Maintenance Services Pty Limited	30 November 2005	Australia	100	100
AGL Hydro Operations Pty Limited	30 November 2005	Australia	100	100
AGL Hydro Partnership	30 November 2005	Australia	100	100
AGL International	11 October 2006	Cayman Islands	100	-
AGL Pipelines Investments Pty Limited	12 October 2006	Australia	100	-
AGL Pipelines Investments (QLD) Pty Limited	12 October 2006	Australia	100	-
AGL Power Generation (NSW) Pty Limited	31 January 2006	Australia	100	100
AGL Power Generation (QLD) Pty Limited	27 April 2006	Australia	100	100
AGL Power Generation (SA) Pty Limited	1 October 2006	Australia	100	-
AGL Power Generation (Victoria) Pty Limited	1 October 2006	Australia	100	-
AGL Retail Energy Limited	1 March 2006	Australia	100	100
AGL Sales Pty Limited	1 October 2006	Australia	100	-
AGL Sales (Queensland) Pty Limited (formerly Sun Gas Retail Pty Ltd)	1 February 2007	Australia	100	-
AGL Sales (Queensland Electricity) Pty Limited (formerly Powerdirect Australia Pty Ltd)	1 March 2007	Australia	100	-
AGL (SHL) Pty Limited	24 October 2005	Australia	100	100
AGL South Australia Pty Limited	1 October 2006	Australia	100	-
AGL Southern Hydro Holdings Pty Limited	30 November 2005	Australia	100	100
AGL Southern Hydro Investments Pty Limited	30 November 2005	Australia	100	100



AGL Energy Limited and Subsidiaries
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For the year ended 30 June 2007

Note 14 – Controlled entities (continued)

	Date acquired	Country of incorporation	Ownership interest	
			2007 %	2006 %
AGL Southern Hydro Pty Limited	30 November 2005	Australia	100	100
AGL Southern Hydro (NSW) Pty Limited	30 November 2005	Australia	100	100
AGL Utility Services Pty Limited	1 October 2006	Australia	100	-
AGL Wholesale Gas Limited	24 October 2006	Australia	100	-
AGL Wholesale Gas (SA) Pty Limited	24 October 2006	Australia	100	-
Australian Energy Ltd	1 March 2007	Australia	100	-
Australian Energy Services Pty Ltd	1 March 2007	Australia	100	-
Dollar Wind Farm Pty Limited	30 November 2005	Australia	100	100
Dual Fuel Systems Pty Limited	1 September 2006	Australia	100	-
EdgeCap Pty Limited	1 October 2006	Australia	100	-
Empresa de Gas de la V Region SA	11 October 2006	Chile	100	-
Essential Energy Services Pty Limited	1 March 2006	Australia	100	100
H C Extractions Pty Limited	1 March 2006	Australia	100	100
Inversiones AGL Chile Limitada	11 October 2006	Chile	100	-
Macarthur Wind Farm Pty Limited	30 November 2005	Australia	100	100
Powerdirect Pty Ltd	1 March 2007	Australia	100	-
Victorian Energy Limited	1 October 2006	Australia	100	-

On 26 June 2007 certain wholly owned Australian entities entered in to a Deed of Cross Guarantee (Deed) with AGL Energy Limited which took effect upon lodgement with the Australian Securities and Investments Commission (ASIC) on 28 June 2007. In accordance with ASIC class order 98/1418, all group entities under the Deed guarantee the payment in full of the debts of any group entity under the Deed that is wound up.

Note 15 – Subsequent events

On 2 July 2007 AGL acquired the 1,280MW Torrens Island gas fired power station (TIPS) for \$417 million, including all development gas storage and transportation rights, and sold its 180MW gas fired peaking plant at Hallett for \$117 million resulting in a net payment by AGL for the Torrens Island power station of \$300 million. As part of the transaction, AGL has also acquired a 10-year, 300-petajoule, gas sales agreement expiring in 2017, together with the associated SEAGas pipeline haulage contract which expires in 2019.

On 13 July 2007 AGL announced the signing of a 390PJ foundation gas transportation agreement with Epic Energy which will further enhance gas portfolio flexibility and competitiveness.

Note 16 – Information on audits or review

1. This report has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and Urgent Issues Group Interpretations or other standards acceptable to ASX.
2. This report, and the accounts upon which the report is based (if separate), use the same accounting policies.
3. This report does give a true and fair view of the matters disclosed.
4. This report is based on accounts to which one of the following applies.

The accounts have been audited.

The accounts have been subject to review.

The accounts are in the process of being audited or subject to review.

The accounts have *not* yet been audited or reviewed.

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



Mark Johnson
Chairman

22 August 2007