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A few words.

26 September 2011

Dear Shareholder

2011 Annual Report

AGL's 2011 Annual Report has now been released and is available electronically on our website at: www.agl.com.au

To receive direct electronic communication in the future of when the Annual Report is available, or to receive a printed copy, please access your Shareholder election details online at the Link Market Services website (www.linkmarketservices.com.au) or complete the enclosed Shareholder communication election form.

2011 Annual General Meeting

The 2011 Annual General Meeting will be held:

> **Commencing at 10:30am on Thursday 27 October 2011 at Grand Hyatt Hotel, 123 Collins Street, Melbourne, Victoria.**

The formal Notice of Meeting is attached.

If you are unable to attend, the AGL Directors encourage you to participate by voting on each item of business using the Shareholder Voting Form included with the Notice of Meeting.

2011 Final Dividend

For the financial year ended 30 June 2011, AGL's Underlying Profit was $431.1 million, an increase of 0.5 per cent on the previous year. The final dividend for 2011 is 31 cents, fully franked, bringing the total dividend for the year to 60 cents per share. This is an increase of 1 cent per share on the 2010 dividend. The dividend will be paid on 29 September by direct credit only.

Yours sincerely

Jeremy Maycock
Chairman

AGL is taking action toward creating a sustainable energy future for our investors, communities and customers. Key actions are:

- Being selected as a member of the Dow Jones Sustainability Index 2006/07
- Gaining accreditation under the National GreenPower Accreditation Program for AGL Green Energy®, AGL Green Living® and AGL Green Spirit
- Being selected as a constituent of the FTSE4Good Index Series

Energy in action®

AGL

2011 Annual Report

Being engaged

Engaging with our stakeholders has always been at the heart of what AGL does. Being engaged with all of our stakeholder groups – our customers, the communities where we operate, our shareholders and our employees – is one of the reasons we're Australia's largest private owner, operator and developer of renewable generation assets. AGL is taking action to engage more closely with all our stakeholders to lead Australia in sustainable energy development and increase investment in renewable energy.

Contents

AGL Financial Calendar

25 August 2011	2011 full year result and final dividend announced
2 September 2011	Ex-dividend trading commences
8 September 2011	Record date for 2011 final dividend
29 September 2011	Final dividend payable
27 October 2011	Annual General Meeting
22 February 2012[1]	2012 interim result and interim dividend announced
22 August 2012[1]	2012 full year result and final dividend announced

AGL's Annual General Meeting will be held at the Grand Hyatt, 123 Collins Street, Melbourne commencing at 10.30am on Thursday 27 October 2011.

1 Indicative dates only, subject to change/ Board confirmation

Divisional Highlights

Retail Energy

> Operating EBIT increased by 17% on the back of improved margins

> Further improvements in operating efficiency, with net operating costs as a percentage of gross margin falling from 49.5% to 46.5%

> Customer accounts increased by 52,000 and dual fuel customer accounts up 8.1% to 1.47 million

Merchant Energy

> Operating EBIT fell by 2%, due mainly to the effects of the severe weather events experienced in late January/ early February

> Improved rainfall increased dam storage and generation capacity at Eildon and Dartmouth

> The AGL Hallett 4 Wind Farm was commissioned, and construction proceeded on the AGL Hallett 5, Oaklands Hill and Macarthur Wind Farms

Upstream Gas

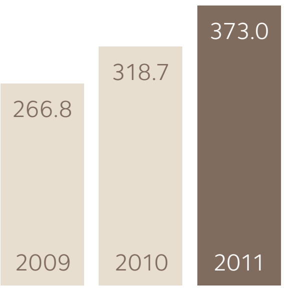
> Mosaic Oil was acquired during the year, adding 65 PJ to gas reserves and opening up new gas storage income opportunities

> Proved plus probable (2P) gas reserves increased 32.4% to 2,089 PJ

> First booking of gas reserves in AGL's Hunter Gas Project

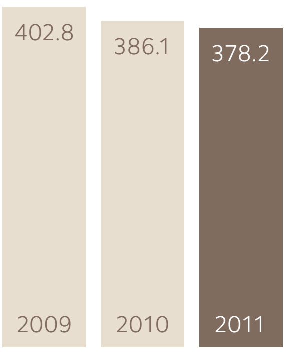
$373.0m

Operating EBIT ($million)



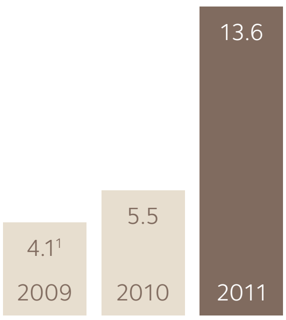
$378.2m

Operating EBIT ($million)



$13.6m

Operating EBIT ($million)



1 Excludes EBIT of $25.8m from assets sold in FY2009

AGL's Retail Energy business continued to perform strongly, offsetting the effects of unusually severe weather conditions on Merchant Energy's results, and a much lower contribution from AGL's investment in the Loy Yang A Power Station.

Group Highlights

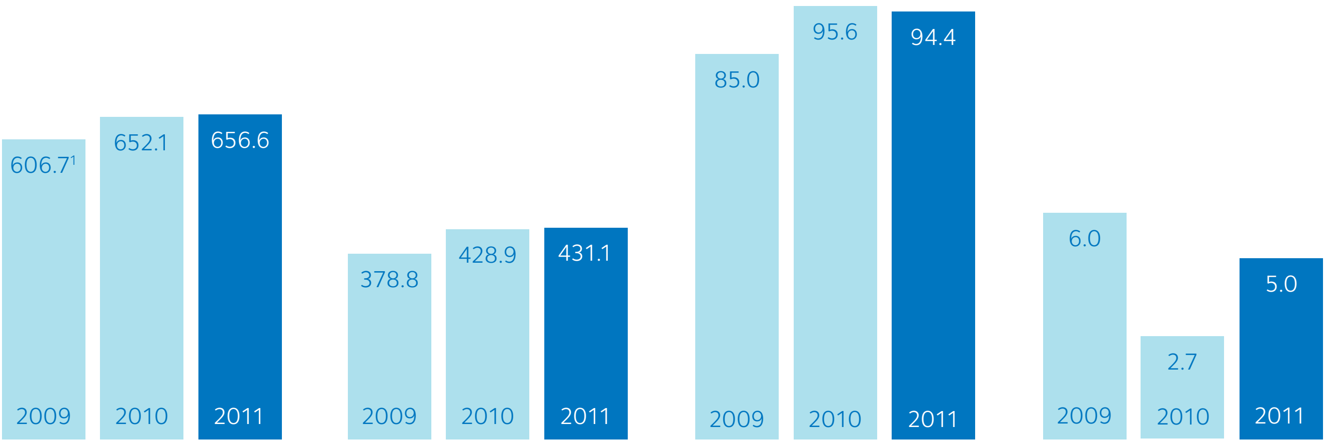
AGL's underlying profit for the year was $431.1 million, an increase of 0.5% on last year, reflecting the effects of the unusual summer weather experienced in eastern Australia.

$656.6m
Operating EBIT ($million)

$431.1m
Underlying Profit ($million)

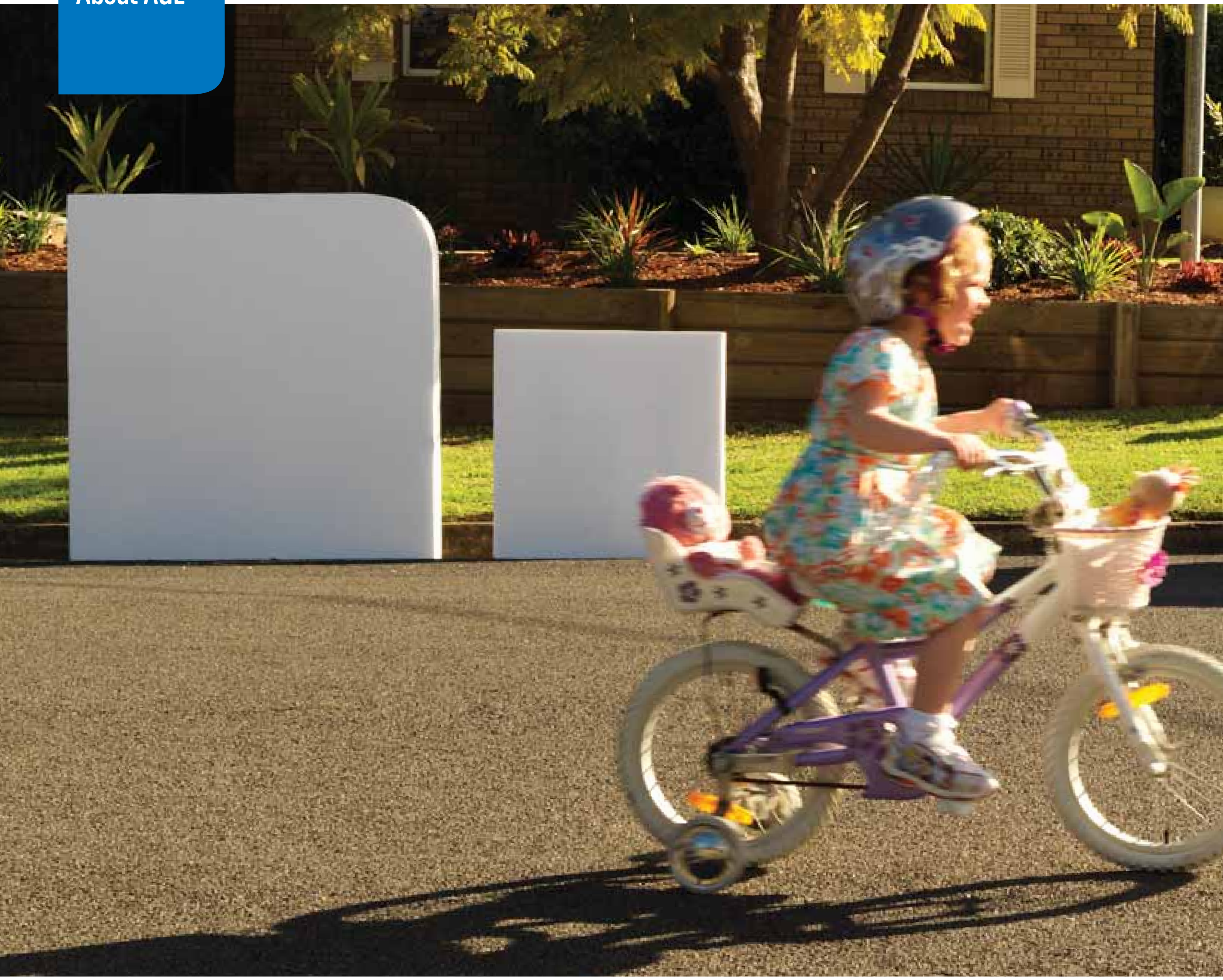
94.4 cents
EPS – underlying (cents)

5.0 TIFR[2]



1 Excludes EBIT of $36.4m from assets sold in FY2009
2 Total Injury Frequency Rate

	30 June 2011 $m	30 June 2010 $m	30 June 2009 $m
Profit after tax from continuing operations	558.7	356.1	718.2
Profit after tax from discontinued operations	–	–	877.9
Profit after tax attributable to shareholders	558.7	356.1	1,596.1
Adjust for the following after tax items:			
Significant items	27.3	(49.9)	(1,441.3)
Changes in fair value of financial instruments	(154.9)	122.7	251.0
Pro-forma adjustment	–	–	(27.0)
Underlying profit	431.1	428.9	378.8
Increase in underlying profit	0.5%	13.2%	11.1%



AGL is Australia's leading integrated renewable energy company and is Australia's largest private owner, operator and developer of renewable generation assets. AGL is taking action towards creating a sustainable energy future for our customers, our investors and the communities in which we operate.

AGL's heritage began as The Australian Gas Light Company which was formed in Sydney in 1837. It supplied gas for the first public lighting of a street lamp in Sydney in 1841 and was the second company to be listed on the then Sydney Stock Exchange.

In October 2006, The Australian Gas Light Company demerged its energy business and AGL began trading on the Australian Securities Exchange under the ticker AGK on 12 October 2006. AGL is one of Australia's top 50 listed companies.

Our Integrated Strategy

Upstream supply (core)	Transmission (non-core)	Distribution (non-core)	Retail markets (core)
Gas Production	Gas	Gas	Gas
Renewable Generation			Renewables
Thermal Generation	Electricity	Electricity	Electricity

Upstream Supply

> Increase direct ownership of gas to meet a substantial proportion of AGL's long-term domestic demand for gas

> Invest in gas storage to provide security of gas supply for our customers during periods of peak demand

> Increase control of peaking and renewable electricity generation to be largely self-sufficient in meeting customer needs and the mandatory renewable energy target

Customer Energy Demand

> Grow our electricity customer base in New South Wales

> Expand the range of energy efficiency services we can offer our customers to help them manage their energy costs

> Focus on managing and growing margins

AGL's integrated strategy provides access to multiple profit pools and balances risk between upstream supply of energy and our customers' demand for energy.

Chairman's Report

This was a challenging year for AGL, but the Board is confident our strategy will deliver improved returns for shareholders in the years to come.

Financial Results

The statutory net profit of your company was $558.7 million compared with $356.1 million last year. However, a more useful comparison for shareholders is that, on an underlying basis, net profit of $431.1 million was up only slightly on last year's $428.9 million.

This underlying result would have reached our original expectations were it not for an unusual set of weather events which happened across eastern and southern Australia in late January and early February.

Subsequently, the Board commissioned a review of AGL's electricity hedging policies and procedures to consider whether there were actions that could reasonably have been taken to reduce the financial consequences of these events. That review confirmed that the weather events in late January and early February were very unusual and statistically would only be expected to occur very infrequently. While AGL could theoretically have put in place additional hedging cover, the cost of doing so would have far outweighed the occasional losses suffered in such unusual circumstances. Most importantly the review confirmed that AGL's hedging policies and procedures are appropriately designed and implemented.

Dividend

Although the underlying profit is relatively flat compared with last year, I am pleased to report a small increase in the final dividend. The final dividend of 31 cents will bring the total dividend for the year to 60 cents, an increase of 1 cent on last year's total dividend. I am also pleased to report that the final dividend will be fully franked. For the forseeable future, we anticipate that dividends will be fully franked.

Strategy

The Board remains committed to AGL's vertical integration strategy and its potential to create value from developing our depth and reach in Australian electricity and gas markets.

Encouraging progress has been made against the milestones on this strategic journey. I did however just want to comment on one high profile strategic opportunity AGL did not finally pursue. The partial privatisation of the New South Wales electricity industry was a complex process but did eventually offer a potential opportunity to quickly increase AGL's electricity market share in New South Wales.

From the outset of the acquisition process, your Board and management were determined that any acquisition had to be value accretive. This discipline is critical if we are to succeed in improving our average return on funds employed.

Our final assessment was that we could not see value at the prices eventually bid for these assets given the attendant risk profile, and decided instead to adopt an organic growth strategy. Although the early signs are encouraging, it will be several years before the value of this option can be assessed. However, we are satisfied our decision was made on a well researched and fully considered basis.

Risk Management

As we were reminded early this year, risk is a constant feature of the energy industry. The Board regularly considers whether there are any risks which might affect achievement of AGL's strategic objectives. This year, two risks have become more prominent than they were in previous years.

Energy Policy

The first risk area could broadly be referred to as sovereign risk. AGL has consistently maintained that State and Commonwealth government energy policies have not provided the private sector with the consistency necessary to make the substantial investments required to maintain Australia's long-term security of energy supply. That continues to be the case. Although the Commonwealth government's proposal to legislate a price on carbon emissions provides some direction, the circumstances in which the new law was announced and the absence of a bipartisan political approach to reducing the carbon intensity of Australia's economy means that there still remains considerable risk about the economic viability of investment in new energy infrastructure. In addition, poorly designed and overlapping State and Commonwealth government policies to promote greater household installation of solar energy systems has created a massive oversupply of renewable energy certificates, the effect of which has been to cause a temporary suspension of investment in new large scale renewable energy assets.

Energy consumers have faced a period of rapid increases in energy prices. Although the main reason for this is the substantial costs of maintaining and upgrading the gas and electricity distribution networks, which are owned by unrelated third parties, it is energy retailers such as AGL which bear the brunt of customer dissatisfaction and hostile media coverage. In our view, the most effective way to provide consumers with lowest cost energy and widest choice of energy providers is for State governments to promote open and competitive energy markets and to resist the artificial setting of retail prices. State governments other than Victoria have been reluctant to deregulate energy markets. Continued government intervention in price setting makes no sense in such a competitive market, and puts at risk future private sector investment in an industry vital to Australia's continued economic prosperity.

Community Relations

The second area of higher risk management focus concerns the development of our own upstream gas reserves and our own renewable and low carbon intensity electricity generation assets which are key elements of AGL's vertical integration strategy. Many of the projects AGL has in place to pursue these objectives are situated in close proximity to regional communities. Over the past 12 months, community opposition to some of these projects has increased, particularly in respect of activities to explore for coal seam gas reserves in the Hunter Valley in New South Wales.

Australia can only have a 'clean energy future' if its abundant renewable and gas resources can physically be developed. Local communities are right to expect that, in pursuing development projects, companies such as AGL will take every care to protect the health and wellbeing of local residents and the environment. I would like to assure all our shareholders, and all our other stakeholders, that the Board and management at AGL have the same expectations. We have every intention of continuing AGL's long history of safely constructing and operating energy infrastructure assets.

Executive Remuneration

This is always a sensitive issue for shareholders who, rightly, expect that the remuneration of senior managers should be linked to producing results that increase the wealth of all shareholders. At last year's Annual General Meeting, a substantial number of AGL shareholders voted against adoption of the Remuneration Report. Detailed feedback from shareholders indicated that last year's Remuneration Report did not adequately demonstrate how changes in executive remuneration were linked to improvements in shareholder wealth. Whilst our policies have not changed, we have tried hard to explain them more clearly in this year's report.

All our senior managers, including the Managing Director, have a very substantial portion of their remuneration at risk. Short-term incentives are assessed on a 'balanced' scorecard basis (which includes annual profit growth), whereas our long-term incentive plan is driven by measures corresponding to growth in the underlying value of your company.

As a result, short-term incentives paid this year are substantially lower than payments made last year, due mainly to our growth in profit being lower than target. The number of shares potentially available to executives under our long-term incentive plan is also notably lower than last year, as we did not sustain growth in total shareholder returns or improvements in the return on funds employed in the business. This means that no new share rights were credited in favour of senior managers under the long-term incentive plan, and in fact all participants lost some unvested benefits this year.

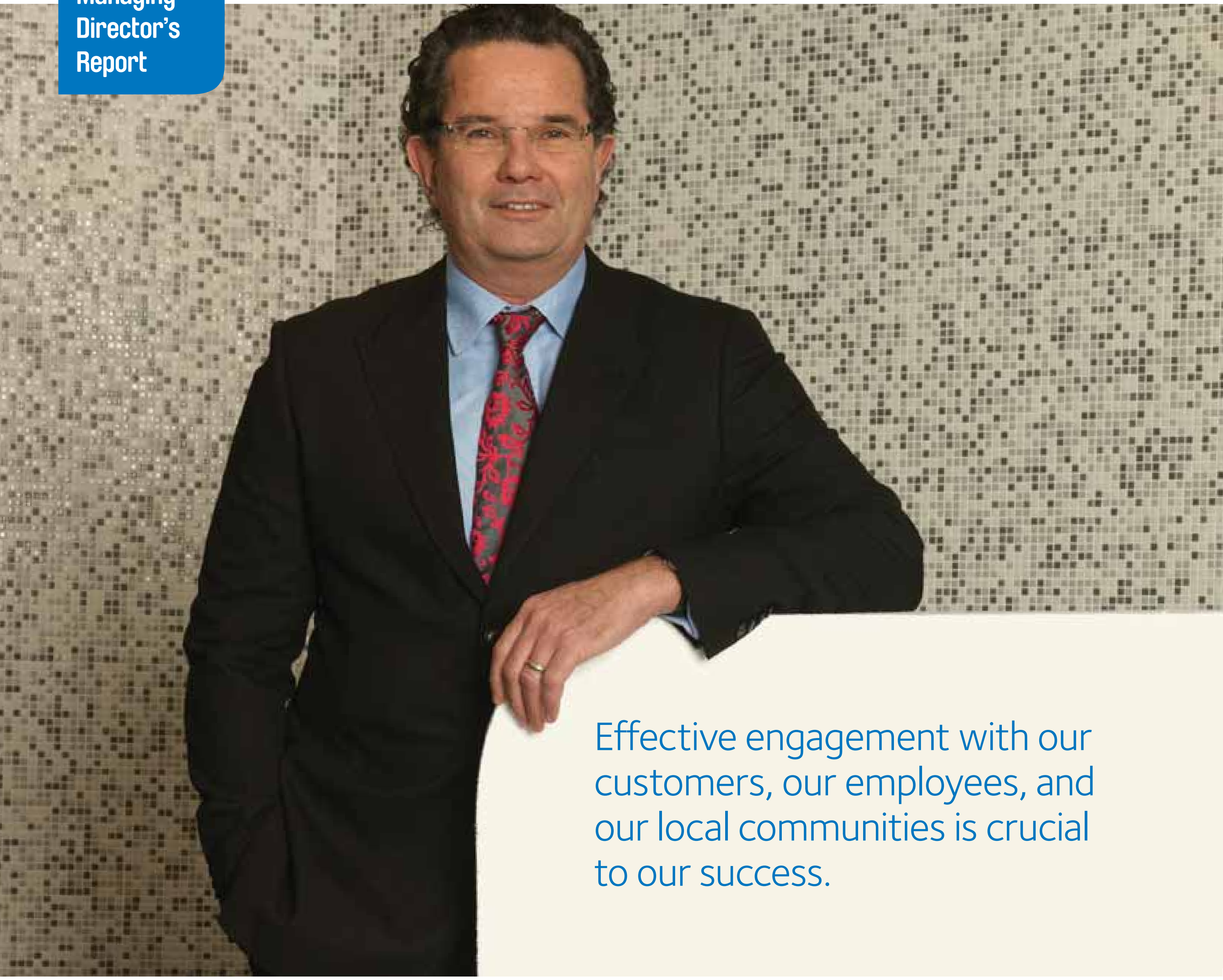
The Board is disappointed with this outcome, both for shareholders, because it reflects a shortfall in our desired financial performance, and also for our executives who are extremely competent, professional and committed to AGL. Nevertheless this is what alignment means, and we are confident that we have in place appropriate equitable measures to make sure that the remuneration interests of AGL employees, particularly its senior managers, accord with the interests of our shareholders.

Conclusion

This was a challenging year for AGL. However, the Board is confident that AGL's strategy is right and that we will regain performance momentum and deliver improved returns for shareholders in the years to come.

More challenges lie ahead as Australia's energy markets continue to evolve. In Michael Fraser, AGL has a Managing Director with the skills and experience to lead AGL through these challenges. He is ably supported by a highly skilled and engaged workforce. On behalf of the Board, I would like to thank Michael and all AGL employees for all their efforts in steering AGL through a difficult year. I would also like to thank my fellow directors for putting their faith in me to Chair the Board, and for their diligence, guidance and support.

Jeremy Maycock, Chairman



Effective engagement with our customers, our employees, and our local communities is crucial to our success.

AGL posted a small increase in underlying profit to $431.1 million, in line with our revised earnings guidance which followed the severe weather events experienced in late January and early February. A heat wave in South Australia, Victoria and New South Wales meant that simultaneously high temperatures in Adelaide, Melbourne and Sydney created record levels of customer demand for electricity. This demand combined with the effects of the Queensland floods and Cyclone Yasi led to a period of high wholesale electricity prices, significantly increasing the costs to AGL of meeting customers' demand for electricity. As a result, AGL informed the market that underlying profit for the year would be approximately $30 million to $35 million lower than had previously been anticipated.

Overall, the underlying strength of the business was demonstrated by the continued improvement in our cash-flow, highlighting our disciplined approach to capital expenditure and the strength of our balance sheet.

New South Wales Retail Market

AGL participated in the sale process for the New South Wales electricity assets, which included the Energy Australia, Country Energy, and Integral Energy retail businesses. After completing extensive due diligence, we concluded that the price we would have needed to pay to acquire one of the retail businesses would not have represented value for our shareholders. Instead, we have chosen to pursue a strategy of growing our electricity customer base organically.

Early results have been very encouraging with around 100,000 new electricity customers already signed up since we launched our campaign urging New South Wales consumers to 'Switch to AGL and Save'. This campaign aims to build awareness in New South Wales of the customer benefits that can be enjoyed and the savings that can be achieved by switching to AGL.

AGL has also launched 'AGL Energy Online', to provide an easy and convenient way for consumers and businesses to sign up with AGL and to manage and pay their energy accounts online. The new online initiative is already proving to be very popular with many new and existing AGL customers.

Customer Service

Providing excellent service to our customers is crucial, particularly in an environment where many households are experiencing substantial increases in their energy bills. Our customer service levels continued to improve during the year, although we still have more work to do to achieve the service levels to which we aspire.

In 2010, we released our new Customer Charter which set out a number of promises to our customers. This year we have tracked our delivery of each of the promises set out in the Customer Charter. I am pleased to report that, for the most part, we have met or exceeded the service level targets we set for each promise.

I am determined to continue improving the quality of the service we provide to our customers. This will be an important objective for AGL's senior leaders over the coming year.

Our People

The extraordinary weather which affected our business earlier this year had a much wider human impact, especially as a result of the floods in Queensland. During the crisis, a number of our people demonstrated their commitment to local communities by volunteering to help with relief operations. For example, Silver Springs field operator Janis Green volunteered with the local State Emergency Service, delivering food by boat to stranded farms and arranging helicopter assistance.

AGL employees donated $24,757 to the relief effort. AGL matched this contribution on a dollar for dollar basis and also made two further donations of $50,000 each, one to The Salvation Army Queensland Flood Relief and another to the Queensland Premier's Disaster Relief Appeal.

Workplace health and safety is a matter of the utmost importance at AGL. Over the last four years, we have put a lot of effort into improving our workplace safety performance. We saw the benefits of this with substantial reductions in workplace injury rates between 2007 and 2010. Unfortunately, this year, we saw a partial reversal of that trend with our Total Injury Frequency Rate increasing from 2.7 to 5.0. Although most of the injuries were not serious, we are determined to continue making improvements in this area. All leaders have, as one of their performance objectives in FY2012, the completion of actions to make AGL a safer place to work.

I would like to thank all our employees for their dedication and hard work during what was, at times, a difficult year for AGL.

Delivering on Our Strategic Objectives

During the year, AGL continued to make good progress on achieving its strategic objectives.

In South Australia, the AGL Hallett 4 Wind Farm was commissioned in May, and substantial progress was made on the construction of the AGL Hallett 5 Wind Farm. In Victoria, work commenced on both the Oaklands Hill Wind Farm and the Macarthur Wind Farm. The Macarthur Wind Farm is being developed with our joint venture partner from New Zealand, Meridian Energy. When completed in 2013, it will be the largest wind farm in the southern hemisphere with an energy capacity of 420 MW. Tower sections have recently arrived on site following months of preparatory work.

We have also continued to identify future wind farm development opportunities, although we made the decision to temporarily suspend investments in new wind farms until there is a recovery in the price of renewable energy certificates.

Our hydro generation assets have also operated efficiently during the year. Increased dam storage levels have largely restored generation capacity at the Dartmouth and Eildon power stations. These renewable energy facilities will play a more important role for AGL in the future than they have done in the recent past.

Our Upstream Gas business continued work on proving up AGL's own reserves of gas. During the year, the proved plus probable level of reserves increased by 32.4% from 1,578 petajoules to 2,089 petajoules. These reserves will play an important part in meeting AGL's requirements for gas from the middle of the decade.

Within the next few years, the existing gas pipeline infrastructure will need to be supplemented to deliver sufficient quantities of gas to the major east coast population centres during periods of peak demand. The ability to store gas for use in peak periods will become an increasingly important means of allowing AGL to meet its customers' needs. It will also allow AGL to generate additional income from providing gas storage services to third parties.

Among the assets gained as a consequence of AGL's acquisition this year of Mosaic Oil N.L. was a depleted underground gas reservoir located in rural Queensland, which AGL has redeveloped as a gas storage facility. AGL has already contracted with the BG Group to provide gas storage services to support BG's construction of an LNG production plant at Gladstone. As the potential of Queensland's LNG industry is realised, the demand for storage capacity will grow, allowing AGL to expand the storage capacity at Silver Springs.

The Year Ahead

Over the next year, we will seek to further expand our retail electricity customer base in New South Wales. We believe that high quality customer service will be a point of differentiation in the highly competitive Australian energy markets, so continuing to make improvements in this area is a priority.

Planning is now well advanced to construct a 500 MW gas-fired electricity generation plant at Dalton, north of Canberra, which will support the expected growth in electricity load in New South Wales. In the near future, AGL is also likely to proceed with the development of a gas liquification and storage facility near Newcastle in New South Wales. This facility will be used to provide natural gas to AGL's customers in Newcastle and Sydney and will provide additional security of supply during times of peak use, particularly in the winter months.

AGL's contracts to supply 100% renewable energy to both the South Australian and Victorian desalination plants will commence later this year. These are long-term contracts which will make an earnings contribution for many years to come, demonstrating the value from AGL's commitment to the construction of renewable energy assets.

We will continue looking to expand our gas reserves in areas such as the Hunter Valley and Gloucester in New South Wales. In doing so, we will be especially mindful of the need to work more closely with regional communities to demonstrate that our exploration and development activities can co-exist with agriculture, viticulture and tourism and will not harm the environment or compromise the health and wellbeing of local residents.

Although 2011 was a challenging year in a number of respects, we are very optimistic about AGL's future prospects. We are confident that shareholders will enjoy the benefit of profitable growth in the year ahead.

Michael Fraser, Managing Director

Taking a long term view

We understand the importance of taking a long-term view, and we recognise our responsibilities to all our stakeholders (including our employees, our customers, the community, our investors and the environment).

Sustainability Performance Accounts available online in November 2011

AGL's 2011 Sustainability Performance Accounts include:

> Detailed performance data across a wide range of subject areas

> Global Reporting Initiative (GRI) Application Level

> Global Reporting Initiative (GRI) Index

> AA1000 Assurance Statement

Sustainability Strategy

The material risks that influence AGL's business priorities include:

> Economic performance – delivering AGL's integrated strategy and managing longer term challenges that may affect sustainable returns to investors.

> Customers – delivering excellent service and value to customers and providing access to energy for vulnerable customers.

> Community – engaging with local communities and managing the impact of development activities, as well as responding to broader community needs.

> People – providing a safe workplace environment and developing the skills and talents of employees to deliver outstanding business results.

> Climate change – structuring AGL's portfolio of assets in readiness for a carbon constrained future, and adapting to climate change risks.

> Environment – managing the environmental impacts of supplying energy to customers, throughout the energy supply chain.

Sustainability Reporting

AGL measures and reports on sustainability performance to give stakeholders an understanding of the social, environmental and economic challenges facing AGL and the energy industry, and the steps that AGL is taking to protect and grow the long-term value of the business. AGL has published an annual sustainability report since 2004 to communicate sustainability performance in the areas of customers, community, people, economic, climate change and environment.

In 2010, AGL established a new framework for sustainability reporting. Twelve strategic indicators of success were established, together with visions to guide performance in the longer term. Short-term targets for FY2011 were published for each indicator in the 2010 Sustainability Report.

Performance in each of these areas is monitored on a quarterly basis by the Board's Safety, Sustainability and Corporate Responsibility Committee.

The following pages provide an account of AGL's performance against each of the 12 strategic sustainability targets, and also commit AGL to new targets for FY2012. Further sustainability performance data will be available in the 2011 Sustainability Performance Accounts, which will be published online in November 2011.

Sustainability Performance Data

Sustainability performance data in this report covers the activities and facilities over which AGL had operational control for all, or part of, the financial year ended 30 June 2011. Data relates to FY2011 unless otherwise stated.

AGL engaged Net Balance Management Group (Net Balance) to undertake moderate assurance over the 12 strategic sustainability indicators in this report using the AA1000 Assurance Standard (2008). In addition, Net Balance will be carrying out independent assurance over the 2011 Sustainability Performance Accounts and conducting a third-party application level check against the Global Reporting Initiative's (GRI) G3 Sustainability Reporting Guidelines. The 2011 Sustainability Performance Accounts and Net Balance's assurance statement will be available on the AGL website in November 2011.

Applied Economic and Policy Research Working Paper Series

The Applied Economic and Policy Research Working Paper Series is a series of research papers prepared by AGL to provide a critical analysis of energy market trends and energy policy settings, to contribute to the long-term sustainability of the energy industry.

Papers published during FY2011 include:

> The Boomerang Paradox, Part I: How a Nation's Wealth is Creating Fuel Poverty & Part II: Policy Prescriptions for Reducing Fuel Poverty in Australia – These papers identify fuel poverty as a future issue in Australia, and suggest policy settings which could reduce its impact.

> Delayed Carbon Policy Certainty and Electricity Prices in Australia – This paper provides evidence to support the introduction of a price on carbon emissions. Policy uncertainty surrounding carbon pricing is leading to sub-optimal investment in new power generation capacity, with resultant additional costs to electricity users.

> Limited-form dynamic pricing: applying shock therapy to peak demand growth – The paper suggests policies for utilising existing electricity infrastructure more effectively, thus delaying the need for new investments. Given that all consumers bear the costs of augmenting the power system, this provides economic and social benefits. The paper also provides evidence to support the roll out of smart meters which can assist households to reduce their carbon footprint.

The full working paper series can be found on the AGL Sustainability Blog at aglblog.com.au.

Recognition and Awards

AGL's sustainability performance has been recognised domestically and internationally by independent experts, through inclusion in:

> Dow Jones Sustainability World Index 2010/11

> FTSE4Good Index

> Carbon Disclosure Project ASX200/NZX50 Carbon Disclosure Leadership Index 2010

> Carbon Disclosure Project ASX200/NZX50 Carbon Performance Leaders List 2010

In August 2011, AGL's 2010 Sustainability Report was awarded Best Sustainability Report, Best Sustainability Report in the ASX 50 and Best Sustainability Report in the Energy Sector at the ACCA Australia 2011 Sustainability Reporting Awards.

Other sustainability awards received during FY2011 include:

> Energy Supply Association of Australia's Sustainability Reporting Award (March 2011)

> ACCA Australia Sustainability Reporting Awards: Best report in the energy and utilities sector (November 2010)

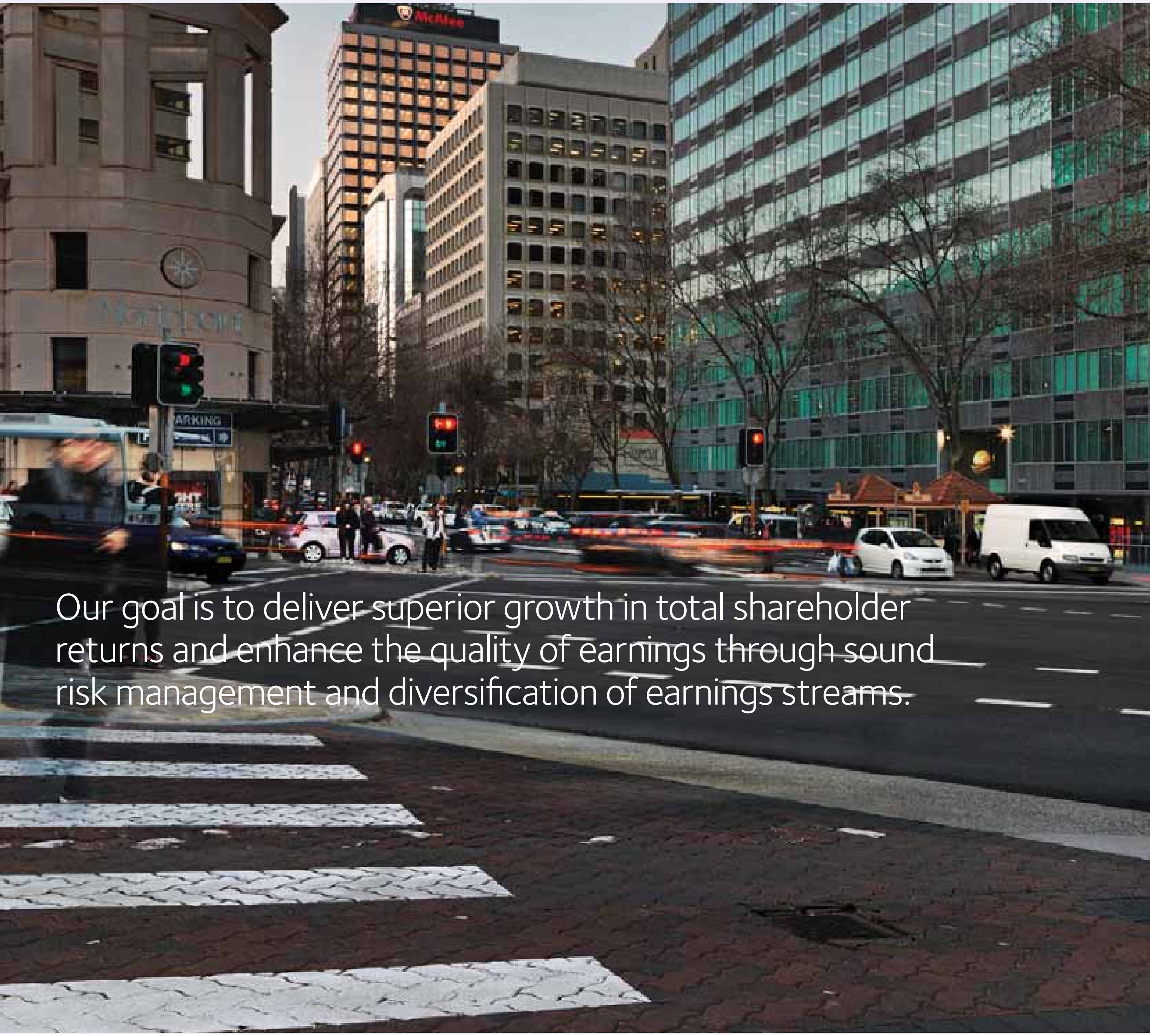
> ACCA Australia Sustainability Reporting Awards: Joint winner for best ASX Top 50 listed company (November 2010)

> New South Wales Government Green Globe Award: Business Sustainability (July 2010)

> New South Wales Government Green Globe Award: Climate Change Leadership (July 2010)

Growing a sustainable business

AGL's integrated strategy is designed to manage risk and improve returns by providing access to multiple profit pools and balancing the risk between upstream supply of energy and our customers' demand for energy. AGL's rigorous investment processes and appropriate hurdles for the rate of return on investments will continue to drive shareholder returns.



Our goal is to deliver superior growth in total shareholder returns and enhance the quality of earnings through sound risk management and diversification of earnings streams.

Vision	Target FY2011	Performance FY2011		Target FY2012
Ongoing profitability				
Industry leading earnings profile based on sustainable business practices.	Underlying profit: **$450–480m**	Underlying profit: **$431.1m**	✗	Underlying profit: As per guidance to be issued at AGL's Annual General Meeting on 27 October 2011.
Sustainable growth				
Solid credit rating reflecting underlying cash-flow potential.	Credit rating: **BBB**	Credit rating: **BBB**	✓	Credit rating: **BBB**

Ongoing Profitability

AGL has a long pipeline of development projects which offer the potential for future growth such as new gas-fired power stations; wind farms and other renewable generation assets; gas exploration and development activities; and gas production and gas storage facilities.

AGL will commit the substantial capital associated with these projects when the Board is satisfied there will be real growth in shareholder wealth measured by increasing dividends and share price increases.

Continued improvement in AGL's profitability will be a key driver of providing shareholders with the investment returns they need to continue investing in AGL. It will also be essential if we are to continue to be able to borrow money from our lenders on satisfactory terms.

AGL's underlying profit for FY2011 was $431.1 million, up only 0.5% on FY2010. This is in line with revised earnings guidance provided to the share market following a combination of severe summer weather conditions in eastern and southern Australia. Although the underlying profit was relatively flat, operating cash-flow increased by more than 7% to $676 million, demonstrating the strength of AGL's core business.

Dividends paid to shareholders totalled 60 cents per share, an increase of 1 cent on FY2010.

Sustainable Growth

It is crucial that AGL maintains a solid investment grade credit rating to operate effectively in Australia's energy markets. Wholesale contracts are an important element of managing the cost of procuring energy. An investment grade credit rating allows AGL to enter into these high value contracts on the terms necessary to effectively manage risk. An investment grade credit rating is also important in securing access to long-term debt on acceptable terms and conditions.

Standard & Poor's (S&P) have reaffirmed AGL's long-term credit rating of BBB/stable. Current debt levels and capital expenditure expected to be incurred in FY2012 provide AGL with debt headroom of approximately $500 million to maintain a BBB credit rating.

Listening to our customers

The AGL Customer Charter outlines what customers can expect from AGL, and provides a standard against which we measure our service. AGL's performance against the Customer Charter is reported quarterly on our website.

Customer Experience

AGL is committed to continuing to improve levels of customer service.

AGL measures customer satisfaction each quarter to gauge whether we are servicing customers to the standard we have committed to in our Customer Charter, and whether initiatives to improve customer service have been successful.

During FY2011, AGL's customer satisfaction score averaged 6.65, with a score of 6.67 in the fourth quarter of FY2011. The results reflect responses to the question of how satisfied customers are with the service provided by their energy supplier on a scale of 0 to 10 (where 0 is not satisfied, 5 is neutral and 10 is extremely satisfied).

This is the first year that this measurement of customer satisfaction has been used and benchmarked against major competitors. In FY2012, AGL has set a target to have a better customer satisfaction score than its major competitors.

Customers in Hardship

Energy prices are increasing, predominantly due to upgrades of distribution network infrastructure. While price increases affect all of AGL's customers, low-income consumers are likely to be affected disproportionately. For some customers the affordability of energy will be impaired materially.

AGL supports a 'shared responsibility model', whereby energy retailers, governments, communities and the wider energy industry collectively share responsibility for assisting customers who are experiencing financial hardship.

AGL's national hardship program, Staying Connected, is designed to support residential customers who are experiencing temporary or long-term financial hardship that make paying their energy bills difficult.

At the end of the financial year, 8,652 customers were on the Staying Connected program, a decrease of 16.3% compared to the preceding year. The average level of energy debt among those Staying Connected participants was $1,658, up 20% from $1,382 in FY2010.

Many customers with low levels of debt have successfully completed the program this year. This results in an increase in the average debt level of those remaining on the program. By bringing customers onto the program earlier (while their debt levels are relatively low), the average level of energy debt per customer will decline.

AGL will continue to focus on the early identification of customers experiencing or likely to experience financial difficulties and help participants successfully return to a sustainable energy consumption and debt position.

Vision	Target FY2011	Performance FY2011		Target FY2012
Customer experience				
Top ranking energy company for customer satisfaction.	Establish new customer satisfaction score and target.	Customer satisfaction score established, monitored quarterly and reported internally during 2011. Target established and embedded within Operational Scorecard.	✓	Customer satisfaction score: **> major competitors**
Customers in hardship				
Recognised industry leader in customer hardship policy.	Establish target for average level of energy debt of customers on Staying Connected program.	Target established.	✓	Average energy debt of Staying Connected customers: **5% decrease**

Byron from Three Beans, an AGL customer

Connecting with the community

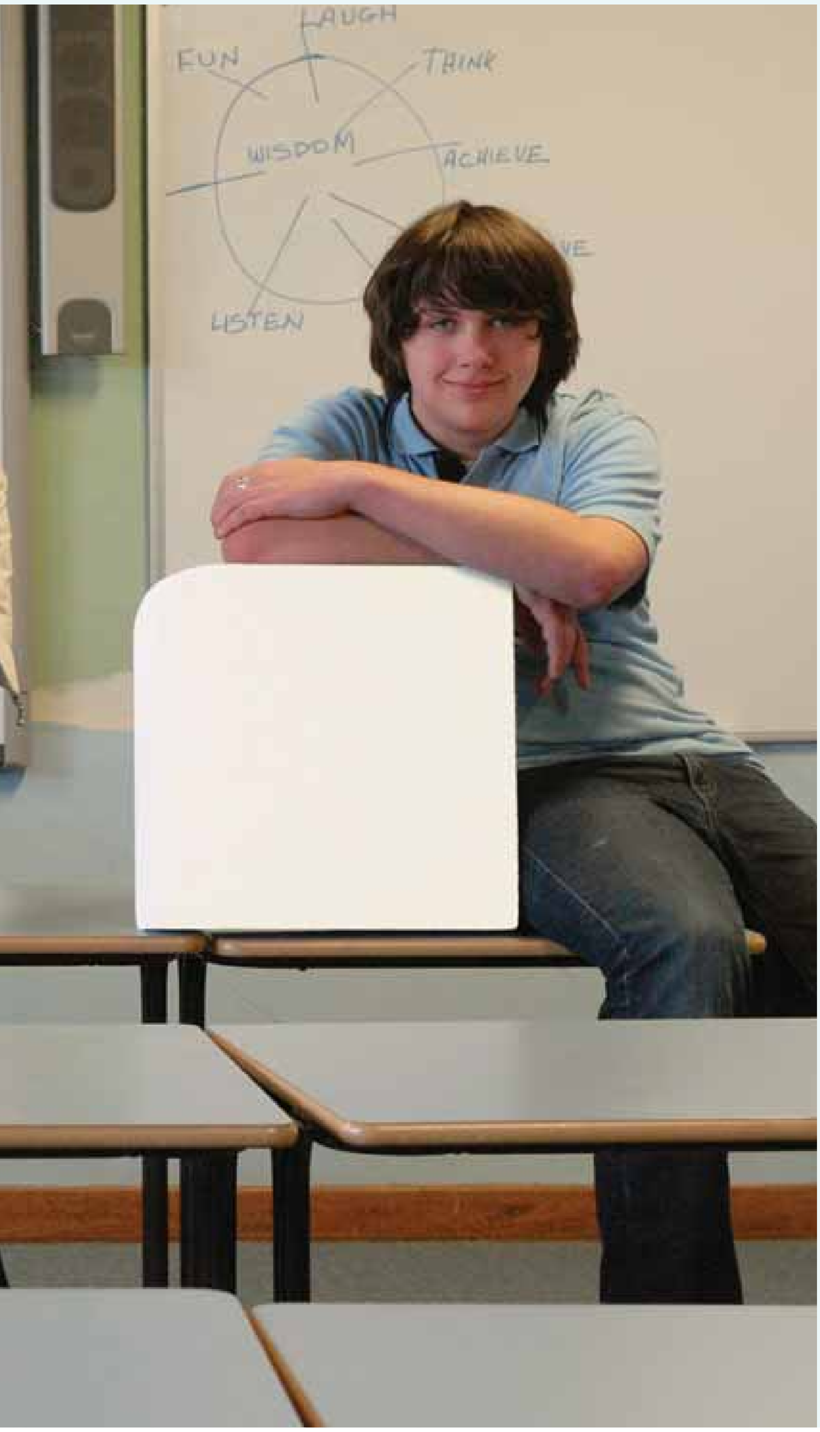
AGL has a responsibility to work with the community to develop mutually beneficial projects and to sensitively manage the associated environmental, social and financial outcomes. By engaging local communities during the project development process, AGL's objective is to develop and operate projects while satisfying community concerns.

Our goal is to connect with the community in ways which make a genuine contribution, engage our people and strengthen our business.

AGL supports the Gloucester Youth Support and Development Program

Vision	Target FY2011	Performance FY2011		Target FY2012
Community engagement				
Best practice local community engagement.	Implementation of community engagement plans: **100%**	Implementation of community engagement plans[1]: **100%**	✓	Improve community engagement by implementing community engagement plan actions: **100%**
Community contribution				
Social Return on Investment measured and at target levels.	Employee Volunteering participation rate: **15%**	Employee Volunteering participation rate: **20%**	✓	Employee Volunteering participation rate: **25%**

1 Active plans in place for operated, committed projects with activities on the ground.



Community Engagement

AGL's presence in regional communities is increasing as we continue to develop new power generation, coal seam gas (CSG) and gas storage projects. Communities adjacent to our projects, and the broader community more generally, are interested to know how our activities may affect them and their environment.

AGL is committed to providing comprehensive and accurate information about our CSG, gas storage and power generation development projects. We also seek to provide adequate opportunities for local residents and community groups to give us feedback about our activities.

Community engagement plans are in place for all CSG and power development projects.

In May 2011, AGL opened a Customer Service and Community Information Centre at Singleton in the Hunter Valley in New South Wales to share information on our CSG operations in the area. AGL has a similar information centre operating in Burra, South Australia, to provide information about the Hallett wind farm projects.

During FY2011, AGL developed a Corporate Community Engagement Framework and Toolkit, designed to help us keep our commitment to, and to work more collaboratively with, local communities.

Community Contribution

Contributing to local communities, as well as to community causes that reflect the interests of AGL employees, brings benefits to both AGL and the community. Communities benefit from receipt of in-kind and financial support, and AGL benefits through improvements in employee engagement and from strengthening relationships with the community.

AGL's Employee Volunteering program gives all employees the opportunity to take one day of paid volunteering leave each year to support community causes and charitable organisations.

In FY2011, 416 employees, or 20% of the workforce (by headcount) recorded a Volunteering leave day, contributing 3,180 hours of service to community efforts. This represents an increase of 58% compared with the 2,008 hours of volunteering leave recorded in FY2010. The volunteering leave taken in FY2011 is valued at more than $115,000.

Our goal is to engage our employees in ways that continue to support our business and deliver outstanding results in a safe and sustainable way.

AGL employees from Camden Gas Project

Supporting and engaging our people

Employees are critical to the delivery of AGL's business strategy.

A safe, engaged and high performance working environment enables employees to contribute to the delivery of AGL's strategic objectives.

AGL is building a diverse workforce and an inclusive workplace culture. Embracing and valuing diversity and inclusion leads to a better understanding of, and engagement with, the people with whom we work, the customers we serve and the communities in which we work.

Employee Engagement

The employee engagement score measures the degree to which employees are committed to the company for which they work.

AGL set a target for 2011 to increase the overall engagement score to at least 65% (known as the 'best employer' zone). AGL's 2011 engagement score decreased by eight percentage points compared to 2010.

The 2011 Engagement Survey was completed following a period of significant organisational change that was undertaken to position AGL for long-term profitable growth. Regrettably, the organisational changes resulted in a number of positions being made redundant across the business. Employee engagement fell in some parts of the business most affected by the changes.

Engagement scores declined in Merchant Energy and Upstream Gas. However, despite the overall decrease, Retail Energy sustained engagement levels in a number of areas.

AGL is confident that action plans to be implemented in FY2012 will lead to a recovery in AGL's employee engagement.

Organisational Safety

AGL's primary measure of safety performance is Total Injury Frequency Rate (TIFR): the number of lost time and medical treatment injuries experienced for every million hours of employee work time.

Disappointingly, after a 55% improvement in TIFR to 2.7 in FY2010 from 6.0 the preceding year, TIFR increased to 5.0 in FY2011. There was an increase in the number of injuries from falls on flat surfaces and in injuries sustained by employees over the age of 45 years.

As well as addressing emerging challenges posed by an aging workforce, AGL has also identified a need to align new business acquisitions to AGL's safety expectations. There has been a reduction in the number of psychological and stress-related injuries compared to previous years after a recent focus on employee wellbeing and mental health.

Although our performance did not improve in this area, safety is and will continue to be a core priority for AGL. The FY2012 target has been set at a level that will support achievement of our long-term objective of zero injuries.

AGL sets annual HSE Action Plans in each business unit. In FY2011, 100% of Action Plan commitments were met.

Vision	Target FY2011	Performance FY2011		Target FY2012
Employee engagement				
Engagement score at 'best employer' level.	Engagement score: 65%	Engagement score[1]: 8 percentage point decrease	X	Engagement score: 8 percentage point increase
Organisational safety				
Zero harm.	Total Injury Frequency Rate: 2.5	Total Injury Frequency Rate: 5.0	X	Total Injury Frequency Rate: 4.0

1 Engagement survey undertaken during June and July 2011.

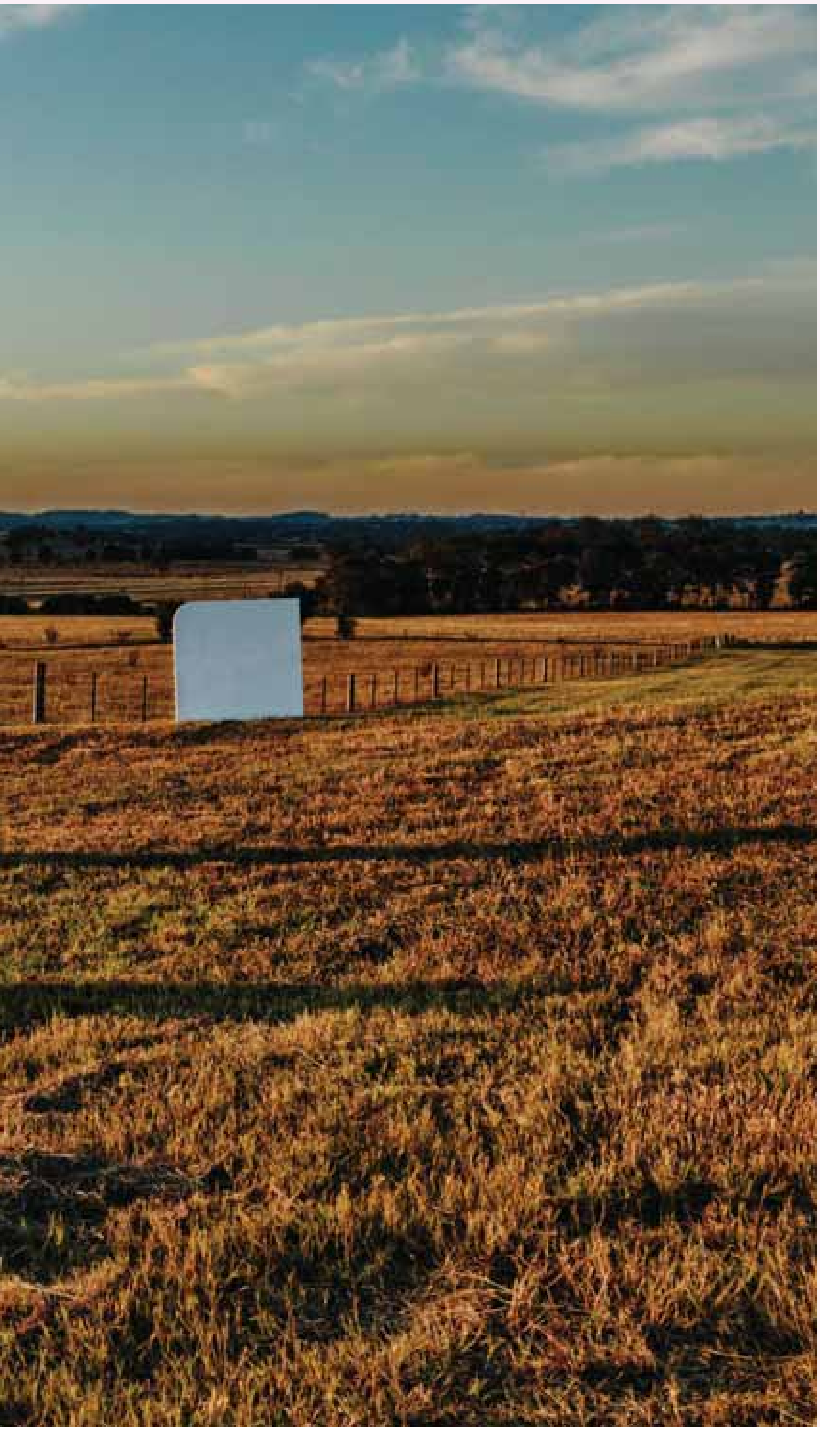
Minimising carbon risk

AGL has continued to be a leader in advocating the introduction of a price on carbon emissions. Policy uncertainty surrounding carbon pricing is affecting investment in new power generation capacity, with unnecessary additional costs to electricity users.

AGL is assisting government in its deliberations on the optimal approach to reducing greenhouse gas emissions and on delivering certainty for investors in the energy supply sector.

Vision	Target FY2011	Performance FY2011		Target FY2012
Carbon risk				
Emissions intensity significantly lower than the market average.	Intensity compared to Australian electricity average[1]: **>50% below**	Intensity compared to Australian electricity average[1]: **>50% below**	✓	Intensity compared to Australian electricity average[1]: **>50% below**
Sustainable generation sources				
Australia's largest renewable energy company.	Renewable proportion of operated generation capacity[1]: **45%**	Renewable proportion of operated generation capacity[1]: **45%**	✓	Renewable proportion of operated generation capacity[1]: **48%**

1 Figures refer to the capacity and/or sent-out greenhouse gas intensity (scope 1 and scope 2) of electricity generation assets over which AGL has operational control, regardless of who owns the asset. Assets where AGL has rights to the electricity output only are not included. Australia-wide scope 2 greenhouse gas emissions intensity figure is from the National Greenhouse Accounts (NGA) Factors published by the Department of Climate Change and Energy Efficiency, July 2011 (latest estimate is 0.91 tCO2e/MWh).



As an energy company, the most effective way we can contribute to greenhouse gas emission reduction is by expanding our investments in renewable energy and low-emission power generation to reduce the greenhouse intensity of energy that we produce for our customers.

AGL has consistently advocated for:

> Expedited development and implementation of a national emissions trading scheme which uses broad, long-term greenhouse gas emission reduction targets as its goal

> Deployment of renewable technologies through a single national clean energy obligation

> Amalgamation of all existing State-based energy efficiency obligations into a single national energy efficiency obligation

> Appropriate adaptation measures so that Australia is not adversely affected by existing atmospheric concentrations of greenhouse gases.

Carbon Risk

The greenhouse intensity of AGL's operated generation assets compared to the market average helps to measure how well AGL is positioned to manage the risk of regulatory intervention through a carbon price.

The carbon intensity of AGL's operated generation portfolio decreased this year, due to a larger proportion of electricity generation from AGL's operated wind and hydro generators, which have very low greenhouse gas emission intensities.

AGL also uses three additional approaches for measuring and communicating greenhouse gas performance. The Operational Footprint, Equity Footprint and Energy Supply Footprint provide a complete account of the annual greenhouse impacts of AGL's operations, investments and the energy supplied to our 3.29 million customers, and will be available in the AGL 2011 Sustainability Performance Accounts.

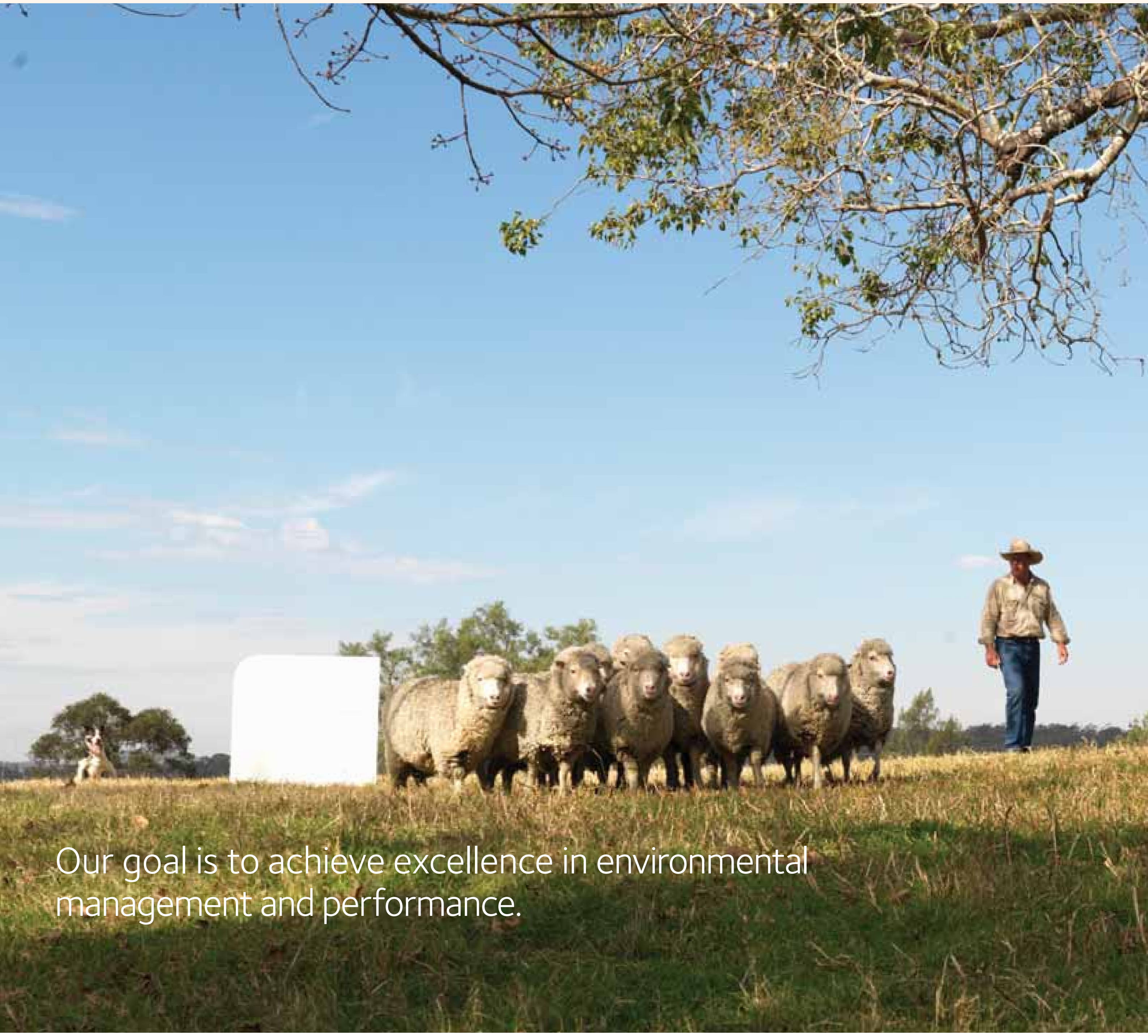
Sustainable Generation Sources

In May 2011, AGL commenced operation of the 132 MW AGL Hallett 4 Wind Farm, increasing AGL's operated renewable generation capacity to 1,205 MW.

As of 30 June 2011, AGL has an additional 540 MW of renewable generation under construction, as well as a pipeline of further renewable and gas-fired generation development opportunities.

Protecting our environment

AGL's Environmental Principles and our health, safety and environmental management system provide a framework for managing environmental risks and compliance responsibilities. Management of water resources is a critical environmental issue for Australia and one that is also relevant to AGL's business. Communities and all levels of government are also observing the coal seam gas industry to ensure that operators act responsibly and that land and water resources are not harmed by exploration and development activities.



Our goal is to achieve excellence in environmental management and performance.

Vision	Target FY2011	Performance FY2011		Target FY2012
Environmental risk				
To have an environmental risk profile that is As Low As Reasonably Practicable (ALARP).	Update, establish and monitor environmental risk registers for significant power generation and coal seam gas projects.	Environmental risk registers in place, current, and monitored for significant power generation and coal seam gas projects.	✓	Develop biodiversity register for AGL assets and projects which identifies any impacts on biodiversity values.
Water management				
To be recognised as a prudent and responsible user of water that seeks to minimise the adverse impact of its operations on local water resources.	Continue to develop a Water Management Strategy for coal seam gas projects.	A Produced Water Management Strategy for coal seam gas projects has been established.	✓	Implement the Produced Water Management Strategy, and develop plans for drill water and coal seam fracturing/flowback water.

Environmental Risk

During FY2011, risk registers were updated or established for all our coal seam gas projects and large power generation facilities over 150 MW. The highest levels of environmental risk, after taking into consideration existing controls, relate to surface water, groundwater and biodiversity.

For the broader energy sector, air quality issues are a significant concern. AGL is continuing to develop low-emission generation assets that contribute to creating a cleaner environment. Air emissions of sulfur dioxide, oxides of nitrogen, particulates, carbon monoxide and volatile organic compounds from AGL operated electricity generation facilities represent less than 2% of emissions for each pollutant type reported to the National Pollutant Inventory for the electricity generation sector for FY2010. While not material, AGL will continue to monitor and where possible minimise these emissions.

Detailed environmental performance data will be published in the 2011 Sustainability Performance Accounts, available online in November 2011. A summary of environmental incidents is included on page 46 of this report.

Water Management

Water management is a key component of AGL's CSG exploration and production projects.

In FY2011, AGL developed a Produced Water Management Strategy in recognition of the need to protect ground and surface water resources and to use water sustainably across CSG operations. The long-term objective of this strategy is to substantially increase the proportion of produced water that is beneficially re-used for industrial/commercial, mining and/or primary production purposes.

AGL has also established dedicated groundwater and surface water monitoring networks at its Gloucester, Hunter and Galilee CSG exploration areas, and in the vicinity of the proposed natural gas storage facility at Tomago. Fifty-nine dedicated groundwater monitoring bores and nine surface monitoring locations are now operational across these projects.

Results to date from the Hunter Gas Project indicate that groundwater in deep coal seams we want to exploit for gas in this project area is isolated from water resources in shallow aquifers and streams. The results also show that water levels have not declined and that water quality has not been impaired as a result of AGL's exploration activities.

Retail Energy

AGL retails natural gas, electricity and energy-related products and services to 3.3 million customer accounts across New South Wales, Victoria, South Australia and Queensland. Retail Energy sources its energy from AGL's Merchant Energy business.

Financial Performance

Retail Energy's Operating EBIT of $373.0 million was up 17% on last year due mainly to improved margins from our mass market customer base. The increased margins were a result of improved regulatory and contract pricing outcomes, and an increase in customer numbers.

Business operating costs increased by only approximately 3% reflecting the continuing improvements in operating efficiency that have followed since completing work on the SAP billing system in late 2009. Our operating cost to gross margin ratio is now down to 46.5%, compared with 49.5% last year.

Main Achievements in 2011

In the second half of the year, AGL initiated its strategy to drive organic growth in the electricity customer base in New South Wales. This is a three year plan to grow the customer base to between 800,000 and 900,000. Early results have been very encouraging with approximately 96,000 new electricity customer acquisitions in New South Wales in the second half of the year. The number of dual fuel customers – who are customers for both gas and electricity supply – also increased. Dual fuel customer accounts now total 1.47 million, an increase of more than 100,000 on last year.

In May, AGL launched an online service that is similar to internet banking, putting more control into customers' hands when it comes to managing their energy accounts. AGL Energy Online allows residential and small business customers to quickly and easily set up and manage an energy account, including access to online bill payment, account history, and organising electricity and gas disconnections and reconnections when moving between premises. Importantly, this service has allowed us to move toward paperless billing, something many of our customers have requested.

Customer service levels continued to improve during the year. This was the first year we have measured how we have performed against the targets in the new Customer Charter we introduced last year. We have met or exceeded the service level targets we set for nearly all customer promises.

AGL's sponsorship of the AGL Action Rescue Helicopter has continued for the second year, enabling the service to undertake more than 1,000 flights, an average of about 2.7 a day, including providing valuable support in south-east Queensland during the 2011 floods. AGL customers in Queensland can donate to the service by having contributions added to their AGL electricity bills, which will help this valuable community resource continue to undertake vital medical assist and search and rescue missions.

Key Challenges

Australia's retail energy markets are amongst the most competitive in the world. High rates of customer churn are a feature of the gas and electricity markets in eastern and southern Australia, although AGL's customer churn rates remain well below the industry average. While we have successfully increased our electricity customer base in New South Wales, we have also experienced small losses – totalling approximately 35,000 customer accounts – in Victorian, South Australian and Queensland electricity markets. Late in the year we increased our level of customer acquisition and retention activity in Victoria, South Australia, and Queensland, to counter further competitor efforts to acquire AGL customers.

During the year, we also saw a decrease of almost 5% in the volume of electricity consumed by our customers. This was partly due to generally mild average temperatures through much of the year. However, the fall in consumption also reflects customer responses to higher electricity charges, with an increasing number of customers focusing on energy efficiency measures to reduce costs. AGL has developed programs to work with our customers, particularly those under financial pressure, to assist improve levels of energy efficiency. This helps our customers, and it also helps drive customer loyalty and minimises the amount of bad debts.

Higher energy bills for our customers have also resulted in higher volumes of calls to our customer service centres, with many customers seeking assurances about the accuracy of their bills or seeking additional time in which to make payment. Unfortunately, higher call volumes have increased average call response times resulting in some customers experiencing poor levels of service. We have now increased employee numbers at our customer service centres. We have also undertaken work to streamline a number of aspects of our customer handling processes so that we can provide a faster and more efficient response to our customers.

Objectives for 2012

Continuing to improve customer service levels is a priority. Continued promotion of AGL Energy Online will enable more customers to use self-service for routine matters such as viewing account history, and arranging disconnections and reconnections when moving between premises. This will free up resources at our customer service centres.

We have also commenced a program of 'After call' surveys to measure our performance when dealing with customer queries and to investigate areas where improvements can be made. These surveys allow us to hear directly from our customers how satisfied they are with our service directly after their interaction with us.

A continued focus on providing our customers with energy efficiency advice and solutions will become an increasingly important element of our customer service. This will include expert advice on, and installation of, solar panels. We anticipate that, within a few years, technological developments in solar technology and lower production costs will make solar energy an attractive option for many Australians. We have recently acquired a business which has expertise in solar panel installations, so we will be working toward making solar energy a more accessible alternative for our customers.

We will continue our plans to increase the number of electricity customers in New South Wales, while maintaining our customer bases in other States.

AGL online

AGL Energy Online allows customers to manage their own energy account in a secure, convenient and easy online portal, which is available all day, every day.

Strong growth

Retail Energy Operating EBIT increased by 17%, with strong growth in dual fuel customers and new electricity customers in New South Wales.

Retail Energy	2011	2010
Operating EBIT ($m)	373.0	318.7
Operating EBITDA ($m)	416.8	360.2
Operating cost/gross margin	46.5%	49.5%
Electricity volume (GWh)	32,764	34,362
Gas volume (PJ)	216.2	210.9
Mass market gross margin ($m)	595.8	533.3
Average mass market customers ('000s)	3,254.2	3,205.6
Average mass market gross margin per customer ($)	183.08	166.35

Merchant Energy

Merchant Energy manages the risks of procuring and delivering gas and electricity for AGL's wholesale and retail portfolios. It also manages AGL's compliance with mandatory renewable energy targets.

Merchant Energy's business groups are:

> Energy Portfolio Management – which manages procurement of AGL's wholesale electricity and gas requirements, including management of the commercial aspects of operating AGL's own electricity generation assets and management of AGL's green product obligations.

> Power Development – which develops all AGL's electricity generation projects.

> Merchant Operations – which operates and maintains AGL's portfolio of electricity generation assets including wind farms, hydro assets and gas-fired generation plants.

> Energy Services – which provides customers with expert advice on a range of energy related matters, including energy efficiency, and project development and management.

Energy Portfolio Management

Energy Portfolio Management (EPM) manages the price risk associated with procuring electricity and gas. It also manages AGL's green product obligations such as those relating to the mandatory renewable energy target, and controls the dispatch of owned and contracted electricity generation assets which complement the portfolio of electricity hedge contracts.

EPM's operating EBIT increased by 0.9% to $430.1 million. A reduction of $9.4 million in contribution from wholesale electricity gross margin was offset by increases of $2.0 million from wholesale gas gross margin and $8.5 million from eco-markets gross margin.

Merchant Energy	2011 $m	2010 $m
Operating EBITDA	**447.3**	449.8
Operating EBIT		
Energy Portfolio Management	430.1	426.1
Merchant Operations	(114.7)	(103.8)
Energy Services	17.8	17.3
Power Development	56.3	56.9
Sundry Expenses	(11.3)	(10.4)
Total Operating EBIT	**378.2**	386.1

In relation to wholesale electricity, the result for the year was most affected by the consequences of the severe weather events experienced across the National Electricity Market in late January and early February 2011. These events resulted in:

> record electricity demand in New South Wales and South Australia, coupled with extended periods of high and volatile wholesale electricity prices;

> the shut down, ahead of Cyclone Yasi, of the Yabulu Power Station over which AGL has dispatch rights; and

> disruption of gas supplies to, and the imposition of transmission constraints on, the Oakey Power Station over which AGL has dispatch rights.

AGL was exposed to underlying electricity pool prices of up to $12,500 per MW hour during periods of high customer demand. In normal circumstances, electricity pool prices are around $40 per MW hour. The effect was to increase AGL's electricity wholesale costs by $43.7 million.

But for the effects of the unusual summer weather events described above, EPM's performance for the year was otherwise very satisfying in a number of respects. Generation output from hydro assets was up due mainly to the benefits of higher water storage levels at the Eildon and Dartmouth dams. Electricity generation from wind assets was also higher than obtained in the previous year. Effective management of the wholesale electricity portfolio also allowed AGL to benefit from overall lower electricity pool prices that prevailed for most of the year.

The higher generation output from hydro and wind assets increased AGL's eco-markets gross margins.

Wholesale gas margins increased mainly as a result of higher residential demand during July, August and September 2010 when temperatures were generally lower than they were the previous year. Effective management of AGL's gas contracts reduced overall gas procurement costs, although this was partly offset by higher gas haulage costs, a tightening in margins from commercial and industrial customers, and costs associated with the newly introduced short-term gas trading market.

Power Development

Power Development generates earnings from the development of wind farms. Development profits are recognised on a percentage of completion basis.

Development profits of $61.0 million were recognised in the year, mainly from the AGL Hallett 4 Wind Farm (which was commissioned and became operational in May 2011) and from the Oaklands Hill Wind Farm. Construction of the Oaklands Hill Wind Farm is expected to be completed in December 2011, which will result in recognition of a further $8.0 million of development profits in FY2012.

On 27 June 2011, AGL announced the sale of the Oaklands Hill Wind Farm. Although the physical asset has been sold, AGL will continue to construct, operate and maintain the facility, and will retain the rights to all electricity output and the resulting renewable energy certificates.

Work continued on construction of the AGL Hallett 5 Wind Farm, and is on schedule for completion in December 2011.

Construction of the Macarthur Wind Farm in western Victoria commenced during the year. When completed in April 2013, it will be the largest wind farm in the southern hemisphere with a generation capacity of 420 MW.

Merchant Operations

Merchant Operations is responsible for managing and maintaining AGL's growing portfolio of wind, water and gas-fired electricity generation plants. AGL's thermal and renewable generation portfolio includes the 1,280 MW gas-fired Torrens Island Power Station in South Australia, the 150 MW gas-fired Somerton Power Station in Victoria, and 796 MW of hydro generation in Victoria and New South Wales. AGL also operates and controls 389 MW of wind generation from the Wattle Point and the AGL Hallett 1, Hallett 2 and Hallett 4 Wind Farms in South Australia. The AGL 132 MW Hallett 4 Wind Farm is a new addition to the portfolio following its commissioning in May this year.

Merchant Operations is largely a cost centre. All generation revenue and variable operating expenditure is included in the results for Energy Portfolio Management. Merchant Operations costs increased this year due mainly to higher labour charges, the effect of additional new plant coming on line, and higher maintenance costs now that warranty periods for some assets constructed several years ago have expired. Depreciation charges for some hydro generation assets increased because of the higher level of operation of those assets this year. Depreciation also increased because of increases to the asset base following completion of some capital works at Torrens Island Power Station and the West Kiewa Power Station.

Merchant Operations' primary objective is to make sure that AGL's generation assets are available when required, particularly during periods of peak customer demand. Business unit performance is assessed by measuring the commercial availability and start reliability of the generation assets. This year, AGL again met or exceeded international benchmarks of good practice. All generator units at the Torrens Island Power Station were available to operate almost 100% of the time. Start reliability at the Somerton Power Station was above 97% and at AGL's hydro assets was approximately 99%.

The high levels of operating performance reflect AGL's commitment to maintaining and upgrading the generation assets. During the year, a centralised asset management team was established to implement the British Standards Institution publicly available standard (PAS55) to optimise the management and maintenance of the generation assets. This followed a benchmarking exercise with selected international organisations that have successfully adopted a 'shared service' approach to asset management. The shared services approach centralises and makes efficient use of the expertise across Merchant Operations to review and align asset management strategies.

During the year, a four-year program to refurbish all four generators at the West Kiewa Power Station was successfully completed.

At the Torrens Island Power Station, work continued on the $40 million, four-year long, program to upgrade the generator controls systems, with the commissioning of the first two generator units in B Station. The remaining two units are on schedule for completion in the coming year, as is work on the development of a single point of control for both A and B Stations.

High rainfall throughout the year has resulted in a significant increase in all dam storage levels with Eildon and Dartmouth at 86% and 64% of capacity at year end compared with 25% and 32% respectively at the end of last year.

The increased storage levels means that the Eildon Power Station is now capable of generating full output capability of 120 MW, up 45 MW on last year. An even greater recovery in generation capability was the Dartmouth Power Station, which had been unable to operate for several years because of low dam levels. At 30 June 2011, generation capability had been restored to 135 MW. The return of Dartmouth Power Station provides additional fast start capability and generation output that will continue to increase as dam storage increases.

Merchant Operations is committed to achieving an injury free work place. Torrens Island Power Station has now achieved 10 years without a Lost Time Injury (LTI). Overall Merchant Operations recorded one lost time injury for the year. Over the year the Lost Time Injury Frequency Rate (LTIFR) fell from 2.0 to 1.2.

Merchant Operations continued to implement its major recruitment program at Torrens Island Power Station as a part of its long-term operational succession plan. Currently, the Torrens Island and Hydro sites employ 20 apprentices.

Energy Services

Energy Services assists business customers make their businesses more energy efficient. It also manages the HC Extractions LPG facility at Kurnell, in New South Wales. HC Extractions produces LPG and naptha by processing refinery off-gases from the adjacent Caltex oil refinery, with all production sold back to Caltex.

Operating EBIT increased by 2.9% from $17.3 million to $17.8million. Improved earnings from new energy projects was offset by a reduction in contribution from HC Extractions as a result of a fall in LPG production volumes.

On 9 March 2011, AGL announced plans to construct a co-generation facility for Qenos Pty Limited at its Altona plant in Victoria. The plant will have an energy capacity of 20.6 MW and a high pressure steam capability of 88 tonnes per hour. When completed, it will reduce CO_2 emissions by approximately 100,000 tonnes per annum.

Other projects completed during the year included the installation of solar panels on the Panda House at Adelaide Zoo and at the Flemington Racecourse headquarters of the Victoria Racing Club.

Engaging the communities in which we live and work

'AGL has done more for our community than provide an energy source – they've helped make our community a better place to live.' – Bill Gebhardt, AGL Hallett 2 Wind Farm landowner and local farmer.

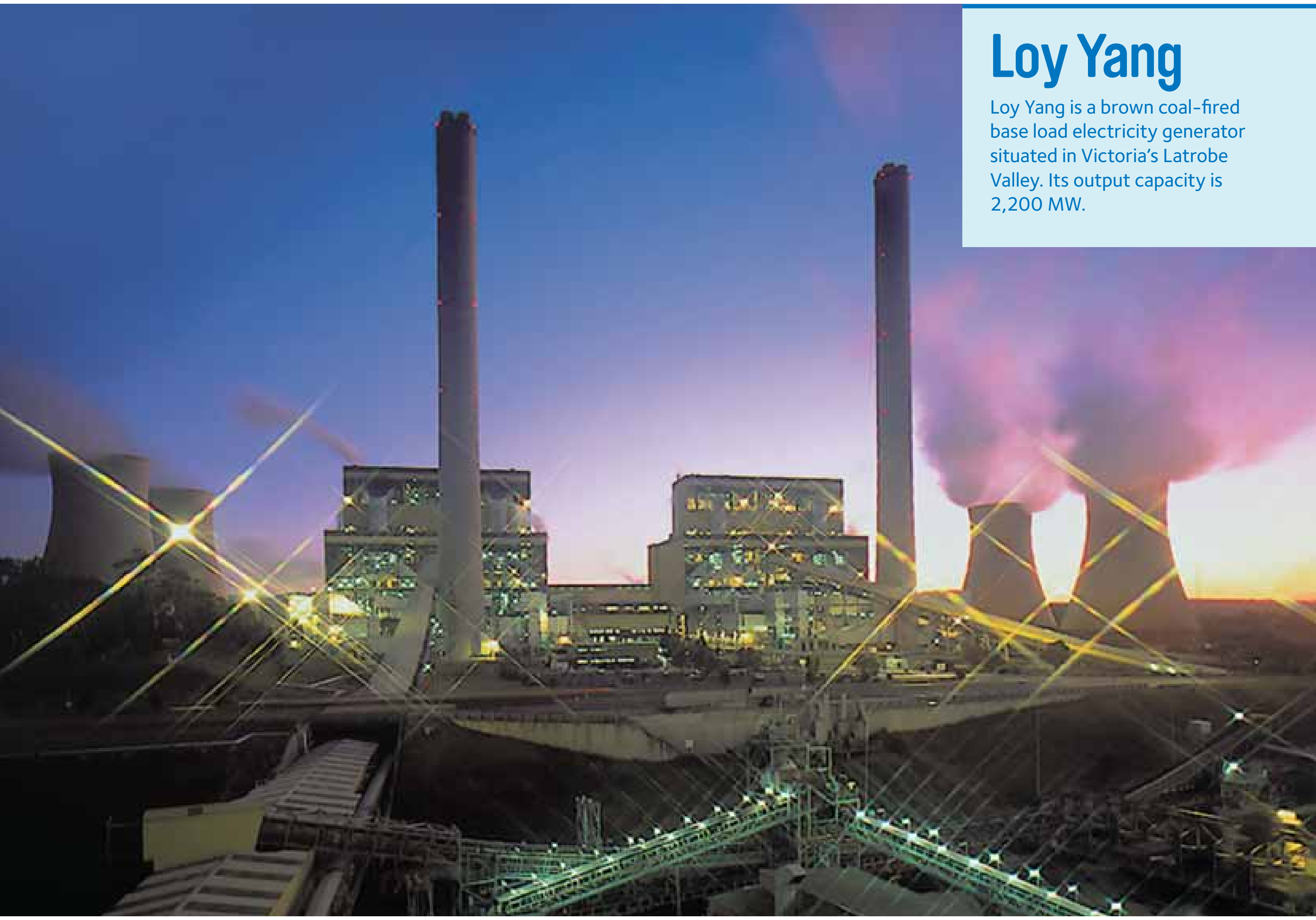
Engaging with regional communities makes sense for AGL. What matters to our community matters to us. AGL's community, and our neighbours are our customers or potential customers.

AGL has been constructing wind farms in the mid north region of South Australia for six years. The construction projects have boosted the local economy and provided employment to many local residents.

An independent economic impact assessment completed last year confirmed that $88 million had been spent locally on goods and services as a result of the wind farms built in the area. In addition to jobs created during construction, there will be 30 full time employees who will maintain the four wind farms for the next 25 years.

Additionally, AGL has donated more than $175,000 to clubs, schools, associations and community groups in the region. Through AGL's arrangements with landowners, local families receive a diversified source of income, whether the growing season was good or bad.

Beyond the financial, AGL has engaged with the community through school tours, presentations, information days and the AGL Information Centre in Burra.



Loy Yang

Loy Yang is a brown coal-fired base load electricity generator situated in Victoria's Latrobe Valley. Its output capacity is 2,200 MW.

Investments

AGL holds a 50% interest in the ActewAGL energy retail business, a partnership between AGL and the ACT government-owned enterprise, Actew Corporation. AGL also owns 32.5% of the Loy Yang A Power Station in the Latrobe Valley in Victoria.

ActewAGL

When it was established in 2000, ActewAGL was the first utility joint venture in Australia between a listed public company and a government owned enterprise. AGL holds a 50% interest in ActewAGL's retail business.

The ActewAGL Retail partnership contributed earnings of $29.8 million for the year compared with $30.4 million the previous year. Volumes of electricity and gas sold by ActewAGL increased this year. The contribution to earnings was slightly lower this year because of additional costs related to the acquisition of green certificates and because the prior year result included a small profit from the sale of an asset.

Loy Yang A Power Station (Loy Yang)

Loy Yang's contribution to earnings was $10.7 million, well down on the $45.1 million contribution in the previous year. The reduction in its operating result was due largely to a combination of low underlying electricity pool prices and a fall in generation output as shown in the table below:

	First Half Year $/MWh	Second Half $/MWh	Full Year $/MWh	Generation Volume GWh
FY2010	25.83	44.48	35.14	15,518
FY2011	21.97	32.32	27.09	15,174

Loy Yang also experienced increases in labour, and general operating and maintenance costs, and an increase of 5.5% in its interest expense. In September 2010, Loy Yang successfully refinanced a $455 million tranche of senior bank debt and a $35 million working capital facility that were due to mature in November 2010. Both new facilities were refinanced for a term of 5 years, and are due to mature in November 2015. The successful refinancing followed the signing in March 2010 of a long-term Electricity Hedge Agreement with Alcoa and its partners for approximately 820 MW of load. The agreement commences in 2014, with the full load cover in effect from 2016.

Upstream Gas

Upstream Gas advances AGL's position in the long-term security of gas supply by pursuing a number of value-creation strategies that build a portfolio that fills the gap between the contracted gas supply and customer demand.

Upstream Gas is responsible for advancing AGL's position in achieving long-term security of gas supply. It also has investment positions in companies involved in exploring the possibilities of developing geothermal energy sources.

The gas portfolio is divided into two broad regions:
(i) Queensland/South Australia; and
(ii) New South Wales.

The Queensland/South Australia portfolio includes AGL joint venture interest in the Moranbah Gas Project, and other joint venture interests in the Galillee Basin, the Cooper Basin, and at Spring Gully. It now also includes interests acquired during the year following the successful acquisition of Mosaic Oil N.L.

The New South Wales portfolio includes the Camden Gas Project, and assets in the Sydney Basin (which includes the Hunter Valley) and at Gloucester. These assets are wholly owned and operated by AGL and are close to AGL's core New South Wales gas market

Financial Performance

Operating EBIT for the year was $13.6 million, an increase of $8.1 million on the previous year. The increase was due mainly to the receipt of income from the provision of gas storage services. This is discussed in more detail below.

Growth in Gas Reserves

At year end, 2P reserves were 2,089 PJ, an increase of 32.4% on the previous year. Successful exploration activities resulted in the first booking of gas reserves in the Hunter Valley (142 PJ).

AGL's share of gas reserves in the Bowen Basin in Queensland increased by 310 PJ during the year. The acquisition of Mosaic Oil N.L. added a further 65 PJ of 2P reserves.

The Galilee Gas Project (ATP 529P), in which AGL holds a 50% joint venture interest, has announced its first resource estimation of 259 PJ of 2C resources.

Gas Storage

The ability to store gas for use during periods of peak demand will become an increasingly important asset in maintaining continuity of gas supply – to our gas customers and to our own gas-fired generation assets. During the year, AGL made substantial progress in advancing two gas storage projects.

Silver Springs Underground Gas Storage Project

In October, AGL acquired Mosaic Oil N.L. through a court approved scheme of arrangement. In addition to permits for conventional oil and gas exploration and production, the acquired assets of Mosaic included the depleted Silver Springs/Renlim gas fields, an ideal underground gas storage location.

Following completion of the acquisition of Mosaic, AGL redeveloped the underground gas reservoir as a gas storage facility.

The capital cost of developing the gas storage facility was underwritten by a seven year contract to provide gas storage services to QGC Limited (a BG Group Company). The agreement with QGC will produce gas storage fees of approximately $8 million to $10 million per annum over the next three years. With its initial storage capacity of 35 PJ, the reservoir will store gas to support BG's development of a liquefied natural gas facility in Gladstone.

It will also help AGL better manage its gas supply during seasonal variations in demand in peak summer and winter periods.

Kuarna ancestors find their way home

When conducting a heritage assessment for the potential future development of the Torrens Island Energy Park, the AGL team sought the input of the local Kaurna people. This led to the repatriation of 68 Kaurna ancestors within the Torrens Island Conservation Park, some almost 200 years after their removal.

Through the support provided by AGL, the Kaurna people have reclaimed ancestral remains held by the South Australian Museum and obtained permission for the reburial within the Conservation Park. A number of significant cultural ceremonies have also been conducted, including a traditional 'Sorry Ceremony' during which Kaurna elders were finally able to bury their ancestors in a traditional resting place.

Newcastle Gas Storage Facility

In New South Wales, AGL has proposed development of a gas storage facility near Newcastle. When complete, the facility is expected to have the capacity to store 1,500 TJ of gas and provide a peaking supply of 120 TJ/day. The storage facility would allow AGL to meet its peak gas market requirements over winter and to provide additional security of gas supply if there are other circumstances which threaten the availability of gas supply to Sydney and Newcastle.

The Department of Planning in New South Wales has found this project to be a Major Project subject to Part 3A of the Environmental Planning and Assessment Act. An Environmental Impact Assessment has been completed and made publicly available in July 2011.

Subject to formal planning approval, AGL anticipates construction to commence later this year, with the facility to be operational by winter 2014.

The Camden Gas Project

The Camden Gas Project is situated 65 kilometres south-west of Sydney and comprises the only commercially producing gas wells in New South Wales. Gas is produced from local coal seams. The gas production facility co-exists with other land uses, such as agricultural and residential housing developments.

During the year, AGL commissioned a new state-of-the-art Ensign 67 rig which has drilled four wells since January. Toward the end of the year, AGL also placed a new service rig into operation, performing maintenance on six wells to improve production.

Other New South Wales Assets

AGL also owns and operates other coal seam gas projects at Gloucester (PEL 285, located approximately 100 km north of Newcastle), and in the Hunter Valley (PELs 4 and 267).

During the year, the Gloucester Gas Project received a concept plan approval and a Part 3A planning approval authorising:

> stage 1 of the Gloucester gas field development, including 110 gas wells and associated infrastructure;

> a central processing facility to treat gas and water; and

> construction of a gas transmission pipeline between the central processing facility and the existing gas supply network at Hexham.

Increased gas reserves

Upstream Gas continued to increase its gas reserves. For AGL's customers, growth of reserves means security of supply.

AGL intends to invest about $300 million in the project during the next five years.

Subsequently, a local community action group has initiated a judicial review of the approvals in the New South Wales Land and Environment Court. The review process will take several months to run its course. In the meantime, AGL intends to continue preparatory activities in anticipation that final project approvals will ultimately be received.

Over the last year, there has been a substantial increase in the level of media and community scrutiny of coal seam gas projects in both Queensland and New South Wales. Our exploration activities in the Hunter Valley have been the subject of a number of protest activities initiated by local residents concerned about whether our operations will harm the local environment.

AGL has recently opened an Information Centre in Singleton to make available to the local community opportunities to learn more about AGL's operations in the Hunter region and the steps we take to safeguard the health and wellbeing of the environment and the local residents.

To date, AGL's activities in the Hunter Valley have involved obtaining approximately 300 kilometres of seismic data, drilling 16 core holes and six stratigraphic holes, and the operation of two pilot test wells. The petroleum exploration phase of the Hunter Valley Gas Project is expected to continue for at least three to five years.

AGL share of CSG reserves	As at 30 June 2011		As at 30 June 2010		Change	
PJ	**2P**	**3P**	**2P**	**3P**	**2P**	**3P**
Gloucester (100%)	**669**	**832**	669	832	–	–
Moranbah (50%) – Bowen Basin	**370**	**700**	501	1,022	(26.1%)	(31.5%)
Camden (100%)	**148**	**195**	154	201	(3.9%)	(3.0%)
Hunter (100%)	**142**	**271**	–	–	na	na
Silver Springs (various)	**65**	**137**	–	–	na	na
Spring Gully (various, small)	**8**	**10**	8	10	–	–
Sub-total	**1,402**	**2,145**	**1,332**	**2,065**	**5.3%**	**3.9%**
ATP 1103 rights (50%) – Bowen Basin*	**687**	**1,495**	246	1,307	179.3%	14.4%
Total	**2,089**	**3,640**	**1,578**	**3,372**	**32.4%**	**7.9%**

* Under a 50-year project agreement that commenced in 2000, AGL has no effective exploration rights (or ongoing cost obligations) within exploration tenement ATP 1103 as these were assigned to Arrow Energy Limited. However, AGL is entitled to participate up to a 50% interest in any commercial development by contributing its share of past costs. Past costs are anticipated to be less than $0.05/GJ.

Leadership Team

Michael Fraser
BCom, CPA, FTIA

Managing Director and Chief Executive Officer

Michael has more than 25 years' energy industry experience, including having established AGL as one of the country's largest energy retailers, and led the rapid expansion of AGL's upstream energy interests in renewables, thermal power generation and upstream gas exploration and development.

Stephen Mikkelsen
CA, BBS

Chief Financial Officer

Stephen has over 15 years' experience in senior financial positions in Australia's and New Zealand's electricity markets. Previously, he worked in treasury activities in banking and finance.

Paul McWilliams
BA (Accounting), MApFin, GradDipACG, ACA, ACIS

Group Head of Corporate Support Services and Company Secretary

Paul has more than 30 years' experience in a variety of roles in the Australian Taxation Office, chartered accounting firms and listed public companies. He has been with AGL for seven years and in his current role for the last five years.

Anthony Fowler
BSc (Hons), MApFin, Harvard AMP, FFin

Group General Manager Merchant Energy

Anthony has more than 15 years' experience in energy businesses in Australia and the US. He has been with AGL for eight years and in his current role for the past year. Previous roles at AGL include responsibility for AGL's wholesale electricity, gas and renewable portfolios and risk management.

Michael Moraza
BE (Chem. Eng), MBA

Group General Manager Upstream Gas

Before joining AGL, Michael had a background in the upstream oil and gas industry working for Bridge Oil, later known as Parker and Parsley Australasia. Prior to that, Michael was with the Geneva-based SGS Group, providing services to the petroleum industry.

Prof. Paul Simshauser
BEcon, BCom, MCom (Acctg & Fin), PhD (Economics), CPA, FAICD, AFMA Acc. Dealer

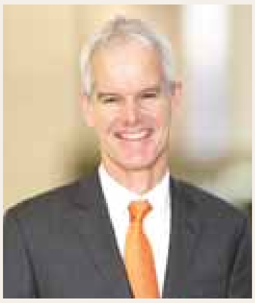
Chief Economist and Group Head of Corporate Affairs

Paul has worked in the energy industry for over 20 years, having held senior positions with Stanwell Corporation, NewGen Power and Babcock & Brown. He is also a Professor of Finance at Griffith University's Business School.

Ken Hodgson
BEcon

Group General Manager Retail Energy

Ken joined AGL in 2008 and has overall responsibility for the growth and development of AGL's customer base. Prior to joining AGL, Ken spent five years with Westpac Banking Corporation as General Manager for Consumer Financial Services.



Owen Coppage

Chief Information Officer

Owen has over 25 years' management and operations experience in high voltage transmission, distribution and hydro generation. In 2007, Owen was appointed Chief Information Officer with responsibility for the transformation and simplification of the information technology function within AGL.

Jane Thomas
BBus(Hons), LLB(Hons), Grad. Dip. Leg Prac, Masters Org. Coaching

Group Head of People and Culture

Jane has more than 20 years' experience in human resources, organisational development and employee relations in large organisations including PepsiCo International, Westpac Banking Corporation and Philips. She is also a non-executive director of the Animal Welfare Board and a member of the Chief Executive Women Inc.

AGL's approach to Corporate Governance

This Statement explains how AGL addresses the ASX Corporate Governance Council's, 'Corporate Governance Principles and Recommendations – 2nd Edition' (referred to as either ASX Principles or Recommendations) issued in 2007, and amended in 2010.

Principle 1: Lay solid foundations for management and oversight

Recommendation 1.1 – *Companies should establish the functions reserved to the Board and those delegated to the Executive Team*

Role of the AGL Board ('the Board')

The Board is responsible for the governance of AGL. The role of the Board is to provide overall strategic guidance and effective oversight of management. The Board derives its authority to act from AGL's Constitution.

The Board's responsibilities are set out in a formal Charter which the Board reviews every two years. The Charter was most recently reviewed and amended in June 2010.

The major powers the Board has reserved to itself are:

> reviewing and approving AGL's strategic plans and performance objectives;

> selecting, appointing and monitoring the performance of the Chief Executive Officer (CEO) and, if appropriate, terminating the appointment of the CEO;

> monitoring the performance of, and approving the remuneration policies and procedures applying to, the Executive Team;

> monitoring the timeliness and effectiveness of reporting to shareholders;

> approving and monitoring policies governing AGL's relationship with other stakeholders and the broader community, including policies in relation to environmental management and occupational health and safety;

> monitoring compliance with legislative and regulatory requirements (including continuous disclosure) and ethical standards, including reviewing and ratifying codes of conduct and compliance systems;

> monitoring financial outcomes and the integrity of reporting, and in particular, approving annual budgets and longer–term strategic and business plans;

> approving decisions affecting AGL's capital, including determining AGL's dividend policy and declaring dividends;

> reviewing and recommending to shareholders the appointment or, if appropriate, the termination of the appointment of the external auditor; and

> monitoring the effectiveness of AGL's audit, risk management and compliance systems that are in place to protect AGL's assets and to minimise the possibility of AGL operating beyond acceptable risk parameters.

The Board has established four Committees. They are:

> Nominations Committee (see Principle 2)

> Safety, Sustainability and Corporate Responsibility Committee (see Principle 3);

> Audit and Risk Management Committee (see Principle 4); and

> People and Performance Committee (see Principle 8).

The main accomplishments of each of the Board Committees during 2011 are included in the commentary on Principle 2.

Timetables for Board and Committee meetings are agreed annually in advance.

New Directors

New Directors receive a formal letter of appointment and an induction pack. The appointment letter and induction pack contain sufficient information to allow the new Director to gain an understanding of:

> the rights, duties and responsibilities of Directors;

> the role of Board Committees;

> the roles and responsibilities of the Executive Team; and

> AGL's financial, strategic, and operational risk management position.

New Directors undertake an induction program which comprises:

> An information pack which includes a copy of AGL's Constitution; Board and Committee Charters; most recent Annual Report; most recent Appendix 4D or 4E and market results presentation; most recent monthly Group Performance Report; AGL strategic plan; organisational chart; Deed of Access, Insurance and Indemnity and details of AGL's Directors and Officers insurance policy; and a copy of the register of AGL's most significant risks;

> A program of meetings with members of AGL's Executive Team; and

> A program of meetings with other AGL employees responsible for areas such as Health, Safety and Environment (HSE), upstream gas operations, and wholesale energy trading.

Delegation to the CEO and the Executive Team
The Board has delegated to the CEO and the Executive Team responsibility for implementing AGL's strategic direction and for managing AGL's day-to-day operations. Specific limits on the authority delegated to the CEO and the Executive Team are set out in the Delegated Authorities approved by the Board. The authorities delegated to the CEO and the Executive Team cover a range of matters including sales contracts, operating expenditure, capital expenditure, employment contracts, billing adjustments and debt write-offs, and communications with media and shareholders.

Executive Team
The Executive Team comprises the CEO and eight senior managers (Executives) who report directly to the CEO.

During the year, Anthony Fowler was promoted from the position of General Manager Energy Portfolio Management to the Executive position of Group General Manager Merchant Energy to replace Jeff Dimery who resigned from AGL in September 2010.

Each Executive is employed under a Service Agreement which sets out the terms on which the Executive is employed including details of the Executive's duties and responsibilities, rights, and remuneration entitlements. The Service Agreement also sets out the circumstances in which the employment of the Executive may be terminated by either AGL or the Executive, including details of the notice periods required to be given by either party, and the amounts payable to the Executive as a consequence of the termination by AGL of the Executive's employment.

With one exception, all AGL Executives are employed on an indefinitely continuing basis. AGL's Chief Information Officer is employed under a Service Agreement which stipulates that his employment with AGL will cease on 30 June 2013 unless extended by agreement between him and AGL.

Recommendation 1.2 – *Companies should disclose the process for evaluating the performance of the Executive Team*
Executive Team performance evaluations have been conducted for the financial year ending 30 June 2011. Details of the evaluation process and the linkages between the result of performance evaluations and remuneration are disclosed in the Remuneration Report commencing on page 48 of this Annual Report.

Principle 2: Structure the Board to add value

AGL's Constitution provides for a minimum of three Directors and a maximum of ten. The Board currently comprises seven non–executive Directors and one executive Director. The executive Director is AGL's CEO, Michael Fraser.

The Directors of AGL at any time during the financial year are listed with a brief description of their qualifications, experience and special responsibilities on pages 42 and 43 of this Annual Report.

During the financial year, Mark Johnson retired as a Director, and Belinda Hutchinson was appointed as a Director.

The Board met 15 times during the financial year. Director's attendances are set out on page 44 of this Annual Report.

Recommendation 2.1 – *The majority of the Board should be independent Directors*
AGL considers a Director to be independent if the Director is independent of management and free of any business or other relationship that could materially interfere, or be perceived as interfering, with the exercise of an unfettered and independent judgement in relation to matters concerning AGL.

In assessing independence, the Board reviews the relationship that the Director, and the Director's associates, have with AGL. In determining whether a Director is independent, the Board has considered whether the Director:

> is a substantial shareholder of AGL or an officer of, or otherwise associated directly with, a substantial shareholder of AGL;

> within the last three years, has been employed in an executive capacity by AGL or any of its related bodies corporate;

> within the last three years, has been a principal of a material professional adviser or a material consultant to AGL or any of AGL's related bodies corporate;

> is a material supplier to, or customer of, AGL or any of AGL's related bodies corporate, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;

> has a material contractual relationship with AGL; or

> has any interest, or any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in AGL's best interests.

The Board regularly assesses the independence of non–executive Directors and, during the financial year, has specifically considered the independence of all non–executive Directors in accordance with the above criteria. The Board has determined that each non–executive Director is, and was throughout the entirety of the financial year, independent.

During the financial year, there were no circumstances in which individual Directors found it necessary to excuse themselves from consideration by the Board of specific matters because of the potential for independence to be compromised.

No Director has received or become entitled to receive a benefit because of a contract between any company in the AGL Group and the Director, or a firm in which the Director is a substantial member, or an entity in which the Director has a substantial financial interest, other than:

> in the case of non–executive Directors, remuneration as disclosed in the Annual Report which includes participation in the shareholder approved AGL Share Purchase Plan; and

> in the case of the CEO, a contract of employment and entitlements under AGL's Long–Term Incentive Plan.

Directors have unfettered access to AGL records and information reasonably necessary to fulfil their responsibilities. Directors also have access to the Company Secretary on any matter relevant to their role as a Director. In addition, the Board has access to other relevant senior management to seek additional information concerning AGL's business.

Under AGL's Board Charter, the Board collectively, and each Director individually, has the right to seek independent professional advice at AGL's expense to help them carry out their responsibilities. During the financial year, neither the Board collectively nor any individual Director availed themselves of this right.

It is usual for the non–executive Directors to confer, without management being present, at the start of each scheduled Board meeting.

Recommendation 2.2 – *The Chair should be an independent Director*

Under AGL's Constitution, the Board elects a Chairman from amongst the non–executive Directors. It is a requirement of AGL's Board Charter that the Chairman be independent.

During the year, the Board elected Jerry Maycock as Chairman to replace Mark Johnson who retired as a Director at the 2010 Annual General Meeting. The Board is satisfied that Mr Maycock is, and has been throughout the year, an independent Director.

Recommendation 2.3 – *The roles of Chair and Chief Executive Officer should not be exercised by the same individual*

The requirement in AGL's Constitution that the Chairman be appointed from among the non–executive Directors means that the roles of Chairman and CEO are not exercised by the same individual.

The Chairman presides over AGL's Board meetings and shareholder meetings. Under AGL's Board Charter, the Chairman is also responsible for:

> leading the Board in reviewing and discussing Board matters;

> managing the efficient organisation and conduct of the Board's function;

> briefing all Directors in relation to issues arising at Board meetings;

> facilitating effective contribution by all Directors and monitoring Board performance;

> overseeing that membership of the Board is skilled and appropriate for AGL's needs;

> promoting constructive relations between Board members and between the Board and management;

> reviewing corporate governance matters with the Company Secretary and reporting on those matters to the Board; and

> overseeing the implementation of policies and systems for Board performance review and renewal.

Recommendation 2.4 – *The Board should establish a nomination committee*

During the year the Board established a Nominations Committee to operate with effect from 1 January 2011. The Committee comprises all AGL's non–executive Directors. The Committee has adopted a formal Charter that is required to be reviewed at least every two years. A copy of the Charter is available on AGL's website.

The Committee is responsible for:

> reviewing the skills, knowledge and experience a Director should have, having regard to AGL's operational, financial and strategic objectives;

> reviewing the structure, size and composition of the Board and Board Committees;

> developing and implementing a process for evaluating Board, Committee and individual Director performance;

> developing selection criteria for the appointment of new Directors and overseeing arrangements for the effective appointment and induction of new Directors;

> developing succession plans for non–executive Directors to maintain an appropriate mix of skills, experience, expertise and diversity on the Board; and

> reviewing and approving any continuing education for Directors.

The Committee met once during the year. Details of Directors' attendances are set out on page 44 of this Annual Report.

Recommendation 2.5 – *Companies should disclose the process for evaluating the performance of the Board, its committees and individual Directors*

Evaluation of Board

The Board regularly reviews its own performance. The most recent review, which was completed during the year, involved each Director and several Executives completing a questionnaire covering:

> the role of the Board;

> the composition of the Board;

> the operation of the Board;

> group behaviours and protocols; and

> Board performance.

The review was facilitated by an independent adviser with relevant expertise.

The results of the review were discussed at a subsequent Board meeting. The Chairman also met separately with each Director to discuss individual responses to the questionnaire. The review has led to some changes to increase the time allocated at Board meetings to the discussion of strategic issues. It also led to the formation of the Nominations Committee.

Evaluation of Board Committees

The Charters for each of the Board Committees require that each Committee annually review its own performance.

Audit and Risk Management Committee

Review process	Completion of questionnaires by all Directors, some Executives, and the external auditors. The results were collated by the Company Secretary and discussed by the Committee at one of its scheduled meetings.
Committee achievements	The review found that the Committee had been effective in performing its responsibilities under its Charter. The Committee's main achievements during the year were: > enhancements to the processes supporting the preparation of the financial statements; > reviewing and approving amendments to a number of AGL's risk management policies including the Treasury Policy, the Compliance Policy and the Market Disclosure Policy; > introduction of an independent verification of the calculation of AGL's underlying Net Profit After Tax; and > the appointment of Belinda Hutchinson to the Committee.

Safety, Sustainability and Corporate Responsibility Committee

Review process	Completion of questionnaires by all Directors and some Executives and senior managers. The results were collated by the Company Secretary and discussed by the Committee at one of its scheduled meetings.
Committee achievements	The Committee considers it has been effective over the last year. The Committee has: > overseen enhancements to sustainability reporting; > monitored AGL's performance against a number of sustainability performance metrics; and > monitored AGL's performance against promises made in the Customer Charter adopted in 2010. The Committee anticipates that it will spend more time over the next year on overseeing the effectiveness of AGL's engagement with regional communities where AGL is seeking to pursue coal seam gas exploration activities and the construction of new power generation assets.

People and Performance Committee

Review process	Completion of questionnaires by all Directors, and some Executives. The results were collated by the Group Head of People and Culture and discussed by the Committee at one of its scheduled meetings.
Committee achievements	The Committee considers it has been effective over the last year. Each of its four meetings during the year focussed on one of the following key strategic issues: > driving improvement in levels of employee engagement; > talent management, including development of succession plans for key roles; > performance management and employee relations strategy; and > remuneration. The Committee has also overseen: > improvements in the design and content of the Remuneration Report; and > consolidation of, and improvements to, AGL's policies on workplace diversity and inclusiveness. During the year, the Committee approved the early adoption by AGL of Recommendations 3.2, 3.3, and 3.4 of the revised ASX Corporate Governance Council's, 'Corporate Governance Principles and Recommendations'.

Principle 3: Promote ethical and responsible decision making

Ethical decision making is integral to the conduct of AGL's business. The Safety, Sustainability and Corporate Responsibility Committee assists the Board in enabling AGL to operate its businesses ethically, responsibly and sustainably.

The Committee currently comprises three non–executive and independent Directors, Sandra McPhee (Chair), Bruce Phillips and Les Hosking. The Committee has a formal Charter that was most recently reviewed in June 2010. A copy of that Charter is available on AGL's website.

The Committee oversees and reviews:

> AGL's actions to meet its obligation to maintain the health and safety of its people;

> the social, environmental and ethical impact of AGL's policies and practices;

> initiatives to enhance AGL's sustainable business practices and reputation as a responsible corporate citizen;

> integration of safety, sustainability and corporate responsibility in the formulation of AGL's corporate strategy, risk management framework, and people and culture priorities; and

> AGL's compliance with all relevant legal obligations on the matters within its responsibilities.

The Committee holds as many meetings as practical at AGL business unit locations. It met four times during the year with the meetings held at AGL's call centre in Adelaide; the construction site for the Oaklands Hill wind farm; Mount Beauty in Victoria near AGL's hydro generation assets; and in the Hunter Valley near AGL's coal seam gas exploration activities.

Recommendation 3.1 – *Companies should establish a Code of Conduct*

AGL has a Code of Conduct that applies to AGL and its Directors, employees and contractors (all of which are referred to as "employees" in the Code).

The Code of Conduct sets out a number of overarching principles of ethical behaviour and explains:

> the obligations of AGL to put in place mechanisms to assist all employees to act in accordance with these principles; and

> how AGL employees should act consistently with these principles.

The ethical principles are set out under the following headings:

Acting honestly and with integrity
Observing the law
Valuing and maintaining professionalism
Respecting confidentiality
Managing conflicts of interest
Looking after our employees
Looking after the community

Training about the Code of Conduct is part of the induction process for new AGL employees.

The Code of Conduct provides a mechanism to enable employees to report actual or suspected breaches, including an independently monitored Ethics Line telephone and email service to allow for anonymous reporting. An Ethics Panel oversees the application of the Code of Conduct in AGL, including investigating alleged breaches of the Code, monitoring compliance and recommending amendments to the Board. The Ethics Panel comprises the Company Secretary, Group Head of People and Culture, the Head of Legal, the Head of Group Audit, and Ms Susan Cunningham – an independent person who has expertise in managing employee grievances. The Ethics Panel met four times during the year.

During the year, the Ethics Panel investigated two alleged breaches of the Code of Conduct. One investigation found there had been a breach of the Code of Conduct by an AGL employee. The employee was subsequently given a formal written warning about his behaviour.

AGL's Code of Conduct is available on AGL's website.

Compliance Policy

AGL is committed to the highest standards of integrity, fairness and ethical conduct, including full compliance with all relevant legal requirements. There is no circumstance under which it is acceptable for AGL or a person associated with AGL to knowingly or deliberately not comply with the law or to act unethically in the course of performing or advancing AGL's business. Behaviour of this kind will lead to disciplinary measures that may include dismissal.

AGL's Compliance Policy sets out responsibilities for compliance with AGL's various legislative and contractual obligations. This Policy was reviewed and amended during the year. The Policy is published on AGL's website.

Recommendation 3.2 – *Companies should establish a policy concerning diversity*

During the year, AGL adopted a new Diversity and Inclusion Policy which describes AGL's approach to diversity and inclusion and how these attributes are to be embedded in AGL workplaces. The Policy includes specific provisions regarding gender diversity and the positive correlation between increased representation of women on company boards and in senior management positions and the achievement of better financial performance, higher employee retention rates, and enhanced corporate image and reputation. The Policy is published on AGL's website.

AGL has established a Diversity & Inclusion Council to support the achievement of a diverse workforce and an inclusive workplace culture. The Council is chaired by Michael Fraser, AGL's CEO, and comprises eight other members drawn from senior leaders across AGL's business. Five of the members are women.

Recommendation 3.3 – *Companies should disclose the measurable objectives for achieving gender diversity and progress toward achieving those objectives*

During the year, the Board established measurable objectives for achieving gender diversity. The objectives focus on establishing the foundations, policies and practices to underpin an inclusive workplace culture that supports gender diversity. These objectives align with the diversity focus areas established by the Diversity & Inclusion Council: building AGL's inclusive workplace culture; flexible working arrangements; carer's needs; and women in the workplace.

The objectives, and progress made toward achieving them, are set out below.

1 AGL will continue to build a culture of inclusion that will support all employees to contribute and achieve their potential. By June 2012, AGL will deliver face–to–face diversity and inclusion training to AGL leaders.

Progress to date
A new, customised workshop for leaders has been developed and successfully piloted. It builds on traditional anti–discrimination and harassment compliance training to cover concepts of diversity, inclusion and bias; how these play out in the workplace; and how to manage issues when they arise. Leaders across AGL will attend the workshops during FY2012.

2 AGL will continue to implement initiatives to increase the number of women in leadership positions. By March 2012, AGL will develop succession plans to increase female representation in key leadership positions.

Progress to date
AGL is enhancing its talent management processes to facilitate an increased representation of women in leadership. Additional metrics have been developed to assess the proportion of women identified as successors for critical roles. These metrics have been applied to the talent review process to identify where women's representation in the leadership pipeline can be improved.

3 AGL will ensure equity in remuneration principles. By September 2011, AGL will embed pay equity analytics into AGL's Remuneration Review System and update remuneration training for leaders to include pay equity principles.

Progress to date
In March 2011, lenders received training on AGL's remuneration principles and practices, including gender pay equity concepts. The training is being adapted to an online format and will be launched later in 2011.

AGL's remuneration review system now provides simple on-screen calculations and tailored reporting to assist leaders assess whether they have any unexpected (potentially gender-biased) results at the time remuneration is being set.

4 AGL will support employees seeking flexible work arrangements as well as the specific needs of our employees who are carers. By December 2011, AGL's Parental Leave Policy will be updated to be amongst best practice organisations.

Progress to date
A new Parental Leave Policy has been approved by the Executive Team. The new policy provides 14 weeks paid leave for women or men who are the primary carers of a newborn or newly adopted child and 2 weeks paid leave for partners at the time of birth or adoption. Employees also have the flexibility to structure their paid leave flexibly, in multiple blocks or on a part-time basis, to match their individual caring situation. The policy is expected to be launched during FY2012.

Recommendation 3.4 – *Companies should disclose the proportion of women employees in the company, in Senior Executive positions, and on the Board*

Female Directors on the Board	25%
Female employees in the Company	45%
Female employees on the Executive Team	11%
Female employees in leadership positions	33%

Principle 4: Safeguard integrity in financial reporting

Recommendation 4.1 – *The Board should establish an audit committee*
The Board has established an Audit and Risk Management Committee. Its primary function is to assist the Board in fulfilling its responsibilities to provide shareholders with timely and reliable financial reports and to protect the interests of shareholders, customers, employees and the broader community through the effective identification, assessment, monitoring and management of risks.

Recommendation 4.2 – *The audit committee should be appropriately structured*
Under its Charter, the Audit and Risk Management Committee must have at least three members, all of whom must be independent non–executive Directors. The Charter also requires that all members have a working familiarity with basic accounting and finance practices and that at least one member have financial expertise. The Committee must also include members with an understanding of the industry in which AGL operates.

The composition of the Committee has changed during the financial year. Belinda Hutchinson joined the Committee in December to replace Jerry Maycock who stepped down as a member following his appointment to the role of AGL Chairman. The Committee currently comprises four members – John Stanhope (Chair), Bruce Phillips, Les Hosking, and Belinda Hutchinson. John Stanhope has financial expertise as a qualified accountant. Bruce Phillips and Les Hosking each have long careers in the energy industry. Belinda Hutchinson also has prior energy industry experience as a former Director of Energy Australia and Snowy Hydro Trading. She also has extensive experience in finance and risk management. Further details of the qualifications and experience of all Committee members are disclosed on pages 42 and 43 of this Annual Report.

The CEO, CFO, Company Secretary (who also has responsibility for AGL's Group Risk and Compliance function), Head of Group Audit and the external auditor attend Committee meetings at the discretion of the Committee. Other non–executive Directors may attend meetings. Although he ceased to be a member of the Committee after becoming AGL Chairman, Mr Maycock has attended all meetings held during the year.

The Committee meets privately with the external auditor on general matters concerning the external audit and other related matters, including the half–year and full–year financial reports. The Committee also meets privately with the Head of Group Audit.

The Company Secretary is the secretary to the Committee. Copies of the minutes of a meeting of the Committee are distributed to the Board for discussion at the next full Board meeting. The Chairman of the Committee reports to the Board on the Committee's conclusions and recommendations.

The Committee collectively, and its members individually, have access to internal and external resources, including access to advice from external consultants or specialists.

The Committee met five times during the year. Directors' attendances are set out on page 44 of this Annual Report.

Recommendation 4.3 – *The audit committee should have a formal charter*
The Committee operates under a formal Charter published on AGL's website. The Charter is required to be reviewed by the Committee and updated at least every two years. The Charter was most recently reviewed and updated in June 2010.

The Charter sets out the roles and responsibilities, composition, structure and membership requirements of the Committee.

The Committee's primary responsibilities include:

> monitoring the integrity of financial reporting;

> monitoring and reviewing the external auditor's qualifications, performance and independence;

> monitoring the effectiveness of risk management processes, including reviewing the adequacy of AGL's property, business interruption, and liability insurances;

> monitoring the effectiveness of Group Audit;

> monitoring legislative and regulatory compliance; and

> monitoring the adequacy and completeness of internal controls.

Monitoring auditor independence
AGL's Auditor Independence Policy was reviewed during the year. It contains details of the procedures for the selection and appointment of, and for reviewing the independence of, the external auditor.

The external auditor is precluded from providing any services that might threaten their independence, or conflict with their assurance and compliance role.

Reports on the provision of auditing and related services are provided to the Committee. The Directors have concluded that non–audit services provided did not compromise the external auditor's independence requirements under the Corporations Act.

AGL's Auditor Independence Policy is published on AGL's website.

Principle 5: Make timely and balanced disclosure

Recommendation 5.1 – *Companies should establish continuous disclosure policies and ensure compliance with those policies*

Market Disclosure
AGL's Market Disclosure Policy describes AGL's continuous disclosure obligations and how they are managed by AGL, as well as how AGL communicates with financial markets. The Policy is complemented by the Market Disclosure Plan that gives effect to the Policy. The Market Disclosure Policy was reviewed during the year. Both the Market Disclosure Policy and the Market Disclosure Plan are published on AGL's website.

The Market Disclosure Committee comprises the CEO, Company Secretary (the nominated Continuous Disclosure Officer), CFO and Head of Capital Markets and is responsible for monitoring compliance with the Market Disclosure Policy. The Head of Capital Markets is the convenor of meetings of the Committee.

The Committee is responsible for ensuring that all AGL announcements are made in a timely fashion, contain material information that is both objective and factual, and are clearly written to allow investors to assess the impact of information on their investment decisions. The Committee is also responsible for recommending changes to the Market Disclosure Policy.

Accountability
The Company Secretary reports to the Board quarterly on matters that were either notified or not notified to the ASX. Directors receive copies of all announcements immediately after notification to the ASX. All ASX announcements are available in the Media centre on the AGL website.

All AGL Executives confirm in writing to the Board, on a quarterly basis, that matters which might need to be disclosed have been brought to the attention of the Continuous Disclosure Officer for review.

Financial market communications
Communication with the financial market is the responsibility of the CEO, CFO and Head of Capital Markets. Communication with the media is the responsibility of the CEO, the Group Head of Corporate Affairs, and the Head of Media. The Market Disclosure Policy covers briefings to institutional investors and stockbroking analysts, general briefings, one–on–one briefings, blackout periods, compliance and review as well as media briefings. The Market Disclosure Plan provides further guidance on how to give effect to the Market Disclosure Policy.

The substantive content of all market presentations about the half-year and full-year financial results, and all statements relating to AGL's future earnings performance, must be referred to and approved by the Board before they are disclosed to the market.

Principle 6: Respect the rights of shareholders

Recommendation 6.1 – *Companies should establish a shareholder communication policy*
AGL has not established a formal shareholder communications policy, but it does take appropriate measures to keep shareholders informed about its activities.

Electronic communication
Shareholders have the option of electing to receive all shareholder communications, including dividend statements, by email. AGL provides a printed copy of the Annual Report to only those shareholders who have specifically elected to receive a printed copy. Other shareholders are advised that the Annual Report is available on the AGL website.

AGL's website allows shareholders to view all ASX and media releases since at least December 2007; various investor presentations; a copy of the most recent Annual Report and Annual Reports for at least the two previous financial years; and the notice of meeting and accompanying explanatory material for the most recent Annual General Meeting and the Annual General Meetings for at least the two previous financial years.

All announcements made to the ASX are available to shareholders by email notification when a shareholder provides the AGL Share Registry with their email address and elects to be notified of all AGL ASX announcements.

Shareholder meetings are webcast and analyst/media briefings in relation to half-year and full-year financial results and other significant events can be heard by teleconference.

Meetings

Notices of meeting sent to AGL's shareholders comply with the "Guidelines for notices of meeting" issued by the ASX in August 2007. Shareholders are invited to submit questions before the meeting and, at the meeting, the Chairman attempts to answer as many of these as is practical. Approximately 100 shareholders took the opportunity to submit questions in advance of the 2010 Annual General Meeting.

The Chairman also encourages shareholders at the meeting to ask questions and make comments about AGL's operations and the performance of the Board and senior management. The Chairman may respond directly to questions or, at his discretion, may refer a question to another Director, the CEO or a member of the Executive Team.

New Directors or Directors seeking re–election are given the opportunity to address the meeting and to answer questions from shareholders.

AGL has adopted the practice of conducting a poll on each motion being considered at the meeting. Shareholders in attendance at the meeting are also given the opportunity to vote by a show of hands before the poll is conducted.

The external auditor attends AGL's Annual General Meeting. Shareholders may submit written questions to the auditor to be considered at the meeting in relation to the conduct of the audit and the preparation and content of the Independent Audit Report by providing the questions to AGL at least five business days before the day of the meeting. No questions were sent to the auditor in advance of the 2010 Annual General Meeting. Shareholders are also given a reasonable opportunity at the meeting to ask the auditor questions relevant to the conduct of the audit, the Independent Audit Report, the accounting policies adopted by AGL and the independence of the auditor.

Principle 7: Recognise and manage risk

Recommendation 7.1 – *Companies should establish risk management policies for the oversight of material business risks*

Recommendation 7.2 – *Companies should establish risk management and internal control systems to manage material business risk and require management to report to the Board on the effectiveness of these systems and the effectiveness of the material business risks*

Risk Management Policies

AGL faces a wide variety of risks due to the nature of its operations and the regions in which it operates. These risks include:

Supply risk

Making sure that AGL can source adequate volumes of gas and electricity on acceptable terms to meet customer needs. This includes making sure that we have effective electricity hedging policies and procedures in place.

Asset operating risk

Making sure that AGL's assets, particularly electricity generation assets, operate reliably when required.

Regulatory risk

The prices AGL can charge its customers for gas and electricity are regulated in most of the markets in which AGL operates. AGL faces the risk that the regulated prices will not increase at the same rate as the costs of acquiring energy to meet customer needs.

Compliance risk

AGL operates in a heavily regulated industry.

Climate change

As an energy company, government policies on carbon emissions and renewable energy will affect AGL and its customers.

Financial risks

Making sure that AGL has the right capital structure to provide the financial capacity to implement its strategy.

AGL systematically examines all operational and financial areas of the Company to identify its major risk exposures using an enterprise–wide risk program based on ISO31000, the international standard on risk management. This program is supported by AGL's Risk Management Policy.

AGL has a number of other policies that directly or indirectly serve to reduce and/or manage risk. These include, but are not limited to:

> Compliance Policy;

> Market Disclosure Policy;

> Code of Conduct;

> Delegations of Authority Manual;

> Health, Safety and Environment Policy;

> Wholesale Energy Risk Management Policy;

> Treasury Policy; and

> Privacy Policy.

Roles and responsibilities

The Risk Management Policy, and the other policies listed above, describe the roles and responsibilities for managing risk. This includes, as appropriate, details of responsibilities allocated to the Board or to the Audit and Risk Management Committee (Committee), Executives, the business units and AGL's Group Audit function.

Board

The Board is responsible for reviewing and approving changes to the Risk Management Policy and for satisfying itself that AGL has a sound system of risk management and internal control that is operating effectively. The Committee assists the Board in carrying out these responsibilities. Details of the operation of the Committee are included in the commentary on Principle 4.

Committee

The Committee oversees the detailed analysis of the effectiveness of the system of risk management and internal control. The Committee receives an annual presentation of AGL's material business risks and the controls in place to mitigate the consequences of those risks. The Committee also receives regular presentations from management throughout the year on specific risk topics.

The Committee has responsibility for approving the internal audit plan submitted annually by Group Audit. The internal audit plan is based on an assessment of AGL's main risk exposures. The Committee also reviews and approves the annual external audit plan.

Executive Team

The CEO has primary responsibility for designing, implementing and reporting on AGL's risk management framework. The Executive Team collectively has responsibility for promoting a risk management culture throughout AGL, including consistent application of the Risk Management Policy across AGL.

Business units
AGL's business units are responsible for maintaining effective internal controls, consistently applying the risk management framework, and reporting new or changed risk events.

Group Risk
Group Risk is responsible for supporting the businesses to identify and implement effective risk management processes, for reporting details of material business risks and risk controls to the Committee, and for recommending changes to the Risk Management Policy.

Group Audit
Group Audit provides assurance to the Committee on the effectiveness of AGL's risk management framework and on the adequacy and effectiveness of the system of internal controls.

Recommendation 7.3 – *CEO and CFO assurance on financial reporting risks*
The CEO and the CFO have provided the Board with written assurances that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Principle 8: Remunerate fairly and responsibly

Recommendation 8.1 – *The Board should establish a remuneration committee*

Recommendation 8.2 – *The remuneration committee should be structured appropriately*
The Board has established a People and Performance Committee (equivalent to a remuneration committee) comprising three non–executive and independent Directors, Max Ould (Chairman), Sandra McPhee and Belinda Hutchinson. The Committee has a formal Charter that is required to be reviewed at least every two years. The Charter was most recently reviewed in June 2010. A copy of the Charter is available on AGL's website.

The Committee is responsible for:

> reviewing the performance and remuneration of senior management; and

> reviewing and ratifying AGL's remuneration and employment policies, procedures and programs.

These responsibilities include making recommendations to the Board in relation to:

> the remuneration of Directors;

> the remuneration, recruitment, retention and termination policies applicable to AGL's senior management;

> guidelines for incentive plans, particularly as they relate to the Executives;

> the superannuation arrangements in place for AGL employees; and

> AGL employment policy matters.

The CEO attends meetings of the Committee by invitation when required to report on and discuss senior management performance, remuneration and related matters, but is not present at meetings when his own performance or remuneration is discussed.

Recommendation 8.3 – *The Company should distinguish between non–executive Directors' remuneration and that of executive Directors and senior management*
AGL's remuneration structure distinguishes between non–executive Directors and that of the CEO and senior management. A Remuneration Report required under Section 300A(1) of the Corporations Act is provided in the Directors' Report on pages 48 to 59 of this Annual Report.

AGL's Website

The following documents are published on the AGL website under About AGL/Investor Centre:

> Annual Report

> Sustainability Report

> Corporate Governance Statement

> Board Charter

> People and Performance Committee Charter

> Audit and Risk Management Committee Charter

> Safety, Sustainability and Corporate Responsibility Charter

> Nominations Committee Charter

> Code of Conduct

> Securities Dealing Policy

> Compliance Policy

> Auditor Independence Policy

> Market Disclosure Policy

> Risk Management Policy

> Health, Safety and Environment Policy

> Privacy Policy

> Diversity and Inclusion Policy

> Wholesale Energy Risk Management Policy (summarised)

Reporting

The Directors present their Report together with the annual Financial Report of AGL Energy Limited (AGL) and its consolidated entities, being AGL and its controlled entities, for the year ended 30 June 2011 and the Independent Audit Report thereon.

AGL is the head entity of the AGL Energy Limited Group and is listed on the Australian Securities Exchange Limited under the code of 'AGK'.

Directors

The Directors of AGL at any time during or since the end of the financial year are:

Non–executive Directors

> Jeremy Maycock

> Les Hosking

> Belinda Hutchinson (commenced 22 December 2010)

> Mark Johnson (retired 21 October 2010)

> Sandra McPhee

> Max Ould

> Bruce Phillips

> John Stanhope

Executive Director

> Michael Fraser

Jeremy Maycock

BEng (Mech) (Hons), FAICD, FIPENZ

Age 59

Term: Non–executive Director since October 2006 and Chairman since 21 October 2010.

Independent: Yes.

Committees: Chair of the Nominations Committee.

Directorships: Chairman of Port of Brisbane Pty Ltd (commenced in 2010). Director of Nuplex Limited (commenced 1 September 2011). Member of the Advisory Council of the Australian School of Business (UNSW) (commenced in 2009).

Experience: Previously Managing Director and Chief Executive Officer of CSR Limited (commenced in 2007 and retired in 2010), Managing Director and Chief Executive Officer of Hastie Group Limited (commenced in 2003 and retired in 2007), inaugural Chairman of Cement Australia Pty Limited, Chief Executive Officer of Swiss–based Holcim Ltd in New Zealand and Australia, and Holcim Senior Vice President for Southern ASEAN countries and Australasia. His commercial experience spans 37 years, with his early career being with Shell Oil in the UK and in New Zealand.

Michael Fraser

BCom, CPA, FTIA

Age 54

Term: Managing Director and Chief Executive Officer since October 2007.

Independent: No.

Committees: Nil.

Directorships: Nil.

Experience: Previously Director of Queensland Gas Company Limited (commenced in 2007 and retired in 2008), Chairman of Elgas Limited and of ActewAGL, Director of the Australian Gas Association and the Energy Retailers Association of Australia, Chairman of the National Electricity Market Management Company (NEMMCo) Participant's Advisory Committee and a Director of UnitingCare Ageing Board (commenced in 2004 and retired in 2008). He has more than 25 years' energy industry experience, including having established AGL as one of the country's largest energy retailers, and led the rapid expansion of AGL's upstream energy interests in renewables, thermal power generation and upstream gas exploration and development.

Les Hosking

Age 66

Term: Non–executive Director since November 2008.

Independent: Yes.

Committees: Member of the Audit and Risk Management Committee, the Safety, Sustainability and Corporate Responsibility Committee, and the Nominations Committee.

Directorships: Director of Adelaide Brighton Limited (commenced in 2003), Innovation Australia (commenced in 2003), Australian Energy Market Operator (AEMO) (commenced in 2009) and Chair of The Carbon Market Institute (commenced in 2010).

Experience: Previously Director of Australian Energy Market Operator (Transition) Limited (AEMO) (commenced in 2008 and retired in 2009), Managing Director and Chief Executive Officer of NEMMCo (commenced in 2003 and retired in 2008) and a non–executive Director of NEMMCo (commenced in 1996 and retired 2003). He has over 30 years' experience in trading, broking and management in metals, soft commodities, energy and financial instrument derivatives in the global futures industry, and was Managing Director and Chief Executive Officer of the Sydney Futures Exchange (commenced in 1985 and retired in 2000).

Sandra McPhee

Dip Ed, FAICD

Age 65

Term: Non–executive Director since October 2006.

Independent: Yes.

Committees: Chair of the Safety, Sustainability and Corporate Responsibility Committee, member of the People and Performance Committee, and the Nominations Committee.

Directorships: Director of Westfield Retail Trust (commenced in 2010), Director of Fairfax Media (commenced in 2010), Director of Tourism Australia (commenced in 2009), Kathmandu Holdings Limited (commenced in 2009). Vice President of The Art Gallery of New South Wales.

Experience: Extensive experience as a non–executive Director and Senior Executive in a number of consumer oriented industries including retail, aviation and tourism, most recently ten years with Qantas Airways Limited from which she retired in 2004. Previous non–executive appointments include Director of Australia Post (commenced in 2001 and retired in 2009), The Coles Group Limited (commenced in 2003 and retired in 2007), Perpetual Limited (commenced in 2004 and retired in 2007), Primelife Corporation Limited (commenced in 2003 and retired in 2005), St Vincent's & Mater Health Sydney and CARE Australia.

Max Ould

BEc

Age 64

Term: Non–executive Director since February 2006.

Independent: Yes.

Committees: Chair of the People and Performance Committee, and member of the Nominations Committee.

Directorships: Chairman of Goodman Fielder Limited (commenced as a Director in 2005) and Chairman of Treasury Wine Estates Limited (commenced in 2011).

Experience: Previously Managing Director of National Foods Limited, Director of Foster's Group Limited (commenced in 2004 and resigned in 2011), Director of Pacific Brands Limited (commenced in 2004 and retired in October 2009) and of The Australian Gas Light Company (commenced in 2004 and retired in October 2006).

Bruce Phillips

BSc (Hons), PESA, ASEG

Age 56

Term: Non–executive Director since August 2007.

Independent: Yes.

Committees: Member of the Audit and Risk Management Committee, the Safety, Sustainability and Corporate Responsibility Committee, and the Nominations Committee.

Directorships: Chairman of Platinum Capital Limited (commenced as a Director in 2009), and Chairman of AWE Limited (commenced as a Director in 2009).

Experience: An energy industry expert with more than 30 years of technical, financial and managerial experience in the energy sector. He founded and was Managing Director of Australian Worldwide Exploration Limited (now AWE Limited). He also held prior positions of Director of Sunshine Gas Limited (commenced in 2007 and resigned in 2008), Business Development Manager of Command Petroleum, Consulting Energy Advisor to Prudential–Bache Securities, General Manager of Petroleum Securities Australia Limited and was an expert technical advisor to News Corporation Limited.

John Stanhope

BCom (Economics and Accounting), FCPA, FCA, FAICD, FAIM

Age 60

Term: Non–executive Director since March 2009

Independent: Yes

Committees: Chair of the Audit and Risk Management Committee, and member of the Nominations Committee.

Directorships: Executive Director of Telstra Corporation Limited (commenced in 2009). Member of the Financial Reporting Council and a Board member of the Melbourne International Jazz Festival.

Experience: Appointed as Chief Financial Officer and Group Managing Director, Finance & Administration of Telstra (commenced in 2003). In this role he is responsible for finance, treasury, risk management and assurance, investor relations, taxation and corporate security and investigations. In his previous role as Director, Finance, he contributed to T1 and T2, cost reduction programs, growth strategies, debt raising, capital management and organisation restructures.

Belinda Hutchinson

AM, BEc, FCA, FAICD

Age 58

Term: Non–executive Director since December 2010.

Independent: Yes.

Committees: Member of the Audit and Risk Management Committee, People and Performance Committee, and the Nominations Committee.

Directorships: Chairman of QBE Insurance Limited (commenced in 2010), Director of St Vincent's Health Australia Limited (commenced in 2010), Director of the State Library of NSW Foundation (commenced in 1997), Deputy Chairman of Centre for Independent Studies (commenced in 2010) and a member of the Salvation Army Australian Eastern Territorial Advisory Board (commenced in 2006).

Experience: Previous appointments include Director of St Vincent's Mater Health Sydney (commenced in 2001 and retired in 2009), Director of Coles Group Limited (commenced in 2005 and retired in 2007), Telstra Corporation Limited (commenced in 2001 and retired in 2007), TAB Limited (commenced in 1997 and retired in 2004), Energy Australia (commenced in 1997 and retired in 2005), Crane Group (commenced in 1997 and retired in 2004), Snowy Hydro Trading Limited (commenced in 1997 and retired in 1999), Member of the State Library of NSW Council (commenced in 1997 and retired in 2006).

Directors' Interests

The relevant interest of each Director in the share capital of the companies within the consolidated entity, as notified by the Directors to the ASX in accordance with Section 205G of the Corporations Act, at the date of this Report is as follows:

AGL Energy Limited Ordinary Shares	
Jeremy Maycock	55,625
Michael Fraser	519,865
Les Hosking	2,000
Belinda Hutchinson	6,540
Sandra McPhee	12,750
Max Ould	28,662
Bruce Phillips	29,000
John Stanhope	Nil

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

Company Secretaries

Paul McWilliams was appointed Company Secretary of AGL Energy Limited on 25 August 2006. Paul's educational qualifications include Bachelor of Arts (Accounting) from the University of South Australia, Master of Applied Finance from Macquarie University and a Graduate Diploma in Applied Corporate Governance. He is a member of the Institute of Chartered Accountants of Australia and the Institute of Chartered Secretaries and Administrators. Paul has had more than 30 years of experience across a variety of roles in the Australian Taxation Office, chartered accounting firms and listed public companies.

John Fitzgerald was appointed as an additional Company Secretary on 25 August 2010. John's qualifications are a Bachelor of Arts and a Bachelor of Laws from the University of NSW and a Masters in Arts from the National University of Ireland (University College Dublin). John is admitted as a Solicitor of the Supreme Court of NSW and is AGL's Head of Legal. John has been practising in projects, mining and energy law for approximately 15 years.

Directors' Meetings

The number of Directors' Meetings (including meetings attended as a member of Committees of Directors) and number of meetings attended by each of the Directors of AGL during the financial year were:

	Regular Board Meetings		Special Board Meetings		Audit and Risk Management Committee		People and Performance Committee		Safety, Sustainability and Corporate Responsibility Committee		Nominations Committee	
Director's Name	A	B	A	B	A	B	A	B	A	B	A	B
Jeremy Maycock	11	12	3	3	2	2					1	1
Michael Fraser	12	12	3	3								
Les Hosking	12	12	3	3	5	5			4	4	1	1
Belinda Hutchinson (from 22 December 2010)	6	6	2	2	3	3	1	1			1	1
Mark Johnson (to 21 October 2010)	4	5					1	1	0	1		
Sandra McPhee	12	12	3	3			3	3	4	4	1	1
Max Ould	12	12	3	3			3	3			1	1
Bruce Phillips	12	12	2	3	5	5			3	4	1	1
John Stanhope	12	12	3	3	5	5					1	1

A – number of meetings attended

B – number of meetings held during the time the Director held office during the year

In addition to the above selected meetings, Directors throughout the year, participated in informal meetings and telephone conferences. AGL makes extensive use of email between meetings to keep Directors informed of current developments; to provide relevant background and industry information; to dispose of routine matters and allow formal Board meetings to concentrate on more important matters. An extended strategy session is held at least once a year. Periodically, Directors meet informally outside AGL to discuss matters of interest and travel to visit assets, operations or locations of particular relevance to AGL.

Review and Results of Operations

The consolidated profit after income tax attributable to shareholders was $558.7 million (2009/2010 $356.1 million). The Underlying Profit was $431.1 million (2009/2010 $428.9 million). A review of the operations and of the results of those operations of the consolidated entity during the financial year are contained on pages 24 to 31 of this Annual Report.

Reconciliation of Underlying Profit[1]

	30 June 2011 $m	30 June 2010 $m
Profit after tax attributable to shareholders	558.7	356.1
Adjust for the following after tax items:		
Significant items	27.3	(49.9)
Changes in fair value of financial instruments	(154.9)	122.7
Underlying Profit after tax	431.1	428.9

1 Underlying Profit has been prepared with reference to the guidance issued by the Australian Institute of Company Directors and the Financial Services Institute of Australasia. AGL's policy for reporting Underlying Profit is consistent with this guidance and the Directors have had the presentation of AGL's Underlying Profit in accordance with this policy independently assessed.

Changes in State of Affairs

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

Principal Activities

> Buying and selling of gas and electricity;

> Construction and/or operation of power generation and energy processing infrastructure;

> Development of natural gas production facilities; and

> Exploration, extraction, production and sale of coal seam gas (CSG).

Dividends

The following dividends have been paid or declared by the Directors since 30 June 2010:

Final dividend of 30.0 cents per share (unfranked) referred to in the previous Directors' Report and paid on 30 September 2010

$135.3 million

Interim dividend of 29.0 cents per share (unfranked) paid on 14 April 2011

$133.1 million

Final dividend of 31.0 cents per share (100% franked) payable on 29 September 2011

$143.0 million

Events Subsequent to Balance Date

Apart from matters discussed elsewhere in this Annual Report, the Directors are not aware of any other matter or circumstance which has arisen since 30 June 2011 that has significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in the future.

Likely Developments, Strategies and Prospects

Further information about likely developments in the operations of AGL and its consolidated entity and the expected results of those operations in the future has not been included in this Annual Report because disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

Environmental Regulation

AGL businesses are subject to a range of environmental laws, regulations and policies as well as project and site–specific environmental permits and approvals issued at both Federal and State Government levels. Table 1 on pages 46 and 47 sets out environmental issues and non–compliances against these requirements that occurred during the reporting period.

Table 1 – Summary of AGL's Environmental Incidents and Non–Compliances

Site	Key Environment and Planning legislation	Comments
Torrens Island Power Station, SA	Environment Protection Act 1993; and Environment Protection (Site Contamination) Regulations 2008	In May 2010, voluntary site investigations detected trichloroethylene in groundwater at a specific location beneath the Torrens Island Power Station site. The South Australia EPA was notified under Section 83A of the Environment Protection Act. Investigations are continuing to determine the extent and nature of the impact, and the development of a management plan.
Hallett 2 Wind Farm, SA	Environment Protection Act 1993; and South Australian EPA Wind Farms Environmental Noise Guidelines 2009	Noise testing in November 2010 and May 2011 found unacceptable tonality levels at the residence of a person living in close proximity to the wind farm. AGL and the EPC construction contractor are working with the local resident to identify a full solution. AGL is keeping EPA informed of progress.
Suncoast Gold Macadamias, Qld	Environmental Protection Act 1994	Audits initiated by AGL in May and November 2010 identified non–compliances related to the site-based environmental management plan, frequency of air emissions monitoring and particulate fallout. Corrective actions have been taken, and will be detailed in the next annual report to the Department of Environment and Resource Management (DERM) in accordance with permit requirements.
Downlands oil and gas facility, Qld	Environmental Protection Act 1994	Following sustained heavy rain in early December 2010, water overflowed from a pond to an adjacent property. DERM and the landowner were notified about the incident, and a Transitional Environment Program was approved by DERM and implemented to return the site to compliance.
Silver Springs and Fairymount oil and gas project, Qld	Environmental Protection Act 1994; Petroleum Act 1923; and Queensland Petroleum and Gas (Production and Safety) Act 2004	In January 2011, AGL completed an internal environmental assessment of the oil and gas operations that it acquired from Mosaic Oil N.L. in October 2010. A number of potential and actual non–compliances with environmental authorities were identified and, where required, were reported to DERM. Corrective actions are being undertaken to bring operations into compliance.
Moranbah Power Station, Qld	Environmental Protection Act 1994	In May 2011, an internal audit identified non–compliances related to the site based environmental management plan, air emissions monitoring and spill prevention. These will be detailed in the next annual report to DERM in accordance with permit requirements.
Camden Gas Project, NSW	Protection of the Environment Operations Act 1997; Petroleum (Onshore) Act 1991; and Environmental Planning and Assessment Act 1979	In May 2011, non–hazardous soap foam was emitted from a degasser unit during well workover activities. The Office of Environment and Heritage (OEH), has issued a formal warning to AGL on the basis that the degasser was not being operated in a proper and efficient manner, as is required by the Environmental Protection Licence. The OEH also advised AGL that it found that there was no significant harm to the surrounding environment resulting from the incident, and that AGL has taken corrective actions to reduce the likelihood of this type of incident reoccurring.
Dartmouth Power Station, Vic	Environment Protection Act 1970; and State Environment Protection Policy (Waters of Victoria) 1993	In June 2011, a faulty turbine pump seal resulted in a spill of approximately 1L of oil into the power station's tail bay. The EPA and Goulburn Murray Water were notified about the incident.

Site	Key Environment and Planning legislation	Comments
AGL–Arrow Energy Moranbah Gas Project JV, Qld **(Arrow is the Operator)**	Petroleum Act 1923; Environmental Protection Act 1994; and Queensland Petroleum and Gas (Production and Safety) Act 2004	In September 2010, protected vegetation on PL191 was overcleared by the Operator. A $2,000 Penalty Infringement Notice was issued by DERM in relation to the breach to CH4 Pty Ltd (the Arrow Energy entity named as Principal Holder on the relevant Environmental Authority). In December 2010 the Operator submitted a Program Notice to DERM advising of the threat of water storage overtopping due to heavy rain. A Transitional Environment Program (TEP), to return the operation to compliance, was submitted but prior to its approval by DERM an initial unauthorised release of 3ML from a water storage dam to the Isaac River occurred following further sustained heavy rain. Subsequently the TEP was approved by DERM. In March 2011, an administrative non–compliance was identified by DERM in relation to non–submission of reports required as part of a TEP. In April 2011, between 11,000L and 20,000L of produced water leaked onto the ground leading to short–term saturation. The spill was a breach of the Environmental Authority. DERM has been notified about the incident. In May 2011, approximately 3,000L of diesel fuel was spilt to land. DERM was notified about the incident.

Proceedings on Behalf of the Company

No person has applied under Section 237 of the Corporations Act for leave of the Court to bring proceedings on behalf of AGL or intervene in any proceedings to which AGL is a party for the purpose of taking responsibility on behalf of AGL for all or any part of those proceedings. AGL was not a party to any such proceedings during the year.

Non-Audit Services

Non-audit services have been provided during the year by the external auditor, Deloitte Touche Tohmatsu. Disclosure of the details of these services can be found in this Annual Report on page 97.

The Board has a formal policy on the provision of auditing and related services. Specifically, the external auditor is precluded from providing any services that might threaten its independence or conflict with its assurance and compliance role. Reports on the provision of auditing and related services are provided at regular intervals to the Board through the Audit and Risk Management Committee. Directors are satisfied that the provision of $2,056,000 of non-audit services by the external auditor is compatible with the general standard of independence for auditors.

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

Indemnification and Insurance of Directors and Officers

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

> liability to third parties (other than related entities) when acting in good faith; and

> costs and expenses of successfully defending legal proceedings and ancillary matters.

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

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

The contract prohibits disclosure of the nature of the liabilities and the amount of premium paid and the Corporations Act does not require disclosure of the information.

Auditor's Independence Declaration

A copy of the external auditor's declaration under Section 307C of the Corporations Act in relation to the audit for the financial year is on page 135 of this Annual Report.

Rounding

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

Remuneration Report

As Australia's leading integrated renewable energy company, AGL seeks to maintain and grow its business by attracting and retaining the best possible people to align with driving increased shareholder value. It is important to be able to promote and recognise the excellence we demand by rewarding our Senior Executives appropriately.

The Directors present the Remuneration Report for AGL Energy Limited and its consolidated entities for the year ended 30 June 2011 in line with Section 300A of the Corporations Act.

This report covers the remuneration and benefits of AGL's Key Management Personnel (KMP), which includes the five highest paid Senior Executives (the Top 5).

We have structured the report into eight sections:

1 Our remuneration policy
2 Our remuneration framework
3 Linking remuneration to performance
4 Remuneration mix
5 Key Management Personnel
6 Remuneration disclosures: KMP
7 Terms of Senior Executive contracts
8 Non-executive Directors

Key points for the year ended 30 June 2011

Total Remuneration Package

CEO's total remuneration down by 40%	The CEOs total remuneration for the year decreased from $5.8m to $3.4m, which primarily reflects reductions in both short and long-term incentives as a consequence of the financial results for the year.

Total Fixed Remuneration (TFR)

CEO's TFR increased by 4%	The increase was informed by an independent review of external remuneration market data.

Short-term incentives (STI)

STI payout for CEO was 48.75% of maximum	The STI payment balances good progress in achieving a number of AGLs' strategic targets, including improved customer satisfaction. On the other hand AGL did not achieve a NPAT outcome for 2010/11 within our original market guidance, there was some deterioration in the safety lagging indicators.
Average STI payout for direct reports to the CEO was 55% of maximum	These payouts on average are lower than FY2010 and primarily reflect the financial results for the year. It should be noted, however, good progress was made on the development of AGL's integrated strategy.

Long-term incentives (LTI)

Negative amount charged to LTI bank account in 2011	AGL's performance against the relevant performance hurdles resulted in the following outcomes for the year: > no Share Performance Rights being deposited into the Total Shareholder Return bank account; and > Share Performance Rights being deducted (or clawed back) from the EBIT/Funds Employed bank account, resulting in this account having a negative balance.

Non-executive Directors

Non-executive Directors remuneration	Total fees paid to non-executive Directors in the year was $1.481m, $0.519m below the approved maximum aggregate to non-executive Directors' remuneration. The total fees paid represent a 3.2% increase over the previous year.

Abbreviations used in this report

EBIT	earnings before interest and tax
KMP	key management personnel (those Senior Executives who have authority and responsibility for planning, directing and controlling the activities of AGL, either directly or indirectly)
LTI	long-term incentive
NPAT	underlying net profit after tax
Senior Executive	those executives other than the CEO who are KMP
Service Agreement	a Senior Executive's contract of employment
SGC	superannuation guarantee charge
SPR	share performance right
STI	short-term incentive
TFR	total fixed remuneration
TSR	total shareholder return

1. Our remuneration policy

The key principle underpinning our remuneration policy is to promote and recognise excellence in a way that is fair to all stakeholders.

Our remuneration policy is designed to promote excellent performance while meeting these goals:

> align the interests of shareholders, employees, customers and the community with AGL's objectives and values

> attract and retain key talent

> keep employees committed and motivated by providing fair remuneration and other benefits to all employees

> meet long-term people needs through effective talent management and succession planning

> meet AGL's commitment to a diverse and inclusive workplace

> promote AGL as an employer of choice

> comply with relevant legislation and corporate governance principles.

The remuneration policy is reviewed and ratified annually by the Board's People and Performance Committee.

Share Plan participation

AGL actively promotes employee participation in Share Plans.

AGL offers its employees participation in the following Share Plans:

> **AGL Long-Term Incentive Plan (LTIP):** Senior Executives are granted Share Performance Rights (SPRs) that vest when specified applicable performance conditions are met.

> **AGL Share Reward Plan:** eligible employees are granted up to $1,000 worth of AGL shares each year, subject to AGL meeting specific performance hurdles. (Note, participants in the Share Reward Plan are not eligible to participate in the LTIP described above).

> **AGL Share Purchase Plan:** the Plan Trustee acquires AGL shares on-market at market price during permitted trading periods, generally for Directors and employees who have salary-sacrificed a portion of their pre-tax salary.

The number of employees participating in the Share Reward Plan and Share Purchase Plan is 1,410 (out of 2,031), and the number of AGL shares held is 531,179.

2. Our remuneration framework

The remuneration of our Senior Executives is composed of three elements: Total Fixed Remuneration, which is fixed; and Short-Term and Long-Term Incentives, both of which are variable (at risk).

The CEO and Senior Executives are remunerated by a combination of fixed remuneration and short and long-term incentives. Senior Executive remuneration therefore has three elements:

> total fixed remuneration (TFR)

> short-term incentive (STI) payments

> long-term incentive (LTI) payments.

The mix varies for individual roles and is determined by comparison with market remuneration practice, taking into account the complexity of the business and the industry.

Independent external advisers provide relevant market data, comparators and other analysis as part of a rigorous approach to establishing remuneration levels for each Senior Executive.

In June 2011, the Board appointed PricewaterhouseCoopers (PwC) as its external remuneration consultant. PwC's role in this regard is to provide remuneration advice to AGL's People and Performance Committee and Board, as and when required.

Two market surveys are provided by the Hay Group and considered when reviewing remuneration for the CEO and Senior Executives. The survey groups are:

> A large survey containing ASX companies in industrial and service industries. This survey is selected because it is relatively non-volatile: it moves in a comparatively stable way, indicative of market trends over time.

> A specific survey containing ASX companies in industrial and service industries with a market cap of greater than $5 billion. This survey assists in identifying any significant remuneration market issues or movements, and has the advantage of higher perceived validity. However, due to the smaller sample size, it is potentially more volatile from year to year.

Total Fixed Remuneration (TFR)

TFR is specified in the Senior Executive's Service Agreement and is in line with market rates. TFR is reviewed regularly.

TFR is the non-variable component of a Senior Executive's annual remuneration. It consists of the base salary plus any superannuation contributions paid to a complying super fund on the Senior Executive's behalf, and the cost (including any component for fringe benefits tax) for other items, such as novated vehicle lease payments. The amount of TFR is established based on relevant market analysis, and having regard to the scope and nature of the role and the individual Senior Executive's performance, expertise, skills and experience.

3. Linking remuneration to performance

Remuneration is linked to performance to attract and retain high calibre executives by motivating them to achieve performance goals which are aligned to AGL's interests.

The two remaining elements of executive remuneration, STI and LTI, are directly linked to the performance of both the Senior Executive and the company.

Short-Term Incentive (STI)

STI varies from year to year, based on performance.

STI payments are based on the achievement of individual performance targets set at the start of the financial year. STI payments are designed to motivate Senior Executives to achieve AGL's overall performance objectives.

STI payments align individual performance with business outcomes in the areas of financial performance, customers, people management and strategy development and implementation.

Senior Executives are eligible to be considered for an STI payment when they have performed satisfactorily in their role, met performance objectives and demonstrated AGL's values, throughout the year. This is assessed annually using the Performance and Development Review (PDR) process (which is used for all employees throughout AGL).

The PDR is used to measure the actual level of achievement of each objective in the financial year. No STI is payable for any objective where a minimum level of performance has not been reached. This performance management process links the amount of STI paid with AGL's overall performance, as well as an individual's performance during the year, and gives superior rewards for outstanding performance.

The maximum STI payment varies between approximately 45% and 100% of TFR for Senior Executives including the CEO.

In the year ended 30 June 2011, 162 employees participated in the STI plan.

How STI works

> Varies annually based on individual performance against specified targets.

> Can be paid in cash or as a contribution to a complying superannuation fund.

STI are payable:

> To Senior Executives employed at the end of the financial year.

> At the discretion of the Board in other exceptional circumstances.

How STI was linked to performance this year

The actual level of STI paid to each Senior Executive is determined at the end of the financial year based on the Senior Executive's achievement of specified performance objectives in the following categories:

> Financial

> Customers

> People management

> Strategic

The performance objectives are established at the beginning of the financial year. The weighting given to each category varies for each Senior Executive, depending on their role. Typically, the weightings for KMP might be:

> Financial 40%

> Customers and Strategic 40%

> People management 20%

Results against objectives common to all Senior Executives are detailed in the table opposite. Performance against other objectives specific to each Senior Executive's key area of responsibility is also included below.

AGL Senior Executives' performance objectives for 2010/11

Specific individual objectives for Senior Executives	What	Result
Senior Executive's area of responsibility	Each Senior Executive has performance objectives related to their specific area of responsibility for AGL's business in the categories of: > Financial > Customers > People management > Strategic	Individual Senior Executives generally achieved their specific individual key objectives for 2010/11.

Common objectives	What	Result
Financial results	All Senior Executives had an objective related to AGL's NPAT for 2010/11.	While our NPAT was slightly ahead of what was achieved for 2009/10 we did not achieve a NPAT outcome for 2010/11 within our original market guidance.
Safety performance	Completing specific plans to continue improving AGL's safety leadership and culture (including targets with respect to injury rates).	100% of all specific safety action plans for 2010/11 were completed. However in terms of lagging indicators the Lost Time Injury Frequency Rate for 2010/11 was 2.1 compared to 1.2 for 2009/10 and the Total Injury Frequency Rate for 2010/11 was 5.0 compared to 2.7 for 2009/10.
Customer satisfaction	All Senior Executives had an objective to improve AGL's overall customer satisfaction, as measured against our competitors.	AGL generally outperformed key competitors across a range of customer service and satisfaction measures.
Employee engagement	Specific initiatives are developed each year to build employee engagement and AGL invites all employees to take part in an engagement survey. All Senior Executives had targets with respect to employee engagement.	Numerous initiatives to promote engagement were successfully implemented across the business. The overall 2011 survey result for employee engagement at AGL was 54% compared to a result of 62% for 2010.

The details of actual STI received for the year ended 30 June 2011 for KMP, are set out in the remuneration table in section 6 on page 54.

Long-Term Incentive (LTI)

LTI is designed to drive performance which results in long-term shareholder value.

LTI consists of Share Performance Rights (SPRs), which vest over time if specific applicable performance hurdles are met.

A SPR:

> is an entitlement to one fully-paid ordinary share in AGL;

> does not carry dividend or voting rights; and

> is adjusted for the effect of any bonus issues, rights issues, and reconstructions and reorganisations of the capital of AGL.

Participants are restricted from entering into any derivative or other financial product in relation to the SPRs to protect against an economic exposure to price movements in AGL shares.

LTI allocations are determined, based on market practice, so that AGL remains competitive in remuneration against its comparator group.

The maximum LTI notional allocation of SPRs varies between approximately 10% and 100% of TFR for Senior Executives, including the CEO.

In the year ended 30 June 2011, 22 employees participated in the LTI plan.

How LTI works

> Participants are notionally granted SPRs at the start of the financial year, that are banked at the end of the financial year if applicable performance hurdles are met.

> SPRs are banked in notional share bank accounts kept for each participant – a separate notional share bank account is kept for each performance hurdle.

> If applicable performance hurdles are not met then a 'clawback' of previously banked SPRs occurs via a deduction of SPRs from the participant's relevant bank account.

> After each year's banking (which may be positive or negative) 40% of any positive balance of SPRs in a participant's relevant bank account vest and are converted to fully paid AGL shares at no cost to the participant. Any remaining positive balance of SPRs in the participant's bank accounts is carried forward to the following year and may vest or be clawed back in future years.

> If the balance of a participant's bank account is negative, this negative balance rolls forward to the following year.

> If a participant ceases employment before the expiry of the vesting period as a result of total and permanent disablement, redundancy, retirement, death or any other exceptional circumstances determined by the Board from time to time, any positive balance of SPRs in a participant's bank account will vest or any negative balance is eliminated.

> If a participant ceases employment before the expiry of the vesting period in other circumstances, any positive balance is forfeited or any negative balance is eliminated.

> The Board has no discretion to waive performance hurdles for the vesting of SPRs in the new LTIP.

How LTI is measured

The hurdles used to determine whether SPRs are banked are selected on the basis that rewards correspond with returns that shareholders receive.

LTI is measured according to two hurdles: annual Total Shareholder Return (TSR), and annual growth in EBIT/Funds Employed (i.e. EBIT divided by Funds Employed).

> TSR takes into account dividends, changes in share price and capital returns.

> EBIT/Funds Employed measures the return AGL is getting from its funds invested. EBIT is calculated before the impact of significant items and any contribution from Upstream Gas. Funds Employed are defined as Average Total Funds Employed, calculated on a monthly basis, adjusted to remove the impact of:

(a) Derivatives balances (these balances are fair value adjustments and do not represent Funds Employed in the production of EBIT).

(b) Tax balances (Funds Employed are pre-tax balances to make the calculation consistent with EBIT).

(c) Funds Employed associated with Upstream Gas assets (currently these assets are intended for long-term value creation through proving up gas reserves). This adjustment will continue to be made until such time as the investments have matured to the point where EBIT is the most appropriate performance measure.

(d) Growth capex in excess of $50 million until the completion date of the project. (Removing these assets until they commence EBIT production provides the correct driver for investing in the future).

AGL has chosen these hurdles because, in conjunction with the 'clawback' mechanism:

> TSR rewards consistent performance in the generation of sustained shareholder value over the long term. It aligns the interests of shareholders and Senior Executives with the achievement of AGL's strategic goals;

> EBIT/Funds Employed encourages the efficient use of capital in a capital intensive industry. This hurdle correctly focuses Senior Executives on improving AGL's Return on Funds Employed. AGL has a consistent accounting policy which controls adjustments to EBIT, whereby we do not permit significant EBIT items (or indeed adjustments in carrying values) to influence the outcome of this calculation.

The calculation process is as follows:

1. At the commencement of the financial year, each participant receives an initial notional grant of the number of SPRs determined by multiplying their total fixed remuneration (TFR) by their long-term incentive opportunity (which is expressed as a percentage of TFR), and dividing the resulting number by the Volume Weighted Average Price at which AGL's shares traded on the ASX during the 30 calendar days up to and including 30 June of the preceding financial year (see example below). Fractional entitlements are rounded up.

Example: Calculation of financial year 2011 (FY11) notional grant of Share Performance Rights:

Total fixed remuneration (TFR)	X	**LTI opportunity (as a % of TFR)**

$14.58
(Volume Weighted Average Price at which AGL's shares traded on the ASX during the 30 calendar days up to and including 30 June 2010)

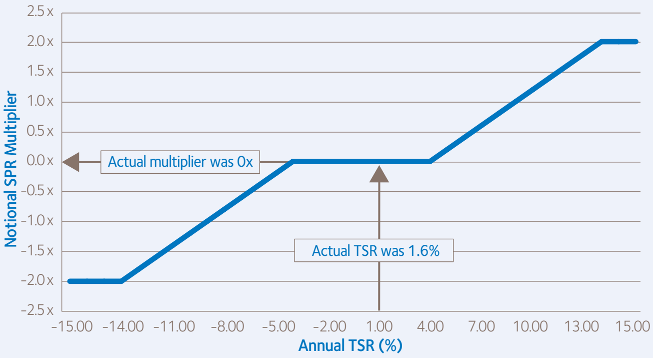
2. That notional grant is then split 50/50 between each performance hurdle - that is, half of the SPRs in the total notional grant are tested against the TSR hurdle and the other half are tested against the EBIT/Funds Employed hurdle, at the end of the financial year.

3. The final number of SPRs to be banked in each relevant bank account is then determined according to AGL's performance against the relevant hurdle as follows:

Hurdle 1: Annual TSR

Annual TSR	Number of SPRs banked for this hurdle
Equal to or greater than 14%	2 times SPRs notionally granted
Greater than 4% and less than 14%	Progressive on a straight-line basis from zero to 2 times SPRs notionally granted
Between 4% and minus 4%	Zero SPRs notionally granted
Less than minus 4% and greater than minus 14%	Progressive deduction on a straight-line basis from zero to minus 2 times SPRs notionally granted
Equal to or less than minus 14%	Minus 2 times SPRs notionally granted

The above table is presented in the chart below using actual FY11 outcomes as an example.



The hurdle detailed in the above table and chart materially reward management only when shareholders receive superior TSR. Conversely, management is either not rewarded or financially penalised, when TSR is insufficient or negative.

Management receives no reward until TSR reaches 4% (a reasonable dividend yield). Immaterial rewards commence at this point and progressively grow until a cap is reached at 14% TSR. If the cap is triggered, the following year's opening share price is set at a level that would have achieved a TSR of 14%.

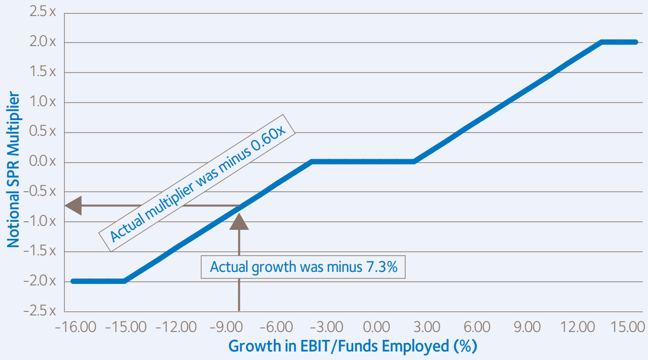
The financial penalty for management commences when TSR is less than minus 4%. Similar to the upside potential, there is a floor on the financial penalty at minus 14%. If the floor is triggered, the following year's opening share price is set at a level that would have achieved a TSR of minus 14%.

This cap and floor mechanism assists in controlling excessive reward or penalty to management, in any given year, where the significant increase or significant decrease in TSR was only temporary.

Hurdle 2: Annual growth in EBIT/Funds Employed

Annual growth in EBIT/Funds Employed	Number of SPRs banked for this hurdle
Equal to or greater than 13%	2 times SPRs notionally granted
Greater than 2% and less than 13%	Progressive on a straight-line basis from zero to 2 times SPRs notionally granted
Between 2% and minus 4%	Zero SPRs notionally granted
Less than minus 4% and greater than minus 15%	Progressive on a straight-line basis from zero to minus 2 times SPRs notionally granted
Equal to or less than minus 15%	Minus 2 times SPRs notionally granted

The above table is presented in the chart below using actual FY11 outcomes as an example.



The Board believes that the current return on funds employed for AGL is not sufficient. The hurdles detailed in the above table and chart reward management when EBIT/Funds Employed grows. Conversely, management is either not rewarded or financially penalised, when growth in EBIT/Funds Employed is insufficient or negative.

The hurdles also recognise that the industry structure is such that, all things being equal, additional working capital is required every year because AGL must pay increased network charges monthly, but cannot recoup these increased charges for up to three months. This structure is beyond management's control and that is why rewards commence when growth reaches 2%, but the financial penalty does not commence until there is a 4% deterioration in EBIT/Funds Employed.

As with TSR, there is the same cap and floor mechanism for EBIT/Funds Employed that assists in controlling excessive reward or penalty to management, in any given year, where the significant increase or significant decrease in EBIT/Funds Employed was only temporary. The cap and floor have been set at different rates to reflect the working capital issue highlighted above.

Note: SPRs banked under the LTIP can be both positive and negative. SPRs can only vest if there is a predetermined improvement on the previous year. Importantly however, if performance falls below a predetermined level in any year, previously banked SPRs will be clawed back to the extent calculated under the performance hurdles. This feature provides the opportunity to assess performance over multiple years and therefore supports the intent of the LTIP to align shareholder and Senior Executive interests over the long term.

4. After testing any notionally granted SPRs against the relevant performance hurdle the SPRs are deposited into (or deducted from) the relevant share bank account for each participant. At the end of every financial year 40% of any positive bank account balance is distributed to participants as AGL shares. The balance (if any) of each bank account is carried forward and may vest or be clawed back in future years. Any negative balance is also carried forward.

The below example shows how the LTIP worked in July 2011 for the CEO (using actual figures).

Calculation of SPR award to CEO Michael Fraser

Total Fixed Remuneration	2,000,000
Notional LTI allocation (100% of TFR)	2,000,000
VWAP of share price to 30 June 2010 to calculate notional grant of SPRs	$14.58
Number of SPRs notionally granted	137,175

2011 TSR metric outcome calculation

Opening VWAP share price – 30/6/2010	$14.58
Closing VWAP share price – 30/06/2011	$14.23
Dividends paid in 2011	$0.59
TSR for 2011 ((14.23+0.59)/14.58)–1 x 100	1.6%
Award multiplier – based on TSR outcome being between minus 4% and plus 4%	zero

	Hurdle 1: Annual TSR	2011
A	Michael Fraser SPRs notionally granted for this hurdle (50% of 137,175 notional grant)	68,588
	TSR outcome	1.6%
B	Award multiplier	Zero
C	Opening SPR bank balance (carried forward from the 2009/2010 financial year)	50,051
D	Incentive (A x B)	0
E	Available (C + D)	50,051
F	Annual distribution at 40% (E x 40%)	20,020
G	Closing bank balance of SPRs (E – F)	30,031

2011 EBIT/Funds Employed metric outcome calculation

EBIT/Funds employed – 30/6/2010	11.27%
EBIT/Funds employed – 30/6/2011	10.45%
Annual change in EBIT/Funds employed for 2011 ((10.45-11.27)/11.27) x 100	minus 7.3%
Award multiplier – prorata below minus 4%	minus 0.60

	Hurdle 2: Annual growth in EBIT/Funds Employed	2011
A	Michael Fraser SPRs notionally granted for this hurdle (50% of 137,175 notional grant	68,587
	EBIT/Funds employed outcome	minus 7.3%
B	Award multiplier	minus 0.60
C	Opening SPR bank balance (carried forward from the 2009/2010 financial year)	18,164
D	Incentive (A x B)	minus 41,152
E	Available (C + D)	minus 22,988
F	Annual distribution at 40% (E x 40%); or zero	0
G	Closing bank balance of SPRs (E – F)	minus 22,988

It is worth noting that the negative closing bank balance, (G) in the above table, becomes the negative opening balance for financial year 2012.

Legacy LTI plan

AGL currently has two types of LTI for Senior Executives.

1. AGLs 'new' LTI, which is described in the section above, covered grants of SPRs, which were determined in September 2009, September 2010 and September 2011, and is intended to cover future grants (subject to periodic review by the Board).
2. Now purely as a legacy plan, AGL also has an 'old' LTI scheme under which SPRs were granted in October 2008.

Apart from the SPRs granted in October 2008 the old LTI plan is no longer in operation.

The old LTI plan uses relative TSR as the performance hurdle.

> Vesting is based on measurement of the performance hurdle, initially three years from the date of issue, or (to the extent that full vesting does not occur at this point) four years from the date of issue.

> Any SPRs that do not vest, after year four, automatically lapse.

> The performance hurdle is relative TSR measured against a comparator group of the ASX100 companies as at 1 October 2008.

> The number of SPRs that vest is determined as follows:

AGL's TSR ranking relative to comparator group	Percentage of SPRs that vest
TSR below 40%	0%
TSR between 40% and 50%	Progressive vesting on a straight-line basis from 40% to 50%
TSR between 51% and 84%	Progressive vesting on a straight-line basis from >50% to <100%
TSR equal to or greater than 85%	100%

Vesting of SPRs commences at the 40th percentile because independent analysis showed that the probability of vesting at the 50th percentile was quite low and in fact AGL had the lowest price volatility of ASX 100 companies who used relative TSR as a performance hurdle. This low probability and higher risk presented limited incentive and retention benefit to Senior Executives reducing the effectiveness of the LTI as a genuine performance incentive.

Relative TSR performance is assessed by an independent third party provider for accuracy and independence of calculation.

CEO LTI allocation: 2009 – 2011

AGL obtained shareholder approval in 2008 to issue an LTI allocation to Mr Fraser with a face value equivalent of up to a maximum of 100% of his TFR (total fixed remuneration) in respect of each of the financial years ending 30 June 2009, 30 June 2010 and 30 June 2011.

AGL has not exceeded this maximum LTI allocation in any of these years.

4. Remuneration mix

STI and LTI are together known as the 'variable' or 'at risk' element of a Senior Executive's remuneration. This increases with the level of responsibility and/or criticality of the role.

The balance between fixed and variable remuneration is regularly reviewed for market relativity and competitiveness.

In respect of the 2010/11 financial year, the maximum remuneration mix within the Senior Executive roles in AGL was as follows:

Maximum percentage of total target remuneration

	TFR	STI	LTI[1]
Chief Executive Officer	33.3%	33.3%	33.3%
Group General Managers and CFO	50%	25% to 30%	20% to 25%
Other Senior Executives	55% to 65%	25% to 30%	5% to 20%

Note:
1. This percentage may increase over time for sustained outperformance against specified hurdles over a number of years (due to the impact of the LTI multiplier).

5. Key Management Personnel

AGL's key management personnel are responsible for planning, directing and controlling AGL's activities.

Key Management Personnel (KMP) are the people who have authority and responsibility for planning, directing and controlling the activities of AGL. They are:

> the Managing Director, who is the Chief Executive Officer

> the Senior Executives

> the non-executive Directors of the Board.

AGL's KMP during the financial year are listed below. Unless otherwise indicated, they were KMP for the entire period.

Name	Position	Tenure (if not full year)
Directors		
Jeremy Maycock	Chairman	Appointed Chairman 21 October 2010
Mark Johnson	Chairman	Retired 21 October 2010
Les Hosking	Non-executive Director	
Belinda Hutchinson	Non-executive Director	Appointed 22 December 2010
Sandra McPhee	Non-executive Director	
Max Ould	Non-executive Director	
Bruce Phillips	Non-executive Director	
John Stanhope	Non-executive Director	
Managing Director and Chief Executive Officer		
Michael Fraser	Managing Director and Chief Executive Officer	
Executives		
Jeff Dimery	Group General Manager Merchant Energy	Resigned 27 September 2010
Anthony Fowler	Group General Manager Merchant Energy	Appointed 9 November 2010
Ken Hodgson	Group General Manager Retail Energy	
Paul McWilliams	Group Head of Corporate Support Services and Company Secretary	
Stephen Mikkelsen	Chief Financial Officer	
Michael Moraza	Group General Manager Upstream Gas	

6. Remuneration disclosures: KMP

Details of the KMPs' remuneration for the financial year are set out below.

Remuneration of Key Management Personnel for year ended 30 June 2011 (Senior Executives)

Senior Executives	Short-Term Benefits				Post-Employment Benefits		Other Long-Term Benefits	Termination Benefits	Share Based Payments			
Name	Cash Salary & Fees $	Short-Term Incentives[a] $	Non-Monetary Benefits[b] $	Other Short-Term Benefits $	Super-annuation $	Retirement Benefits $	$	$	Rights[c] $	Other[d] $	Total $	Value of Equity as a percentage of Total
Jeff Dimery[e]	652,162	–	16,158	–	41,967	–	–	–	–	976	711,263	0.1%
Anthony Fowler[f]	516,417	180,000	–	–	30,779[g]	–	–	–	22,361	–	749,557	3.0%
Michael Fraser	1,571,373	975,000	46,039	–	438,755	–	–	–	401,924	–	3,433,091	11.7%
Ken Hodgson	671,872	315,900	–	–	27,794[g]	–	–	–	–	–	1,015,566	–
Paul McWilliams	453,714	160,900	–	–	51,199[g]	–	–	–	14,915	160,900	841,628	20.9%
Stephen Mikkelsen	700,134	252,000	–	–	15,199	–	–	–	59,774	–	1,027,107	5.8%
Michael Moraza	524,929	198,000	–	–	91,675	–	–	–	27,107	–	841,711	3.2%
Paul Simshauser	543,967	199,500	–	–	15,199	–	–	–	414	–	759,080	0.1%
Total	5,634,568	2,281,300	62,197	–	712,567	–	–	–	526,495	161,876	9,379,003	

(a) Earned in respect of 2010/2011 financial year and paid in September 2011.
(b) Includes the value of benefits such as cars, representational spouse travel and entertainment and Fringe Benefits Tax.
(c) The fair value of LTI SPRs has been calculated using the Black-Scholes and Monte Carlo simulation methods.
(d) Value of shares acquired under the AGL Share Purchase Plan and other deferred share based payments.
(e) Resigned in September 2010.
(f) Includes remuneration received in the financial year prior to appointment as KMP in November 2010.
(g) Includes salary sacrifice contributions.
All executives are entitled to four weeks annual leave and long service leave based on statutory entitlements.

Remuneration of Key Management Personnel for year ended 30 June 2010 (Senior Executives)

Senior Executives	Short-Term Benefits				Post-Employment Benefits		Other Long-Term Benefits	Termination Benefits	Share Based Payments			
Name	Cash Salary & Fees $	Short-Term Incentives[a] $	Non-Monetary Benefits[b] $	Other Short-Term Benefits $	Superannuation $	Retirement Benefits $	$	$	Rights[c] $	Other $	Total $	Value of Equity as a percentage of Total
Jeff Dimery	548,066	400,000	27,741	–	82,308	–	–	–	263,532	4,994[d]	1,326,641	20.2%
Michael Fraser	1,478,298	1,850,000	44,372	–	321,702	–	–	–	1,729,382	400,000[e]	5,823,754	36.6%
Ken Hodgson	671,372	413,000	–	–	14,461	–	–	–	115,092	–	1,213,925	9.5%
Paul McWilliams	411,788	160,000	–	–	50,461[f]	–	–	–	59,022	–	681,271	8.7%
Stephen Mikkelsen	740,872	346,000	–	–	14,461	–	–	–	239,625	–	1,340,958	17.9%
Michael Moraza	503,788	310,000	6,920	–	67,929	–	–	–	174,155	–	1,062,792	16.4%
Owen Coppage	666,154	190,000	112,771	–	14,461	–	–	–	–	–	983,386	–
Total	5,020,338	3,669,000	191,804	–	565,783	–	–	–	2,580,808	404,994	12,432,727	

(a) Earned in respect of 2009/2010 financial year and paid in September 2010.
(b) Includes the value of benefits such as cars, representational spouse travel and entertainment and Fringe Benefits Tax.
(c) The fair value of LTI SPRs has been calculated using the Black-Scholes and Monte Carlo simulation methods.
(d) Value of shares acquired under the AGL Share Purchase Plan.
(e) Under Mr Fraser's prior service agreement he was entitled to certain retention payments as a result of which he was allocated AGL shares which were acquired under the AGL Share Purchase Plan.
(f) Includes salary sacrifice contributions.
All executives are entitled to four weeks annual leave and long service leave based on statutory entitlements.

Remuneration of Key Management Personnel for year ended 30 June 2011 (non-executive Directors)

	Short-Term Benefits			Post-Employment Benefits		Share Based Payments			
Non-executive Directors	Cash Salary & Fees $	Short-Term Incentives $	Non-Monetary Benefits $	Superannuation $	Retirement Benefits $	Rights $	Other Share Plans $	Total[a] $	Value of Equity as a percentage of Total
Jeremy Maycock	296,789	–	–	14,735	–	–	5,000	316,524	1.6%
Mark Johnson[c]	108,579	–	–	4,230	–	–	–	112,809	–
Les Hosking	175,347	–	–	15,065	–	–	–	190,412	–
Belinda Hutchinson	97,208	–	–	8,032	–	–	–	105,240	–
Sandra McPhee	176,180	–	–	14,830	–	–	–	191,010	–
Max Ould	161,376	–	–	14,830	–	–	–	176,206	–
Bruce Phillips	175,347	–	–	15,065	–	–	–	190,412	–
John Stanhope	183,301	–	–	15,199	–	–	–	198,500	–
Total	1,374,127	–	–	101,986	–	–	5,000	1,481,113	

(a) No other benefits either short-term, long-term or termination were provided to non-executive Directors.
(b) Value of fees allocated to acquire shares under the AGL Share Purchase Plan.
(c) Ceased as an AGL Director in October 2010.

Remuneration of Key Management Personnel for year ended 30 June 2010 (non-executive Directors)

	Short-Term Benefits			Post-Employment Benefits		Share Based Payments			
Non-executive Directors	Cash Salary & Fees $	Short-Term Incentives $	Non-Monetary Benefits $	Superannuation $	Retirement Benefits $	Rights $	Other Share Plans $	Total[a] $	Value of Equity as a percentage of Total
Mark Johnson	298,594	–	–	41,606[b]	–	–	–	340,200	–
Les Hosking	164,403	–	–	14,461	–	–	–	178,864	–
Jeremy Maycock	136,610	–	–	28,645[b]	–	–	–	165,255	–
Sandra McPhee	157,599	–	–	14,461	–	–	–	172,060	–
Max Ould	143,991	–	–	14,461	–	–	–	158,452	–
Bruce Phillips	164,403	–	–	14,461	–	–	–	178,864	–
Graham Reaney[c]	57,389	–	–	6,008[b]	–	–	–	63,397	–
John Stanhope	164,280	–	–	14,135	–	–	–	178,415	–
Total	1,287,269	–	–	148,238	–	–	–	1,435,507	

(a) No other benefits either short-term, long-term or termination were provided to non-executive Directors.
(b) Includes salary sacrifice contributions.
(c) Ceased as an AGL Director in October 2009.

Details of Share Performance Rights granted to Key Management Personnel as part of remuneration for the year ended 30 June 2011

	Balance at 1 July 2010	Adjustment to SPRs awarded	SPRs notionally granted during the year	Grant date	Fair value per SPR at grant date[(a)]	Lapsed/ forfeited	Vested	Balance at 30 June 2011[(b)]
Jeff Dimery	12,188	–	–	11-Jan-08	9.16	–	(12,188)	–
Jeff Dimery	18,056	–	–	27-Oct-08	10.30	(18,056)	–	–
Jeff Dimery	20,364	(3,157)	–	26-Feb-10	12.09	(10,324)	(6,883)	–
Anthony Fowler	2,111	–	–	11-Jan-08	9.16	–	(2,111)	–
Anthony Fowler	5,209	–	–	27-Oct-08	10.30	–	–	5,209
Anthony Fowler	2,864	(444)	–	26-Feb-10	12.09	–	(968)	1,452
Anthony Fowler	–	–	16,461	20-Jun-11	7.08	–	–	16,461
Michael Fraser	103,915	–	–	25-Feb-08	7.66	–	(103,915)	–
Michael Fraser	107,639	–	–	27-Oct-08	10.30	–	–	107,639
Michael Fraser	134,546	(20,855)	–	26-Feb-10	12.09	–	(45,476)	68,215
Michael Fraser	–	–	137,175	20-Jun-11	7.08	–	–	137,175
Ken Hodgson	15,011	(2,327)	–	26-Feb-10	12.09	–	(5,074)	7,610
Ken Hodgson	–	–	24,075	20-Jun-11	7.08	–	–	24,075
Paul McWilliams	6,140	–	–	11-Jan-08	9.16	–	(6,140)	–
Paul McWilliams	3,132	–	–	27-Oct-08	10.30	–	–	3,132
Paul McWilliams	3,379	(525)	–	26-Feb-10	12.09	–	(1,142)	1,712
Paul McWilliams	–	–	7,545	20-Jun-11	7.08	–	–	7,545
Stephen Mikkelsen	19,647	–	–	11-Jan-08	9.16	–	(19,647)	–
Stephen Mikkelsen	14,000	–	–	27-Oct-08	10.30	–	–	14,000
Stephen Mikkelsen	15,099	(2,341)	–	26-Feb-10	12.09	–	(5,103)	7,655
Stephen Mikkelsen	–	–	24,692	20-Jun-11	7.08	–	–	24,692
Michael Moraza	5,294	–	–	11-Jan-08	9.16	–	(5,294)	–
Michael Moraza	7,639	–	–	27-Oct-08	10.30	–	–	7,639
Michael Moraza	16,728	(2,593)	–	26-Feb-10	12.09	–	(5,654)	8,481
Michael Moraza	–	–	20,577	20-Jun-11	7.08	–	–	20,577

(a) Fair value of SPRs granted is determined using the Black-Scholes and Monte Carlo simulation methods.
(b) SPRs will vest at no cost to the recipient providing performance conditions are satisfied.

Details of Share Performance Rights granted to Key Management Personnel as part of remuneration for the year ended 30 June 2010

	Balance at 1 July 2009	SPRs granted during the year	Grant date	Fair value per SPR at grant date[a]	Lapsed/ forfeited	Vested	Balance at 30 June 2010[b]
Jeff Dimery	3,459	–	1-Apr-07	6.71	–	(3,459)	–
Jeff Dimery	12,188	–	11-Jan-08	9.16	–	–	12,188
Jeff Dimery	18,056	–	27-Oct-08	10.30	–	–	18,056
Jeff Dimery	–	20,364	26-Feb-10	12.09	–	–	20,364
Michael Fraser	6,604	–	1-Apr-07	6.71	–	(6,604)	–
Michael Fraser	103,915	–	25-Feb-08	7.66	–	–	103,915
Michael Fraser	107,639	–	27-Oct-08	10.30	–	–	107,639
Michael Fraser	–	134,546	26-Feb-10	12.09	–	–	134,546
Ken Hodgson	–	15,011	26-Feb-10	12.09	–	–	15,011
Paul McWilliams	1,711	–	1-Apr-07	6.71	–	(1,711)	–
Paul McWilliams	6,140	–	11-Jan-08	9.16	–	–	6,140
Paul McWilliams	3,132	–	27-Oct-08	10.30	–	–	3,132
Paul McWilliams	–	3,379	26-Feb-10	12.09	–	–	3,379
Stephen Mikkelsen	16,285	–	8-Nov-06	6.60	–	(16,285)	–
Stephen Mikkelsen	19,647	–	11-Jan-08	9.16	–	–	19,647
Stephen Mikkelsen	14,000	–	27-Oct-08	10.30	–	–	14,000
Stephen Mikkelsen	–	15,099	26-Feb-10	12.09	–	–	15,099
Michael Moraza	1,429	–	1-Apr-07	6.71	–	(1,429)	–
Michael Moraza	5,294	–	11-Jan-08	9.16	–	–	5,294
Michael Moraza	7,639	–	27-Oct-08	10.30	–	–	7,639
Michael Moraza	–	16,728	26-Feb-10	12.09	–	–	16,728

(a) Fair value of SPRs granted is determined using the Black-Scholes and Monte Carlo simulation methods.
(b) SPRs will vest at no cost to the recipient, providing performance conditions are satisfied.

7. Terms of Senior Executive contracts

Senior Executives' contracts specify their remuneration entitlements, benefits and awards.

All Senior Executives have 'Service Agreements', or employment contracts, which specify the components of remuneration to which they are entitled. The Service Agreements provide for participation in the short and long-term incentives in accordance with the terms of their respective plans. The Board can vary the terms of these plans, although such variations cannot be applied retrospectively.

Details of contract duration, notice period for termination, and termination payments for Senior Executives are provided in the table below.

Executive	Position	Contract duration	Termination notice period by AGL	Termination notice period by employee	Termination payments
Anthony Fowler	Group General Manager Merchant Energy	No fixed term	3 months	6 months	9 months TFR
Ken Hodgson	Group General Manager Retail Energy	No fixed term	3 months	6 months	9 months TFR
Paul McWilliams	Group Head of Corporate Support Services and Company Secretary	No fixed term	3 months	6 months	9 months TFR
Stephen Mikkelsen	Chief Financial Officer	No fixed term	3 months	6 months	9 months TFR
Michael Moraza	Group General Manager Upstream Gas	No fixed term	3 months	3 months	9 months TFR

The CEO

Details of Mr Fraser's appointment and the terms of his Service Agreement are set out below.

Terms of appointment

Mr Fraser was appointed Managing Director and CEO of AGL on 22 October 2007. His Service Agreement is open ended, with his appointment as Managing Director and CEO continuing until it is terminated.

Termination conditions

AGL may terminate Mr Fraser's appointment:

> by giving him 12 months' notice in writing at any time;

or

> without notice in the event of any act which detrimentally affects AGL (such as dishonesty, fraud or serious or wilful misconduct in the discharge of his duties or unremedied, persistent, wilful or material breaches of the terms of his Service Agreement).

Mr Fraser may terminate his appointment:

> by giving AGL 12 months' notice in writing at any time;

or

> by giving AGL three months' notice in writing if he ceases to hold the most senior management role within AGL or ceases to report directly to the Board, or if the scope of his responsibilities or authorities is materially diminished (Fundamental Change). This right of termination must be exercised within six months after the Fundamental Change occurs.

If Mr Fraser's appointment is terminated by either party giving a period of notice, AGL may at any time before the end of that period of notice pay Mr Fraser an amount equal to that proportion of his TFR at the time which corresponds to the period of notice which has been forgone.

If Mr Fraser's appointment is terminated by AGL with 12 months' notice before the date on which AGL pays STIs in respect of a financial year, Mr Fraser is eligible to be paid a STI in respect of that financial year as follows:

> if he is terminated as a result of unsatisfactory performance, a pro rata STI based on 50% of his STI opportunity

> if he is terminated as a result of redundancy or total or permanent disablement, a pro rata STI based on 100% of his STI opportunity.

If Mr Fraser terminates his employment with AGL due to retirement or a Fundamental Change, a pro rata STI payment will be made based on 100% of his STI opportunity.

The circumstances in which all unvested SPRs granted to Mr Fraser under the old LTIP will vest (subject to the relevant performance conditions being met at the time of cessation of employment or waived by the Board under exceptional circumstances), and the positive balances of SPRs banked to Mr Fraser's notional SPR bank accounts under the new LTIP will vest, are as follows:

(a) death;

(b) total and permanent disablement;

(c) termination of his employment by AGL without cause (either with or without notice);

(d) termination of his employment with AGL by Mr Fraser giving three months' notice after the occurrence of a fundamental change (on the basis provided for in Mr Fraser's employment contract);

(e) redundancy;

(f) retirement; or

(g) cessation of his employment with AGL in such other circumstances as the Board in its absolute discretion may determine.

All unvested SPRs under the old LTIP or banked SPRs under the new LTIP will lapse if Mr Fraser ceases employment with AGL for any other reason.

Remuneration

Mr Fraser's remuneration consists of the components set out below.

Total Fixed Remuneration

Mr Fraser's TFR, effective 1 September 2011, is $2,080,000 a year.

During each year of the term of his appointment, the Board commissions an independent review of his TFR for the following year and decides whether to increase it, taking into account such matters as external market relativities. The details of the market remuneration information considered is described in Section 2 of this report.

Under no circumstances can Mr Fraser's TFR be reduced without his written consent.

Short-Term Incentive

Mr Fraser is eligible to receive a maximum STI payment for the year ending 30 June 2012 of $2,080,000.

Any STI will be determined in accordance with the STI Plan rules and is subject to the satisfactory completion by Mr Fraser of his performance objectives which relate to financial, customers, people management and strategic objectives.

One half of any STI will be paid in cash in September 2011, with payment of the balance deferred for 12 months.

Any deferred STI component is payable in the following circumstances:

(a) death;

(b) total and permanent disablement;

(c) termination of his employment by AGL without cause (either with or without notice);

(d) termination of his employment with AGL by Mr Fraser giving three months' notice after the occurrence of a fundamental change (on the basis provided for in Mr Fraser's employment contract);

(e) redundancy;

(f) retirement; or

(g) cessation of his employment with AGL in such other circumstances as the Board in its absolute discretion may determine.

Otherwise the deferred STI component is forfeited.

Long-Term Incentive

AGL has obtained shareholder approval to issue the maximum number of Share Performance Rights available to Mr Fraser in respect of each of the financial years ending 30 June 2009, 30 June 2010 and 30 June 2011.

The CEO's LTI allocation was 100% of his TFR in accordance with contractual rights within the shareholder approved maximum allocation number of Share Performance Rights.

The Share Performance Rights granted to Mr Fraser under the LTI Plan will vest, subject to meeting the associated performance hurdles, at no cost to Mr Fraser.

Restraint

Mr Fraser must not, for a period of six months following termination of his appointment:

> be engaged or concerned in any capacity whatsoever, in any business which is similar to, or competitive with, AGL's business;

> solicit or entice, or attempt to solicit or entice, any Director, employee or client of AGL to leave AGL; or

> attempt to persuade any Director, employee or client of AGL with whom Mr Fraser had dealings with in the year preceding the termination of his appointment to discontinue their relationship with AGL or reduce the amount of business they do with AGL.

8. Non-executive Directors

Non-executive Directors do not receive performance-related payments.

Non-executive Directors receive a base fee. In addition, in recognition of the higher workloads and extra responsibilities of participating in a Board Committee, if applicable they also receive a Committee fee. Chairing a Committee attracts a higher fee rate, but the Chairman of the Board receives no extra remuneration for participating in or chairing Committees.

The maximum aggregate remuneration payable to non-executive Directors is $2.0 million a year or such other amount as approved at a general meeting of shareholders.

Non-executive Directors' fees are determined by the Board based on advice from independent remuneration advisers, which includes market comparison of remuneration paid to non-executive Directors in a comparator group of similar sized companies as well as the ASX100.

Any changes to non-executive Directors' fees take effect from 1 January in the following year.

The market peer group used as a comparator group for the non-executive Directors is made up of companies who have a market capitalisation ranging from 20 companies below, to 20 companies above, the market capitalisation of AGL.

As the focus of the Board is the governance of and long-term strategic direction of AGL, there is no direct link between non-executive Director remuneration and AGL's short-term results.

Non-executive Directors may choose to receive fees as a combination of one or more of:

> **Directed superannuation contributions.** Subject to minimum contributions as required under SGC legislation, and maximum tax deductible contributions under the Income Tax Assessment Act, non-executive Directors may direct that some or all of their fees be paid as contributions to a complying superannuation fund of their choice.

> **AGL shares acquired under the AGL Share Purchase Plan.** The Plan Trustee acquires AGL shares on-market at market price during permitted trading periods. Details of the trading periods are included in the AGL Securities Dealing Policy which is available on AGL's website.

> **Cash.** The balance of fee entitlements is paid in cash to the non-executive director in equal monthly amounts over the year.

Non-executive Directors are permitted to vary the components of their fee entitlements at any time.

No options have been granted to non-executive Directors over any securities or interests of AGL or the consolidated entity.

The Board conducted a review of its own performance, the performance of individual Directors, and the performance of the Board Committees during the last year.

The fee structure for non-executive Directors, effective 1 January 2011, is as follows:

	Base fee $	Audit and Risk Management Committee fees $	Other Committee fees $
Chairman of Board	400,000	–	–
Chairman of Committee	160,000	48,000	32,000
Director	160,000	24,000	16,000

Five year financial performance

The following table shows AGL's annual performance over the last five years.

Year ended 30 June	2007	2008	2009	2010	2011
EPS in cents[1]	75.5	78.3	85.0	95.6	94.4
DPS in cents[2]	35.5	53.0	54.0	59.0	60.0
Increase/(decrease) in share price (%)	n/a	(5.7)	(5.9)	9.3	(0.3)

Notes:
1. EPS is calculated on the Underlying Profit.
2. Dividends per share (DPS) relate to financial years, not when they were paid.

Approval of Director's Report

This Directors' Report is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Board this 25th day of August 2011:

Jeremy Maycock
Chairman

Consolidated Income Statement

For the year ended 30 June 2011	Note	2011 $m	2010 $m
Continuing operations			
Revenue	4	**7,072.5**	6,610.7
Other income	5	**–**	6.4
Expenses	6	**(6,139.0)**	(6,136.9)
Share of profits of associates and jointly controlled entities accounted for using the equity method	17	**33.6**	70.7
Profit before net financing costs, depreciation and amortisation		**967.1**	550.9
Depreciation and amortisation	8	**(148.0)**	(137.5)
Profit before net financing costs		**819.1**	413.4
Finance income		**47.9**	38.1
Finance costs		**(73.4)**	(73.9)
Net financing costs	7	**(25.5)**	(35.8)
Profit before tax		**793.6**	377.6
Income tax expense	9	**(234.9)**	(21.5)
Profit for the year attributable to owners of AGL Energy Limited		**558.7**	356.1
Earnings per share			
Basic (cents per share)	36	**122.4**	79.3
Diluted (cents per share)	36	**122.3**	79.2

The income statement should be read in conjunction with the notes to the financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2011	Note	2011 $m	2010 $m
Profit for the year		**558.7**	356.1
Other comprehensive income			
Cash flow hedges			
Loss in fair value of cash flow hedges	34	**(118.4)**	(252.9)
Reclassification adjustments transferred to profit or loss	34	**178.4**	30.6
Reclassification adjustments transferred to the initial carrying amounts of hedged items	34	**4.6**	1.0
Available-for-sale financial assets			
Loss on revaluation of available-for-sale financial assets	34	**–**	(0.9)
Reclassification adjustments transferred to profit or loss on impairment of available-for-sale financial assets	34	**–**	2.0
Actuarial gain/(loss) on defined benefit plans	47	**3.6**	(7.8)
Share of other comprehensive income of an associate	17	**31.5**	(25.9)
Income tax relating to components of other comprehensive income	9	**(22.2)**	68.8
Other comprehensive income for the year, net of income tax		**77.5**	(185.1)
Total comprehensive income for the year attributable to owners of AGL Energy Limited		**636.2**	171.0

The statement of comprehensive income should be read in conjunction with the notes to the financial statements.

Consolidated Statement of Financial Position

As at 30 June 2011	Note	2011 $m	2010 $m
Current assets			
Cash and cash equivalents	11	**753.1**	480.4
Trade and other receivables	12	**1,272.1**	1,234.5
Inventories	13	**127.4**	94.2
Other financial assets	14	**301.2**	225.3
Other assets	15	**276.6**	174.1
Total current assets		**2,730.4**	2,208.5
Non-current assets			
Trade and other receivables	16	**0.5**	0.6
Investments accounted for using the equity method	17	**240.7**	200.8
Exploration and evaluation assets	18	**658.0**	607.5
Oil and gas assets	19	**461.4**	333.4
Property, plant and equipment	20	**2,281.5**	2,056.2
Intangible assets	21	**3,137.2**	3,149.0
Other financial assets	22	**164.5**	106.5
Other assets	23	**21.5**	28.4
Total non-current assets		**6,965.3**	6,482.4
Total assets		**9,695.7**	8,690.9
Current liabilities			
Trade and other payables	24	**853.1**	859.6
Borrowings	25	**886.7**	–
Provisions	26	**94.3**	68.7
Current tax liabilities	9	**167.2**	42.5
Other financial liabilities	27	**440.7**	582.0
Other liabilities	28	**15.1**	0.6
Total current liabilities		**2,457.1**	1,553.4
Non-current liabilities			
Borrowings	29	**284.5**	900.8
Provisions	30	**161.6**	162.5
Deferred tax liabilities	9	**302.7**	165.6
Other financial liabilities	31	**94.1**	42.1
Other liabilities	32	**54.2**	66.6
Total non-current liabilities		**897.1**	1,337.6
Total liabilities		**3,354.2**	2,891.0
Net assets		**6,341.5**	5,799.9
Equity			
Issued capital	33	**4,244.6**	4,066.7
Reserves	34	**(97.1)**	(159.4)
Retained earnings	35	**2,194.0**	1,892.6
Total equity attributable to owners of AGL Energy Limited		**6,341.5**	5,799.9

The statement of financial position should be read in conjunction with the notes to the financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2011 — Attributable to owners of AGL Energy Limited

	Issued capital $m	Investments revaluation reserve $m	Employee equity benefits reserve $m	Hedging reserve $m	Other reserve $m	Retained earnings $m	Total equity $m
Balance at 1 July 2010	**4,066.7**	**–**	**4.7**	**(163.6)**	**(0.5)**	**1,892.6**	**5,799.9**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**558.7**	**558.7**
Other comprehensive income for the year, net of income tax	**–**	**–**	**–**	**66.3**	**0.1**	**11.1**	**77.5**
Total comprehensive income for the year	**–**	**–**	**–**	**66.3**	**0.1**	**569.8**	**636.2**
Transactions with owners in their capacity as owners:							
Issue of ordinary shares	**177.9**	**–**	**–**	**–**	**–**	**–**	**177.9**
Payment of dividends	**–**	**–**	**–**	**–**	**–**	**(268.4)**	**(268.4)**
Share-based payments	**–**	**–**	**(4.1)**	**–**	**–**	**–**	**(4.1)**
Balance at 30 June 2011	**4,244.6**	**–**	**0.6**	**(97.3)**	**(0.4)**	**2,194.0**	**6,341.5**
Balance at 1 July 2009	4,030.3	(1.1)	2.0	12.2	(0.1)	1,802.4	5,845.7
Profit for the year	–	–	–	–	–	356.1	356.1
Other comprehensive income for the year, net of income tax	–	1.1	–	(175.8)	(0.4)	(10.0)	(185.1)
Total comprehensive income for the year	–	1.1	–	(175.8)	(0.4)	346.1	171.0
Transactions with owners in their capacity as owners:							
Issue of ordinary shares	36.4	–	–	–	–	–	36.4
Payment of dividends	–	–	–	–	–	(255.9)	(255.9)
Share-based payments	–	–	2.7	–	–	–	2.7
Balance at 30 June 2010	4,066.7	–	4.7	(163.6)	(0.5)	1,892.6	5,799.9

The statement of changes in equity should be read in conjunction with the notes to the financial statements.

Consolidated Statement of Cash Flows

For the year ended 30 June 2011	Note	2011 $m	2010 $m
Cash flows from operating activities			
Receipts from customers		**8,205.0**	7,610.7
Payments to suppliers and employees		**(7,620.0)**	(7,014.5)
Dividends received		**24.3**	26.6
Finance income received		**37.9**	37.5
Finance costs paid		**(77.2)**	(81.3)
Income taxes paid		**(0.7)**	(189.0)
Net cash provided by operating activities	50(a)	**569.3**	390.0
Cash flows from investing activities			
Payments for property, plant and equipment		**(474.3)**	(241.6)
Payments for exploration and evaluation assets		**(38.7)**	(43.1)
Payments for oil and gas assets		**(50.7)**	(46.6)
Payments for investments		**–**	(0.2)
Payments for intangible assets		**(15.6)**	–
Payments for businesses and subsidiaries, net of cash acquired:	50(b)		
acquisitions in current year		**(5.1)**	(7.8)
acquisitions in prior year		**–**	(1.2)
Proceeds from sale of property, plant and equipment		**0.1**	1.5
Proceeds from sale of investments		**0.9**	–
Proceeds from sale of subsidiaries, net of cash disposed:	50(c)	**163.9**	239.0
Loans advanced to related parties		**–**	(1.5)
Proceeds from repayment of related party loans		**0.2**	9.8
Net cash used in investing activities		**(419.3)**	(91.7)
Cash flows from financing activities			
On-market share purchases		**(6.1)**	(2.4)
Proceeds from borrowings		**337.8**	0.9
Repayment of borrowings		**(2.5)**	(220.0)
Dividends paid	10	**(206.5)**	(219.5)
Net cash provided by/(used in) financing activities		**122.7**	(441.0)
Net increase/(decrease) in cash and cash equivalents		**272.7**	(142.7)
Cash and cash equivalents at the beginning of the financial year		**480.4**	623.1
Cash and cash equivalents at the end of the financial year	50(d)	**753.1**	480.4

The statement of cash flows should be read in conjunction with the notes to the financial statements.

Note 1 – Summary of significant accounting policies

AGL Energy Limited (Parent Entity) is a company limited by shares 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).

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the *Corporations Act 2001*, Accounting Standards and Interpretations, and complies with other requirements of the law.

Accounting Standards include Australian equivalents to International Financial Reporting Standards (A-IFRS). Compliance with A-IFRS ensures that the financial statements and notes of the consolidated entity comply with International Financial Reporting Standards (IFRS).

The financial report was authorised for issue by the Directors on 25 August 2011.

(b) Basis of preparation

The financial statements have been prepared on the basis of historical cost, except for derivative financial instruments and available-for-sale financial assets, which are measured at fair value.

The Parent Entity is a company of the kind referred to in ASIC 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 indicated. The financial report is presented in Australian dollars, unless otherwise noted.

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

(c) Significant accounting judgements, estimates and assumptions

In the application of the consolidated entity's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Refer to Note 2 for a discussion of critical judgements in applying the entity's accounting policies, and key sources of estimation uncertainty.

(d) Adoption of new and revised accounting standards

The following new and revised Accounting Standards and Interpretations have been adopted in the current reporting period. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions and arrangements.

- AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* [AASB 5, 8, 101, 107, 117, 118, 136 and 139]
- AASB 2009-8 *Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions* [AASB 2]
- AASB 2009-10 *Amendments to Australian Accounting Standards – Classification of Rights Issues* [AASB 132]
- AASB 2010-3 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project* [AASB 3, 7, 121, 128, 131, 132 and 139]
- Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments* and AASB 2009-13 *Amendments to Australian Accounting Standards arising from Interpretation 19* [AASB 1]

(e) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Parent Entity and its subsidiaries (together referred to as the consolidated entity). Subsidiaries are entities controlled by the Parent Entity. Control is achieved where 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 results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the consolidated entity.

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

Changes in the consolidated entity's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

(f) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the consolidated entity in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant Standards. Changes in the fair value of contingent consideration classified as equity are not recognised.

Where a business combination is achieved in stages, the consolidated entity's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the consolidated entity attains control) and the resulting gain or loss, if any, is recognised in profit or loss.

Note 1 – Summary of significant accounting policies (continued)

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the consolidated entity recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

(g) Segment reporting

An operating segment is a component of the consolidated entity that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with other components of the consolidated entity. Operating segments are identified on the basis of internal reports about components of the consolidated entity that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The chief operating decision maker has been identified as the Board of Directors.

(h) Investments in associates and jointly controlled entities

Associates are those entities in which the consolidated entity has significant influence, but not control, over the financial and operating policies. Significant influence generally exists when the consolidated entity holds between 20% and 50% of the voting power of another entity. Jointly controlled entities are those entities over whose activities the consolidated entity has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

In the consolidated financial statements, investments in associates and jointly controlled entities are accounted for using the equity method, except when the investment is classified as held for sale, in which case it is accounted for in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations.*

Under the equity method, investments in associates and jointly controlled entities are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the consolidated entity's share of the net assets of the associates and jointly controlled entities, less any impairment in the value of individual investments.

The consolidated entity's share of its associates' and jointly controlled entities' post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movement in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the consolidated entity's share of losses in an associate or jointly controlled entity equals or exceeds its interest in that associate or jointly controlled entity, including any unsecured long-term receivables and loans, the consolidated entity does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate or the jointly controlled entity.

Any excess of the cost of acquisition over the consolidated entity's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate or jointly controlled entity recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment.

Any excess of the consolidated entity's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Unrealised gains on transactions between the consolidated entity and an associate or a jointly controlled entity are eliminated to the extent of the consolidated entity's interest in the associate or jointly controlled entity. Unrealised losses are also eliminated, but only to the extent that there is no evidence of an impairment.

(i) 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 assets are used to derive benefits for the venturers.

The interests of 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.

(j) Foreign currency

Functional and presentation currency

The functional and presentation currency of AGL Energy Limited and its Australian subsidiaries is Australian dollars.

Foreign currency transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate ruling at the end of the reporting period.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the exchange rates ruling at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Foreign exchange differences arising on translation are recognised in 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 to Note 1(ab)).

Foreign operations

On consolidation, the assets and liabilities of the consolidated entity's foreign operations are translated into Australian dollars at exchange rates ruling at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising on translation are recognised directly in equity in the foreign currency translation reserve. Such exchange differences are reclassified to profit or loss in the period in which the foreign operation is disposed.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(l) Trade and other receivables

Trade and other receivables are recognised at amortised cost, less an allowance for doubtful debts. Trade receivables are generally due for settlement within 30 days.

Collectibility of trade receivables is reviewed on an ongoing basis. An allowance for doubtful debts is recognised when there is objective evidence that the consolidated entity will not be able to collect all amounts due. Financial difficulties of the debtor, default payments or debts overdue are considered objective evidence of impairment. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows.

The amount of the impairment loss is recognised in the income statement within other expenses. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

Unbilled revenue represents estimated gas and electricity services supplied to customers but unbilled at the end of the reporting period.

(m) 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. Finished goods includes gas inventory.

(n) Financial assets

All financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

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

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in profit or loss and the related assets are classified as current assets in the statement of financial position. Fair value is determined in the manner described in Note 52.

Available-for-sale financial assets

Listed shares held by the consolidated entity that are traded in an active market are classified as available-for-sale and are stated at fair value. Fair value is determined in the manner described in Note 52. Gains and losses arising from changes in fair value are recognised directly in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of impairment losses, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period which are classified as non-current assets. Loans and receivables are included in trade and other receivables and other financial assets in the statement of financial position.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been effected.

For financial assets measured at amortised cost, the amount of the impairment loss recognised in profit or loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. Impairment of trade receivables is recognised in accordance with the accounting policy set out in Note 1(l). When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

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

In respect of available-for-sale equity instruments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

Derecognition of financial assets

Financial assets are derecognised when the rights to receive cash flows from the financial assets has expired or when the consolidated entity transfers substantially all the risks and rewards of the financial assets. If the consolidated entity neither retains nor transfers substantially all of the risks and rewards of ownership, it derecognises the asset if it has transferred control of the assets.

(o) Non-current assets and disposal groups held for sale

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

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Non-current assets and disposal groups classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Note 1 – Summary of significant accounting policies (continued)

Non-current assets and the assets of a disposal group classified as held for sale are presented separately from the other assets on the face of the statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities on the face of the statement of financial position.

(p) Exploration and evaluation assets

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. An area of interest refers to an individual geological area where the presence of oil or a gas field is considered favourable or has been proved to exist, and in most cases will comprise an individual oil or gas field.

Exploration and evaluation expenditure is recognised as an exploration and evaluation asset in the year in which it is incurred, provided the rights to tenure of the area of interest are current and either:

- exploration and evaluation expenditure is expected to be recovered through successful development and exploration of the area of interest, or alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not, at the end of the reporting period, reached a stage which permits reasonable assessment of the existence of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are initially measured at cost and include acquisition of rights to explore, studies, exploratory drilling, trenching and sampling and associated activities. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

The carrying amounts of the consolidated entity's exploration and evaluation assets are reviewed at the end of each reporting period, in conjunction with the impairment review process referred to in Note 1(u), to determine whether there is any indication that the assets have suffered an impairment loss.

When an oil or gas field has been approved for development, the accumulated exploration and evaluation expenditure is transferred to oil and gas assets.

(q) Oil and gas assets

Assets in development

The costs of oil and gas assets in development are separately accounted for and include past exploration and evaluation costs, development drilling and other subsurface expenditure, surface plant and equipment and any associated land and buildings. When commercial operation commences, the accumulated costs are transferred to oil and gas assets – producing assets.

Producing assets

The costs of oil and gas assets in production are separately accounted for 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.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

(r) Property, plant and equipment

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

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss as incurred.

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight-line basis so as to write off the cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are amortised over the period of the relevant lease or estimated useful life, whichever is the shorter.

The estimated useful lives, residual values and depreciation method are reviewed, and adjusted if appropriate at the end of each annual reporting period.

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

Freehold buildings	50 years
Leasehold improvements	lesser of lease period or 20 years
Plant and equipment	3 to 25 years or relevant units of use

(s) Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the consolidated entity at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease liability.

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is 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.

(t) 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 any accumulated impairment losses.

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

Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the consolidated entity's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the consolidated entity's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired.

If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

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, or more frequently if events or changes in circumstances indicate that they might be impaired. Any impairment loss is recognised immediately in profit or loss.

Customer relationships and contracts

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

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

(u) Impairment of non-financial assets excluding goodwill

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

Intangible assets with indefinite useful lives are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, 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 so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(v) 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 reporting period 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. The amounts are unsecured and are usually paid within 30 days of recognition.

(w) Borrowings

Borrowings are initially recognised at fair value of the consideration received, net of transaction costs incurred. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method.

Note 1 – Summary of significant accounting policies (continued)

Borrowings are classified as current liabilities unless the consolidated entity has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(x) Employee benefits

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

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

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

Defined contribution superannuation plans

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

Defined benefit superannuation plans

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

Past service cost is recognised immediately in profit or loss 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 superannuation plan asset or liability recognised in the statement of financial position represents the present value of the defined benefit obligation at the end of the reporting period less the fair value of the plan's assets at that date and any unrecognised past service cost. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

(y) Share-based payments

The consolidated entity provides benefits to employees in the form of equity-settled share-based payments, 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 AGL Long-Term Incentive Plan is recognised as an employee benefits expense, with a corresponding increase in the employee equity benefits reserve. The fair value is measured at grant date and recognised over the period during which the employees becomes unconditionally entitled to the SPRs. The fair value at grant date is determined by an independent valuer. Details regarding the determination of the fair value of share – based payment plans are set out in Note 48.

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

Under the AGL Share Reward Plan, shares are issued to eligible employees for no consideration and vest immediately on grant date. On this date, the market value of the shares issued is recognised as an employee benefits expense, with a corresponding increase in the employee equity benefits reserve.

(z) Provisions

Provisions are recognised when the consolidated entity has a present obligation (legal or constructive) as a result of a past event, it is probable that the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. The unwinding of the discount on the provision is recognised in the income statement as part of finance costs.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement 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 provisions. 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 end of the reporting period, based on current legal requirements and current technology. Future restoration costs are reviewed annually and any changes in the estimate are reflected in the present value of the restoration provision at the end of each reporting period.

The initial estimate of the environmental restoration provision relating to exploration, development and production facilities is capitalised into the cost of the related asset and depreciated/amortised on the same basis as the related asset. Changes in the estimate of the provision for environmental restoration are treated in the same manner, except that the unwinding of the effect of discounting on the provision is recognised as a finance cost rather than being capitalised into the cost of the related asset.

Restructuring

A restructuring provision is recognised when the consolidated entity has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

(aa) Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation, where appropriate.

(ab) Derivative financial instruments and hedging

The consolidated entity enters into a variety of derivative financial instruments to manage its exposure to interest rate, foreign exchange rate and energy price risks arising in the normal course of business. The use of derivatives is subject to policies, procedures and limits approved by the Board of Directors. Further details of derivative financial instruments are disclosed in Note 52.

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The consolidated entity designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges) or hedges of net investments in foreign operations. The consolidated entity currently does not have any net investment hedges. Derivatives that do not qualify for hedge accounting are required to be accounted for as trading instruments.

At the inception of the hedge relationship, the consolidated entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the consolidated entity documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

A derivative with a positive fair value is recognised as a financial asset; a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the income statement relating to the hedged item.

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

Cash flow hedges

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

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

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

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 instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated in the foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Gains and losses on the hedging instrument relating to the effective portion of the hedge accumulated in the foreign currency translation reserve are reclassified to profit or loss when the foreign operation is disposed of.

Derivatives that do not qualify for hedge accounting – economic hedges

The consolidated entity has entered into certain derivative instruments for economic hedging purposes under the Board approved risk management policies which do not satisfy the requirements for hedge accounting under AASB 139 *Financial Instruments: Recognition and Measurement*. These derivatives are therefore required to be categorised as held for trading and are classified in the statement of financial position as economic hedges. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss.

(ac) Issued capital

Ordinary shares are classified as equity. Ordinary shares issued by the consolidated entity are recorded at the proceeds received, less transaction costs directly attributable to the issue of new shares, net of any tax effects.

Note 1 – Summary of significant accounting policies (continued)

(ad) 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. At the end of each reporting period, gas and electricity revenue includes an accrual for energy delivered to customers but not yet billed (unbilled revenue).

Revenue from the provision of services, 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 consolidated entity's right to receive the payment is established.

(ae) Net financing costs

Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other finance costs are recognised in profit or loss in the period in which they are incurred. Finance costs comprise interest expense on borrowings calculated using the effective interest method, amortisation of borrowing costs relating to long-term financing facilities, unwinding of the discount on provisions and gains and losses on certain hedging instruments that are recognised in profit or loss.

(af) 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, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified within operating cash flows.

(ag) Income tax

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The consolidated entity's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the consolidated entity intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

Tax consolidation

The Parent Entity and its wholly-owned Australian resident subsidiaries formed a tax-consolidated group under Australian taxation law with effect from 25 October 2006 and are therefore taxed as a single entity from that date. AGL Energy Limited is the head entity in the tax-consolidated group.

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 by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the Parent Entity (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the Parent Entity and each member of the group in relation to the tax contribution amounts paid or payable between the Parent Entity and the other members of the tax-consolidated group in accordance with the arrangement. Further information about the tax funding arrangement is detailed in Note 9 to the financial statements.

(ah) Earnings per share

Basic earnings per share is determined by dividing the profit for the year attributable to owners of AGL Energy Limited, by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is determined by dividing the profit for the year attributable to owners of AGL Energy Limited, by the weighted average number of ordinary shares outstanding during the period and dilutive potential ordinary shares.

(ai) Standards and Interpretations in issue not yet adopted

A number of Australian Accounting Standards and International Financial Reporting Standards have been issued by the AASB and the IASB but are not effective for the year ended 30 June 2011, but will be applicable to the consolidated entity in future reporting periods.

– AASB 9 *Financial Instruments*, AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* are effective for annual reporting periods beginning on or after 1 January 2013.

  AASB 9 *Financial Instruments* and its associated amending Standards introduce new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

  AASB 9 requires all recognised financial assets that are within the scope of AASB 139 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value.

  The most significant effect of AASB 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. For financial liabilities designated at fair value, the portion of the change in fair value due to changes in own credit risk now generally must be presented in other comprehensive income, rather than through profit or loss.

  AASB 9 will be mandatory for the consolidated entity's 30 June 2014 financial statements. The potential impact on the consolidated entity's financial statements has not yet been determined.

– AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets* is effective for annual reporting periods beginning on or after 1 July 2011.

  AASB 2010-6 makes amendments to AASB 7 *Financial Instruments: Disclosures* resulting from the IASB's comprehensive review of off balance sheet activities. The amendments introduce additional disclosures, designed to allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitisations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

  The amendments, which will be mandatory for the consolidated entity's 30 June 2012 financial statements, are not expected to have any significant impact on the financial statements.

– IFRS 10 *Consolidated Financial Statements* is effective for annual reporting periods beginning on or after 1 January 2013.

  IFRS 10 requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities.*

  IFRS 10 identifies the principles of control, determines how to identify whether an investor controls an investee and therefore must consolidate the investee, and sets out the principles for the preparation of consolidated financial statements.

  The Standard introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e. whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in 'special purpose entities').

  IFRS 10 will be mandatory for the consolidated entity's 30 June 2014 financial statements. The potential impact on the consolidated entity's financial statements has not yet been determined.

– IFRS 11 *Joint Arrangements* is effective for annual reporting periods beginning on or after 1 January 2013.

  IFRS 11 replaces IAS 31 *Interests in Joint Ventures*. Requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement. Joint arrangements are either joint operations or joint ventures.

  If the parties have rights to and obligations for underlying assets and liabilities, the joint arrangement is considered a joint operation and partial consolidation is applied. Otherwise the joint arrangement is considered a joint venture and they must use the equity method to account for their interest.

  IFRS 11 will be mandatory for the consolidated entity's 30 June 2014 financial statements. The potential impact on the consolidated entity's financial statements has not yet been determined.

– IFRS 12 *Disclosure of Interests in Other Entities* is effective for annual reporting periods beginning on or after 1 January 2013.

  IFRS 12 requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

  This new Standard contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities.

  IFRS 12 will be mandatory for the consolidated entity's 30 June 2014 financial statements. The potential impact on the consolidated entity's financial statements has not yet been determined.

Note 1 – Summary of significant accounting policies (continued)

- IFRS 13 *Fair Value Measurement* is effective for annual reporting periods beginning on or after 1 January 2013.

  IFRS 13 replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard.

  IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

  IFRS 13 will be mandatory for the consolidated entity's 30 June 2014 financial statements. The potential impact on the consolidated entity's financial statements has not yet been determined.
- *Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)* is effective for annual reporting periods beginning on or after 1 July 2012.

  The amendments to IAS 1 require entities preparing financial statements in accordance with IFRSs to group together items within other comprehensive income that will and will not subsequently be reclassified to profit or loss. Tax on items in other comprehensive income is also required to be allocated on the same basis.

  The amendments to IAS 1 will be mandatory for the consolidated entity's 30 June 2013 financial statements. The potential impact on the consolidated entity's financial statements has not yet been determined.
- IAS 19 *Employee Benefits* is effective for annual reporting periods beginning on or after 1 January 2013.

  The amendments to IAS 19 focus on but are not limited to the accounting for defined benefit plans. In addition it changes the definition of short-term and other long-term employee benefits and some disclosure requirements.

  IAS 19 will be mandatory for the consolidated entity's 30 June 2014 financial statements. The potential impact on the consolidated entity's financial statements has not yet been determined.
- IAS 28 *Investments in Associates and Joint Ventures (2011)* is effective for annual reporting periods beginning on or after 1 January 2013.

  This Standard supersedes IAS 28 *Investments in Associates* and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

  The Standard defines significant influence and provides guidance on how the equity method of accounting is to be applied. It also prescribes how investments in associates and joint ventures should be tested for impairment.

  The revised Standard was issued as a consequence of the issue of IFRS 10 and IFRS 11 (see above) but does not change existing requirements on the application of the equity method.

  IAS 28 will be mandatory for the consolidated entity's 30 June 2014 financial statements. The potential impact on the consolidated entity's financial statements has not yet been determined.

In addition to the above recently issued Standards, the following new and amendments to Standards are also applicable in future years. It is not expected these Standards will materially impact the consolidated entity's financial statements upon adoption.

- AASB 124 *Related Party Disclosures* and AASB 2009-12 *Amendments to Australian Accounting Standards*
- AASB 1053 *Application of Tiers of Australian Accounting Standards* and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements*
- AASB 1054 *Australian Additional Disclosures*, AASB 2011-1 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project* and AASB 2011-2 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements*
- AASB 2009-14 *Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement*
- AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*
- AASB 2010-5 *Amendments to Australian Accounting Standards*
- AASB 2010-8 *Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets*
- AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements*

Note 2 – Significant accounting judgements, estimates and assumptions

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Impairment of goodwill and other intangibles with indefinite useful lives

The consolidated entity determines whether goodwill and other intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the value in use of the recoverable amount of the cash-generating units, using a value in use discounted methodology, to which the goodwill and intangibles with indefinite useful lives are allocated. The assumptions used in the estimation of recoverable amount are discussed in Note 21.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. This method requires the application of fair values for both the consideration given and the assets and liabilities acquired. The calculation of fair values is often based on estimates and judgements including future cash flows, revenue streams and value in use calculations.

Allowance for doubtful debts

The collectability of trade receivables is reviewed on an ongoing basis. An allowance for doubtful debts is established when there is objective evidence that the consolidated entity will not be able to collect all amounts due. Management uses its judgement in determining the level of doubtful debt provisioning, taking into account the historic analysis of bad debt trends and the prevailing economic conditions. Refer to Note 12 for further details.

Unbilled revenue

The consolidated entity recognises revenue from gas and electricity services once the gas and/or electricity has been consumed by the customer. Customers are billed on a periodic and regular basis. Management estimates customer consumption between the last invoice date and the end of the reporting period when determining gas and electricity revenue for the financial period. Various assumptions and financial models are used to determine the estimated unbilled consumption. The carrying amount of unbilled revenue is disclosed in Note 12.

Exploration and evaluation expenditure

The consolidated entity's policy for exploration and evaluation expenditure is stated in Note 1(p). The application of this policy requires management to make certain estimates and assumptions as to future events and circumstances, particularly in relation to the assessment of whether economic quantities of reserves have been found. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised exploration and evaluation expenditure, management concludes that the capitalised expenditure is unlikely to be recovered by future exploitation or sale, then the relevant capitalised amount will be written off to the income statement.

Fair value of financial instruments

Management uses their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices and rates. Refer to Note 52 for further details.

Provision for environmental restoration

The consolidated entity estimates the future removal and restoration costs of electricity generation assets, oil and gas production facilities, wells, pipelines and related assets at the time of installation of the assets. In most instances, removal of these assets will occur many years into the future. The calculation of this provision requires management to make assumptions regarding the removal date, application of environmental legislation, the extent of restoration activities required and available technologies. The carrying amount of the provision for environmental restoration is disclosed in Note 30.

Defined benefit superannuation plans

Various actuarial assumptions are utilised in the determination of the consolidated entity's defined benefit obligations. These assumptions and the related carrying amounts are discussed in Note 47.

Share-based payment transactions

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes and Monte Carlo simulation methods, with the assumptions detailed in Note 48. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

Note 3 – Segment information

Operating segments

The consolidated entity reports segment information on the same basis as the internal management reporting structure, which drives how the consolidated entity is organised and managed.

The consolidated entity has identified its operating segments based on the internal reports that are regularly reviewed and used by the Board of Directors (the chief operating decision maker) in assessing performance and in determining the allocation of resources.

Management has determined the operating segments based on the manner in which products are sold, whether retail or wholesale, and the nature of the services provided. The consolidated entity has four reportable operating segments as follows:

- Retail Energy is responsible for selling natural gas, electricity and energy-related products and services to residential, small business and commercial and industrial customers.
- Merchant Energy is responsible for developing, operating and maintaining power generation assets and managing the risks associated with the procurement and delivery of gas and electricity for its wholesale portfolio and for the Retail Energy segment. Merchant Energy also provides energy efficiency and carbon management services.
- Upstream Gas is responsible for exploration, development and production of coal seam gas, development and operation of gas storage facilities and also exploration and development of geothermal renewable energy sources.
- Energy Investments includes equity accounted investments in the ActewAGL Retail Partnership and Greater Energy Alliance Corporation Pty Limited.

No operating segments have been aggregated to form the above reportable operating segments.

In the segment financial results, the 'Other' category consists of the various Corporate activities which includes the head office and central support functions. Corporate is not considered a reportable operating segment.

Segment financial results

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

Transfer prices between operating segments are on an arm's-length basis in a manner similar to transactions with third parties. Inter-segment revenue is eliminated on consolidation.

The accounting policies of the reportable segments are the same as the consolidated entity's accounting policies.

Note 3 – Segment information (continued)

Information regarding the consolidated entity's reportable segments is presented below.

	Retail Energy $m	Merchant Energy $m	Upstream Gas $m	Energy Investments $m	Other $m	Total $m
2011						
Total segment revenue	**6,087.5**	**4,183.1**	**90.0**	**–**	**–**	**10,360.6**
Inter-segment revenue	**(30.5)**	**(3,216.8)**	**(40.8)**	**–**	**–**	**(3,288.1)**
External revenue	**6,057.0**	**966.3**	**49.2**	**–**	**–**	**7,072.5**
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**416.8**	**447.3**	**35.1**	**40.5**	**(135.2)**	**804.5**
Depreciation and amortisation	**(43.8)**	**(69.1)**	**(21.5)**	**–**	**(13.6)**	**(148.0)**
Operating EBIT	**373.0**	**378.2**	**13.6**	**40.5**	**(148.8)**	**656.5**
Net financing costs						**(37.4)**
Underlying profit before income tax						**619.1**
Income tax expense						**(188.0)**
Underlying profit						**431.1**
Segment assets	**3,540.6**	**3,385.5**	**1,278.9**	**351.0**	**90.0**	**8,646.0**
Segment liabilities	**284.0**	**705.0**	**83.9**	**–**	**105.4**	**1,178.3**
Other segment information						
Share of profits of associates and jointly controlled entities	**–**	**–**	**0.5**	**33.1**	**–**	**33.6**
Investments in associates and jointly controlled entities	**–**	**–**	**4.4**	**236.3**	**–**	**240.7**
Additions to non-current assets	**81.1**	**317.3**	**277.5**	**–**	**27.9**	**703.8**
Impairment losses	**–**	**–**	**(0.2)**	**–**	**–**	**(0.2)**
Other non-cash expenses	**(62.6)**	**–**	**–**	**–**	**(2.0)**	**(64.6)**
Gain in fair value of financial instruments	**–**	**213.0**	**–**	**5.8**	**–**	**218.8**
Significant expense items	**(4.6)**	**(5.7)**	**–**	**–**	**(34.0)**	**(44.3)**
2010						
Total segment revenue	5,580.2	4,081.8	77.5	6.2	–	9,745.7
Inter-segment revenue	(35.5)	(3,050.1)	(49.4)	–	–	(3,135.0)
External revenue	5,544.7	1,031.7	28.1	6.2	–	6,610.7
Earnings before interest, tax, depreciation and amortisation (EBITDA)	360.2	449.8	26.6	81.7	(128.7)	789.6
Depreciation and amortisation	(41.5)	(63.7)	(21.1)	–	(11.2)	(137.5)
Operating EBIT	318.7	386.1	5.5	81.7	(139.9)	652.1
Net financing costs						(47.5)
Underlying profit before income tax						604.6
Income tax expense						(175.7)
Underlying profit						428.9
Segment assets	3,472.8	3,210.7	1,008.3	300.0	76.1	8,067.9
Segment liabilities	322.9	682.5	43.1	0.6	108.9	1,158.0
Other segment information						
Share of profits of associates and jointly controlled entities	–	–	0.3	70.4	–	70.7
Investments in associates and jointly controlled entities	0.9	–	3.9	196.0	–	200.8
Additions to non-current assets	31.8	215.1	123.1	–	29.5	399.5
Impairment losses	–	(0.6)	(15.9)	–	(7.8)	(24.3)
Other non-cash expenses	(59.6)	(9.1)	(2.0)	–	(10.9)	(81.6)
(Loss)/gain in fair value of financial instruments	–	(182.4)	–	5.0	–	(177.4)
Significant expense items	(12.4)	–	(14.0)	–	(23.2)	(49.6)

	2011 $m	2010 $m
Segment revenue reconciliation to the income statement		
Reconciliation of segment revenue to total revenue is as follows:		
Total segment revenue for reportable segments	**10,360.6**	9,745.7
Elimination of inter-segment revenue	**(3,288.1)**	(3,135.0)
Total revenue	**7,072.5**	6,610.7
Revenue from major products and services		
The following is an analysis of the consolidated entity's revenue from its major products and services.		
Electricity	**4,518.1**	4,167.4
Gas	**1,904.4**	1,775.5
Generation sales to pool	**256.5**	361.5
Oil	**3.8**	0.6
Wind farm development fees	**61.0**	57.0
Green commodities scheme certificates	**212.4**	148.7
Management and marketing development fees	**10.9**	15.4
Other goods and services revenue	**104.7**	83.8
Other revenue	**0.7**	0.8
Total revenue	**7,072.5**	6,610.7
Segment Operating EBIT reconciliation to the income statement		
Reconciliation of segment Operating EBIT to profit before tax is as follows:		
Operating EBIT for reportable segments	**805.3**	792.0
Other	**(148.8)**	(139.9)
	656.5	652.1
Amounts excluded from underlying results:		
– gain/(loss) in fair value of financial instruments	**218.8**	(177.4)
– significant expense items	**(44.3)**	(49.6)
Finance income included in Operating EBIT	**(11.9)**	(11.7)
Finance income	**47.9**	38.1
Finance costs	**(73.4)**	(73.9)
Profit before tax	**793.6**	377.6
Segment assets reconciliation to the statement of financial position		
Reconciliation of segment assets to total assets is as follows:		
Segment assets for reportable segments	**8,556.0**	7,991.8
Other	**90.0**	76.1
	8,646.0	8,067.9
Cash and cash equivalents	**753.1**	480.4
Derivative financial instruments	**296.6**	142.6
Total assets	**9,695.7**	8,690.9
Segment liabilities reconciliation to the statement of financial position		
Reconciliation of segment liabilities to total liabilities is as follows:		
Segment liabilities for reportable segments	**1,072.9**	1,049.1
Other	**105.4**	108.9
	1,178.3	1,158.0
Borrowings	**1,171.2**	900.8
Current tax liabilities	**167.2**	42.5
Deferred tax liabilities	**302.7**	165.6
Derivative financial instruments	**534.8**	624.1
Total liabilities	**3,354.2**	2,891.0

Note 3 – Segment information (continued)

Geographical information

The consolidated entity operates in one principal geographical area – Australia.

The total of non-current assets other than financial instruments, deferred tax assets and defined benefit assets located in Australia is $6,910.5 million (2010: $6,375.9 million), and the total of non-current assets located in other countries is $3.1 million (2010: $nil).

The total external revenue is all from customers located in Australia for both 2011 and 2010.

Information about major customers

No single customer amounts to 10% or more of the consolidated entity's total external revenue for both 2011 and 2010.

	2011 $m	2010 $m
Note 4 – Revenue		
Revenue from sale of goods	**6,898.7**	6,466.0
Revenue from rendering of services	**173.1**	143.9
Other revenue		
Royalties	**0.7**	0.8
	7,072.5	6,610.7
Note 5 – Other income		
Gain on disposal of subsidiaries	**–**	5.8
Net foreign exchange gains	**–**	0.6
	–	6.4
Note 6 – Expenses		
Cost of sales	**5,706.4**	5,327.9
(Gain)/loss in fair value of electricity derivatives – economic hedges	**(218.8)**	177.4
	5,487.6	5,505.3
Administrative expenses	**148.9**	145.8
Employee benefits expense	**330.6**	318.1
Other expenses		
Impairment of trade receivables (net of bad debts recovered)	**51.0**	44.9
Impairment of property, plant and equipment	**–**	8.4
Impairment of exploration and evaluation assets	**–**	13.9
Impairment of available-for-sale equity investments	**0.2**	2.0
Merger and acquisition related costs	**17.3**	5.1
Redundancy, termination and restructure costs	**27.0**	11.1
Phoenix change program costs	**–**	11.7
Net loss on disposal of property, plant and equipment	**3.5**	2.1
Operating lease rental expenses	**20.9**	20.2
Other	**52.0**	48.3
	6,139.0	6,136.9

	2011 $m	2010 $m
Note 7 – Net financing costs		
Finance income		
Interest income		
Associates	**10.7**	10.1
Other entities	**37.2**	28.0
	47.9	38.1
Finance costs		
Interest expense		
Other entities	**75.1**	67.8
Finance costs capitalised	**(15.4)**	(18.3)
Unwinding of discounts on provisions	**11.4**	11.9
Other finance costs	**2.3**	12.5
	73.4	73.9
Net financing costs	**25.5**	35.8

The weighted average capitalisation rate on funds borrowed for finance costs capitalised is 6.54% (2010: 7.48%).

Note 8 – Profit before income tax

Profit before income tax has been arrived at after charging the following expenses.

	2011 $m	2010 $m
Depreciation and amortisation		
Property, plant and equipment	**104.2**	92.6
Oil and gas assets	**17.0**	17.7
Intangible assets	**21.0**	21.4
Other	**5.8**	5.8
	148.0	137.5
Employee benefits expense		
Wages and salaries	**277.5**	268.5
Defined benefit superannuation plans	**2.1**	4.4
Defined contribution superannuation plans	**14.4**	12.3
Share-based payment plans	**2.0**	5.1
Other employee benefits	**34.6**	27.8
	330.6	318.1
Significant (expense)/income items		
Profit before tax includes the following significant expense items:		
Impairment of exploration and evaluation assets	**–**	(13.9)
Impairment of property, plant and equipment	**–**	(7.8)
Merger and acquisition related costs	**(17.3)**	(5.1)
Redundancy, termination and restructure costs	**(27.0)**	(11.1)
Phoenix change program costs	**–**	(11.7)
	(44.3)	(49.6)
Income tax income applicable:		
Impairment of exploration and evaluation assets	**–**	4.2
Impairment of property, plant and equipment	**–**	2.3
Merger and acquisition related costs	**4.2**	0.7
Redundancy, termination and restructure costs	**7.3**	3.3
Phoenix change program costs	**–**	3.5
	11.5	14.0
Effect of retrospective changes to Tax Consolidation Legislation	**5.5**	85.5
	17.0	99.5
Significant (expense)/income items after income tax	**(27.3)**	49.9

Note 9 – Income tax

	2011 $m	2010 $m
Income tax recognised in the income statement		
The major components of income tax expense are:		
Current income tax		
Current tax expense in respect of the current year	**141.5**	102.3
Adjustments in relation to current tax of prior years	**(6.0)**	(2.6)
Effect of retrospective changes to Tax Consolidation Legislation	**(5.5)**	(85.5)
Deferred income tax		
Relating to the origination and reversal of temporary differences	**104.9**	7.3
Total income tax expense	**234.9**	21.5
Numerical reconciliation between tax expense and pre-tax accounting profit		
The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:		
Profit before tax	**793.6**	377.6
Income tax expense calculated at the Australian tax rate of 30% (2010: 30%)	**238.1**	113.3
Non-deductible expenses	**7.5**	9.6
Gain on disposal of businesses and subsidiaries	**1.9**	3.7
Share of profits of associates and jointly controlled entities	**(1.1)**	(12.2)
Previously unrecognised tax losses used to reduce deferred tax expense	**–**	(3.3)
Effect of retrospective changes to Tax Consolidation Legislation	**(5.5)**	(85.5)
Other	**–**	(1.5)
Adjustments in relation to current tax of prior years	**(6.0)**	(2.6)
	234.9	21.5
Income tax recognised in other comprehensive income		
Deferred income tax		
Revaluation of financial instruments treated as cash flow hedges	**21.1**	(66.4)
Actuarial gain/(loss) on defined benefit plans	**1.1**	(2.4)
Income tax expense/(income) recognised in equity	**22.2**	(68.8)
Current tax assets and liabilities		
Current tax assets		
Income tax refund receivable	**–**	–
Current tax liabilities		
Income tax payable	**167.2**	42.5
Deferred income tax recognised in the income statement		
Temporary differences		
Unbilled revenue	**9.8**	34.6
Allowance for doubtful debts	**(0.3)**	1.1
Other receivables	**0.9**	6.1
Exploration and evaluation assets	**6.4**	15.9
Oil and gas assets	**7.4**	5.1
Property, plant and equipment	**19.4**	8.7
Defined benefit superannuation plans	**2.8**	2.3
Payables and accruals	**(0.5)**	(10.6)
Provisions	**(1.1)**	0.2
Derivative financial instruments	**64.1**	(56.1)
Unearned revenue	**(6.0)**	0.4
Share issue transaction costs	**1.3**	1.3
Other	**0.7**	(1.7)
	104.9	7.3

	2011 $m	2010 $m
Deferred tax balances		
Deferred tax assets/(liabilities) arise from the following:		
Unbilled revenue	**(208.4)**	(198.6)
Allowance for doubtful debts	**19.4**	19.1
Other receivables	**(9.8)**	(10.0)
Exploration and evaluation assets	**(154.2)**	(148.2)
Oil and gas assets	**(34.2)**	(5.8)
Property, plant and equipment	**(109.2)**	(87.2)
Defined benefit superannuation plans	**12.2**	16.0
Payables and accruals	**40.7**	39.5
Provisions	**71.0**	66.8
Derivative financial instruments	**57.0**	143.2
Unearned revenue	**6.5**	0.5
Share issue transaction costs	**–**	1.3
Other	**6.3**	(2.2)
Net deferred tax liability	**(302.7)**	(165.6)
Net deferred tax liability is split as follows:		
Deferred tax assets recognised in the statement of financial position	**–**	–
Deferred tax liabilities recognised in the statement of financial position	**(302.7)**	(165.6)
	(302.7)	(165.6)
Unrecognised deferred tax assets		
Deductible temporary differences	**55.0**	69.7

Tax consolidation

The Parent Entity and its wholly-owned Australian resident subsidiaries formed a tax-consolidated group under Australian taxation law with effect from 25 October 2006 and are therefore taxed as a single entity from that date. AGL Energy Limited is the head entity in the tax-consolidated group.

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.

As a result of retrospective changes to the tax consolidation legislation enacted in June 2010, AGL has recognised a further tax benefit of $5.5 million (2010: $85.5 million) relating to tax deductions which are available for the tax value allocated to certain derivative assets in place at the time of the merger/demerger transaction with Alinta Limited in October 2006. AGL received tax refunds of $72.4 million during the 2011 financial year and expects to receive further tax refunds of $22.1 million. These amendments also resulted in a change to deferred tax liabilities of $3.5 million.

	2011 $m	2010 $m
Note 10 – Dividends		
Recognised amounts		
Final dividend		
Final dividend for 2010 of 30.0 cents per share, unfranked, paid 30 September 2010 (2010: Final dividend for 2009 of 28.0 cents per share, fully franked at 30%, paid 30 September 2009)	**135.3**	125.5
Interim dividend		
Interim dividend for 2011 of 29.0 cents per share, unfranked, paid 14 April 2011 (2010: Interim dividend for 2010 of 29.0 cents per share, fully franked at 30%, paid 7 April 2010)	**133.1**	130.4
Total dividends	**268.4**	255.9
Dividends satisfied by the issue of shares under the AGL Dividend Reinvestment Plan (Note 33)	**(61.9)**	(36.4)
Dividends paid as per the statement of cash flows	**206.5**	219.5
Unrecognised amounts		
Since the end of the financial year, the Directors have declared a final dividend for 2011 of 31.0 cents per share, fully franked at 30%, (2010: 30.0 cents per share unfranked), payable 29 September 2011	**143.0**	135.0

The financial effect of this dividend has not been recognised as a liability in these financial statements but will be brought to account in the 2012 financial year.

Dividend reinvestment plan

The AGL Dividend Reinvestment Plan (DRP) will be in operation and shares will be allotted at a 1.5% discount to the simple average of the daily weighted average market price at which AGL's ordinary shares are traded on ASX during each of the 10 trading days commencing on 12 September 2011.

Dividend franking account	2011 $m	2010 $m
Adjusted franking account balance	**108.2**	(22.2)
Impact on franking account balance of dividends proposed after the reporting date but not recognised as a liability	**(61.3)**	–

Note 11 – Cash and cash equivalents

	2011 $m	2010 $m
Cash at bank and on hand	**201.4**	41.8
Short-term deposits	**551.7**	438.6
	753.1	480.4

Cash at bank and on hand earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the consolidated entity, and earn interest at the respective short-term deposit rates.

	2011 $m	2010 $m
Note 12 – Trade and other receivables (current)		
Trade receivables	**551.9**	566.2
Allowance for doubtful debts	**(64.6)**	(63.5)
	487.3	502.7
Unbilled revenue	**694.6**	661.9
Amounts owing by associates	**4.1**	3.7
Amounts owing by jointly controlled entities	**54.8**	44.9
Other receivables	**31.3**	21.3
	1,272.1	1,234.5
Allowance for doubtful debts		
Movements in the allowance for doubtful debts are detailed below:		
Balance at beginning of financial year	**63.5**	67.5
Impairment losses recognised on receivables	**62.6**	50.0
Amounts written off as uncollectible	**(61.5)**	(54.0)
Balance at end of financial year	**64.6**	63.5

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

	2011		2010	
	Total $m	Allowance $m	Total $m	Allowance $m
Not past due	**360.7**	**(6.7)**	360.6	(5.0)
Past due 31 – 60 days	**49.8**	**(3.3)**	49.2	(5.6)
Past due 61 – 90 days	**20.8**	**(3.5)**	24.4	(3.3)
Past 90 days	**120.6**	**(51.1)**	132.0	(49.6)
	551.9	**(64.6)**	566.2	(63.5)

The consolidated entity's policy requires customers to pay in accordance within agreed payment terms. Depending on the customer segment, settlement terms are generally less than 30 days from date of invoice. An allowance for doubtful debts is recognised when there is objective evidence that a trade receivable is impaired. Financial difficulties of the debtor, default payments or debts overdue are considered objective evidence of impairment. An impairment loss for doubtful debts of $62.6 million (2010: $50.0 million) has been recognised in the year and has been included in other expenses in Note 6.

At the end of the reporting period, trade receivables with a carrying amount of $133.3 million (2010: $147.1 million) were past due but not considered impaired. These trade receivables relate to customers for whom there has not been a significant change in credit quality and the amounts are considered recoverable.

Other balances within trade and other receivables are neither impaired nor past due. It is expected that these other balances will be received when due.

Unbilled revenue
Unbilled gas and electricity revenue is not collectible until such time as customers' meters are read and bills rendered.

Amounts owing by associates and jointly controlled entities
For terms and conditions relating to amounts owing by associates and jointly controlled entities, refer to Note 49.

Fair value and credit risk
Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables. Collateral is not held as security.

	2011 $m	2010 $m
Note 13 – Inventories		
Raw materials and stores – at cost	**28.9**	28.0
Finished goods – at cost	**98.5**	66.2
	127.4	94.2
Note 14 – Other financial assets (current)		
Derivative financial instruments – at fair value (Note 52)		
– Forward foreign exchange contracts – cash flow hedges	**–**	0.1
– Energy derivatives – cash flow hedges	**22.7**	2.3
– Energy derivatives – economic hedges	**222.2**	136.6
	244.9	139.0
Futures deposits and margin calls	**56.3**	86.3
	301.2	225.3
Note 15 – Other assets (current)		
Green commodities scheme certificates and instruments	**250.0**	147.1
Prepayments	**26.6**	27.0
	276.6	174.1
Note 16 – Trade and other receivables (non-current)		
Other receivables	**0.5**	0.6

Note 17 – Investments accounted for using the equity method

	2011 $m	2010 $m
Investments in associates – unlisted	**214.1**	180.4
Investments in jointly controlled entities – unlisted	**26.6**	20.4
	240.7	200.8

Reconciliation of movements in investments accounted for using the equity method

	2011 $m	2010 $m
Balance at beginning of financial year	**200.8**	182.6
Disposals	**(0.9)**	–
Share of profits after income tax	**33.6**	70.7
Share of movements in reserves	**22.9**	(21.3)
Share of actuarial gain/(loss) on defined benefit plans	**8.6**	(4.6)
Dividends received	**(24.3)**	(26.6)
Balance at end of financial year	**240.7**	200.8

				Ownership interest		Carrying value	
Name of entity	Principal activities	Country of incorporation	Reporting dates	2011 %	2010 %	2011 $m	2010 $m
Associates							
Greater Energy Alliance Corporation Pty Limited	Electricity generation	Australia	31 Dec	**32.5**	32.5	**212.0**	177.2
Gascor Pty Ltd	Victorian gas transmission	Australia	30 June	**–**	33.3	**–**	0.9
CSM Energy Limited	Coal mine methane gas extraction	Australia	30 June	**35.0**	35.0	**2.1**	2.3
Jointly controlled entities							
ActewAGL Retail Partnership	Energy and water services	Australia	30 June	**50.0**	50.0	**24.3**	18.8
Energy Infrastructure Management Pty Ltd	Pipeline management services	Australia	30 June	**50.0**	50.0	**1.9**	1.2
Central Queensland Pipeline Pty Ltd	Gas pipeline development	Australia	30 June	**50.0**	50.0	**0.4**	0.4
						240.7	200.8

	2011 $m	2010 $m
Summarised financial information of associates		
Current assets	**362.9**	743.9
Non-current assets	**3,599.3**	3,546.1
Total assets	**3,962.2**	4,290.0
Current liabilities	**216.1**	701.7
Non-current liabilities	**3,114.8**	3,055.8
Total liabilities	**3,330.9**	3,757.5
Net assets	**631.3**	532.5
Revenue	**648.7**	982.7
Net profit after tax	**9.8**	122.0
Consolidated entity's share of associates' profit	**3.1**	39.8
Summarised financial information of jointly controlled entities		
Current assets	**175.8**	142.9
Non-current assets	**36.5**	36.9
Total assets	**212.3**	179.8
Current liabilities	**150.3**	130.0
Non-current liabilities	**3.6**	3.2
Total liabilities	**153.9**	133.2
Net assets	**58.4**	46.6
Revenue	**678.8**	624.2
Expenses	**(618.0)**	(563.5)
Consolidated entity's share of jointly controlled entities' profit	**30.5**	30.9

Dividends received from associates and jointly controlled entities

During the year, the consolidated entity received dividends of $nil (2010: $nil) from its associates and $24.3 million (2010: $26.6 million) from its jointly controlled entities.

Capital commitments and contingent liabilities

The consolidated entity's share of capital expenditure commitments and contingent liabilities of associates and jointly controlled entities are disclosed in Notes 37 and 39 respectively.

Impairment testing for Greater Energy Alliance Corporation Pty Limited

As at 30 June 2011, the carrying value of the consolidated entity's interest in Greater Energy Alliance Corporation Pty Limited (GEAC) of $326.7 million (2010: $281.3 million), comprised an equity accounted investment of $212.0 million (2010: $177.2 million) (Note 17), loan notes receivable of $110.6 million (2010: $100.4 million) (Note 22) and interest receivable of $4.1 million (2010: $3.7 million) (Note 12) ('Loy Yang Interest').

The carrying value of the Loy Yang Interest has been tested for impairment at 30 June 2011 using a value in use model, and no impairment loss has been recognised (2010: $nil). The key assumptions in the calculation of value in use are electricity load demand forecasts and electricity price paths, coal and gas procurement costs, other plant operating costs and regulatory outcomes including the introduction of a CO_2 emissions reduction scheme. In addition, the value in use model assumes that GEAC will successfully refinance a $565 million core debt bullet repayment due for repayment in November 2012. Cash flow forecasts are based on management forecasts for the remaining life of the plant.

	2011 $m	2010 $m
Note 18 – Exploration and evaluation assets		
Balance at beginning of financial year	**607.5**	569.9
Additions	**30.7**	52.7
Acquisitions through business combinations (Note 42)	**19.8**	–
Impairment loss	**–**	(13.9)
Transferred to property, plant and equipment (Note 20)	**–**	(1.2)
Balance at end of financial year	**658.0**	607.5

Impairment loss

No impairment loss has been recognised for the year ended 30 June 2011.

In the 2010 financial year, the consolidated entity reviewed the recoverable amount of exploration and evaluation expenditure incurred in respect of petroleum exploration licence PEL 103 in the Cooper Basin, South Australia. Recent exploration activities were determined to be not supportive of a commercial coal seam gas development, and as a result, an impairment loss of $13.9 million was recognised for all the gas-related exploration and evaluation expenditure.

The impairment loss of $nil (2010: $13.9 million) is included in other expenses in the line item 'impairment of exploration and evaluation assets' in Note 6.

	2011 $m	2010 $m
Note 19 – Oil and gas assets		
Producing assets		
Balance at beginning of financial year	**333.4**	295.2
Additions	**55.0**	55.9
Acquisitions through business combinations (Note 42)	**104.5**	–
Transferred to property, plant and equipment (Note 20)	**(14.5)**	–
Depreciation and amortisation expense	**(17.0)**	(17.7)
Balance at end of financial year	**461.4**	333.4
Cost (gross carrying amount)	**536.0**	391.0
Accumulated depreciation, amortisation and impairment	**(74.6)**	(57.6)
Net carrying amount	**461.4**	333.4

Depreciation and amortisation expense

Depreciation and amortisation expense of $17.0 million (2010: $17.7 million) is included in the line item 'depreciation and amortisation' in the income statement.

Note 20 – Property, plant and equipment

	Freehold land and buildings $m	Leasehold improvements $m	Plant and equipment $m	Total $m
Year ended 30 June 2011				
Balance at 1 July 2010, net of accumulated depreciation and impairment	**24.7**	**18.1**	**2,013.4**	**2,056.2**
Additions	**0.1**	**0.1**	**469.5**	**469.7**
Acquisitions through business combinations (Note 42)	**–**	**–**	**8.4**	**8.4**
Transferred from oil and gas assets (Note 19)	**–**	**–**	**14.5**	**14.5**
Transferred from intangible assets (Note 21)	**–**	**–**	**6.4**	**6.4**
Disposals	**–**	**–**	**(3.6)**	**(3.6)**
Derecognised on disposal of subsidiaries (Note 43)	**–**	**–**	**(165.9)**	**(165.9)**
Depreciation expense	**(0.2)**	**(2.2)**	**(101.8)**	**(104.2)**
Balance at 30 June 2011, net of accumulated depreciation and impairment	**24.6**	**16.0**	**2,240.9**	**2,281.5**
Balance at 1 July 2010				
Cost (gross carrying amount)	**26.2**	**27.6**	**2,539.8**	**2,593.6**
Accumulated depreciation and impairment	**(1.5)**	**(9.5)**	**(526.4)**	**(537.4)**
Net carrying amount	**24.7**	**18.1**	**2,013.4**	**2,056.2**
Balance at 30 June 2011				
Cost (gross carrying amount)	**26.3**	**27.7**	**2,861.1**	**2,915.1**
Accumulated depreciation and impairment	**(1.7)**	**(11.7)**	**(620.2)**	**(633.6)**
Net carrying amount	**24.6**	**16.0**	**2,240.9**	**2,281.5**
Year ended 30 June 2010				
Balance at 1 July 2009, net of accumulated depreciation and impairment	16.8	19.2	2,073.1	2,109.1
Additions	6.9	1.0	278.1	286.0
Acquisitions through business combinations (Note 42)	–	–	0.4	0.4
Transferred from exploration and evaluation assets (Note 18)	1.2	–	–	1.2
Disposals	–	–	(2.8)	(2.8)
Derecognised on disposal of subsidiaries (Note 43)	–	–	(236.7)	(236.7)
Depreciation expense	(0.2)	(2.1)	(90.3)	(92.6)
Impairment loss	–	–	(8.4)	(8.4)
Balance at 30 June 2010, net of accumulated depreciation and impairment	24.7	18.1	2,013.4	2,056.2
Balance at 1 July 2009				
Cost (gross carrying amount)	18.1	26.6	2,513.0	2,557.7
Accumulated depreciation and impairment	(1.3)	(7.4)	(439.9)	(448.6)
Net carrying amount	16.8	19.2	2,073.1	2,109.1
Balance at 30 June 2010				
Cost (gross carrying amount)	26.2	27.6	2,539.8	2,593.6
Accumulated depreciation and impairment	(1.5)	(9.5)	(526.4)	(537.4)
Net carrying amount	24.7	18.1	2,013.4	2,056.2

Note 20 – Property, plant and equipment (continued)

Depreciation expense

Depreciation expense of $104.2 million (2010: $92.6 million) is included in the line item 'depreciation and amortisation' in the income statement.

Impairment loss

No impairment loss has been recognised for the year ended 30 June 2011.

In the 2010 financial year, the consolidated entity reviewed the recoverable amount of assets associated with its outsourced information technology infrastructure services. The consolidated entity was in the process of transitioning to a new service provider, and as a result, an impairment loss of $7.8 million was recognised to write-off the carrying amount of certain information technology assets.

In the 2010 financial year, the consolidated entity reviewed the recoverable amount of a certain landfill gas extraction site within the Merchant Energy business. Due to lower than anticipated landfill gas at the site, and based on future cash flow forecasts, an impairment loss of $0.6 million was recognised to reduce the carrying amount of plant and equipment to its recoverable amount.

The impairment loss of $nil (2010: $8.4 million) is included in other expenses in the line item 'impairment of property, plant and equipment' in Note 6.

Leased plant and equipment

The net carrying amount of plant and equipment disclosed above includes plant and equipment held under finance leases of $134.3 million (2010: $138.3 million).

Property, plant and equipment under construction

The net carrying amount of plant and equipment disclosed above includes expenditure recognised in relation to plant and equipment which is in the course of construction of $424.0 million (2010: $220.4 million).

Note 21 – Intangible assets

	Goodwill $m	Licences $m	Customer relationships and contracts $m	Wind farm development rights $m	Other $m	Total $m
Year ended 30 June 2011						
Balance at 1 July 2010, net of accumulated amortisation	**2,624.8**	**301.2**	**183.6**	**37.3**	**2.1**	**3,149.0**
Additions	**–**	**–**	**15.6**	**–**	**–**	**15.6**
Transferred to property, plant and equipment (Note 20)	**–**	**–**	**–**	**(6.4)**	**–**	**(6.4)**
Amortisation expense	**–**	**–**	**(20.9)**	**–**	**(0.1)**	**(21.0)**
Balance at 30 June 2011, net of accumulated amortisation	**2,624.8**	**301.2**	**178.3**	**30.9**	**2.0**	**3,137.2**
Balance at 1 July 2010						
Cost (gross carrying amount)	**2,624.8**	**301.2**	**248.3**	**37.3**	**3.7**	**3,215.3**
Accumulated amortisation	**–**	**–**	**(64.7)**	**–**	**(1.6)**	**(66.3)**
Net carrying amount	**2,624.8**	**301.2**	**183.6**	**37.3**	**2.1**	**3,149.0**
Balance at 30 June 2011						
Cost (gross carrying amount)	**2,624.8**	**301.2**	**263.9**	**30.9**	**3.7**	**3,224.5**
Accumulated amortisation	**–**	**–**	**(85.6)**	**–**	**(1.7)**	**(87.3)**
Net carrying amount	**2,624.8**	**301.2**	**178.3**	**30.9**	**2.0**	**3,137.2**
Year ended 30 June 2010						
Balance at 1 July 2009, net of accumulated amortisation	2,624.4	301.2	204.9	28.4	2.2	3,161.1
Acquisitions through business combinations (Note 42)	0.4	–	–	8.9	–	9.3
Amortisation expense	–	–	(21.3)	–	(0.1)	(21.4)
Balance at 30 June 2010, net of accumulated amortisation	2,624.8	301.2	183.6	37.3	2.1	3,149.0
Balance at 1 July 2009						
Cost (gross carrying amount)	2,624.4	301.2	248.3	28.4	3.7	3,206.0
Accumulated amortisation	–	–	(43.4)	–	(1.5)	(44.9)
Net carrying amount	2,624.4	301.2	204.9	28.4	2.2	3,161.1
Balance at 30 June 2010						
Cost (gross carrying amount)	2,624.8	301.2	248.3	37.3	3.7	3,215.3
Accumulated amortisation	–	–	(64.7)	–	(1.6)	(66.3)
Net carrying amount	2,624.8	301.2	183.6	37.3	2.1	3,149.0

Amortisation expense
Amortisation expense of $21.0 million (2010: $21.4 million) is included in the line item 'depreciation and amortisation' in the income statement.

Impairment testing for goodwill and intangibles with indefinite useful lives
Goodwill and other intangible assets deemed to have indefinite lives, that are significant in comparison to the consolidated entity's total carrying amount of intangible assets with indefinite lives, have been allocated to cash-generating units (CGUs) for the purpose of impairment testing as follows:

	Goodwill $m	Licences $m	Total intangible assets with indefinite lives $m
Year ended 30 June 2011			
Cash-generating unit			
Retail Energy	**2,053.8**	**–**	**2,053.8**
Merchant Energy	**571.0**	**301.2**	**872.2**
	2,624.8	**301.2**	**2,926.0**
Year ended 30 June 2010			
Cash-generating unit			
Retail Energy	2,053.8	–	2,053.8
Merchant Energy	571.0	301.2	872.2
	2,624.8	301.2	2,926.0

The licences $301.2 million (2010: $301.2 million) to operate hydro-electric power stations within the Merchant Energy CGU have been assessed as having indefinite lives. The factors considered in determining the useful lives of these licences are the long-term nature of the initial licences, the expectation that the licences will be renewed, the insignificant cost of renewal, and compliance with licensing obligations.

Impairment testing for Retail Energy and Merchant Energy
The recoverable amounts for the Retail Energy and Merchant Energy CGUs have been determined using value in use models. The key assumptions in the calculation of value in use are customer numbers, energy procurement costs and regulatory outcomes.

The estimate of regulatory outcomes is based on actual regulatory decisions for the current price reset period, which are publicly available, together with the consolidated entity's expectations of regulatory decisions beyond the current reset period. Customer numbers are estimated based on historical experience in various segments, together with marketing strategies for the retention and winning of customers. Energy procurement costs are estimated based on the actual hedge portfolio, together with an estimate of future hedging prices and volumes beyond the period of the actual hedge portfolio.

The recoverable amounts for the Retail Energy and Merchant Energy CGUs have been determined using value in use models, including an appropriate terminal value. Cash flow forecasts are based on Board approved budgets and the most recent three-year plan extrapolated out to 10 years using forecast CPI. The terminal value is based on final year free cash flow capitalised in perpetuity. Discount rates used are the pre-tax weighted average cost of capital of 13.4% (2010: 13.4%).

No impairment loss has been recognised for the Retail Energy or the Merchant Energy CGUs for the year ended 30 June 2011 (2010: $nil).

Note 22 – Other financial assets (non-current)

	2011 $m	2010 $m
Derivative financial instruments – at fair value (Note 52)		
– Interest rate swap contracts – cash flow hedges	**0.5**	–
– Energy derivatives – cash flow hedges	**51.2**	3.6
	51.7	3.6
Available-for-sale financial assets – at fair value		
– Shares in listed entities	**0.3**	0.5
Loans to associates and jointly controlled entities – at amortised cost	**112.5**	102.4
	164.5	106.5

For terms and conditions relating to loans to associates and jointly controlled entities, refer to Note 49.

	2011 $m	2010 $m
Note 23 – Other assets (non-current)		
Generation dispatch agreements	**21.1**	26.8
Other	**0.4**	1.6
	21.5	28.4

	2011 $m	2010 $m
Note 24 – Trade and other payables (current)		
Trade payables and accrued expenses	**840.4**	852.3
Goods and services tax payable	**12.7**	5.3
Amounts owing to jointly controlled entities	**–**	2.0
	853.1	859.6

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

For terms and conditions relating to amounts owing to jointly controlled entities, refer to Note 49.

	2011 $m	2010 $m
Note 25 – Borrowings (current)		
At amortised cost		
Bank loans – unsecured	**886.7**	–
	886.7	–

Significant terms and conditions

Bank loans are unsecured and are repayable on maturity in October 2011. Bank loans bear interest at the relevant interbank reference rate plus a margin. The consolidated entity has entered into interest rate swap contracts to manage the exposure to interest rates. This has resulted in a weighted average interest rate on bank loans of 6.07% (2010: 5.76%).

Subsequent to the year end, AGL announced on 20 July 2011 that it has entered into a $1.0 billion Syndicated Loan Facility, comprising of a $600.0 million 3 year term loan tranche and a $400.0 million 5 year revolving tranche. The funds will be partially used to refinance $886.7 million of existing debt, due for repayment in October 2011. Refer Note 53 for further details.

	2011 $m	2010 $m
Note 26 – Provisions (current)		
Employee benefits	**51.1**	45.4
Environmental restoration (Note 30)	**8.2**	–
Restructuring (Note 30)	**12.9**	–
Onerous contracts (Note 30)	**20.9**	20.9
Other (Note 30)	**1.2**	2.4
	94.3	68.7

	2011 $m	2010 $m
Note 27 – Other financial liabilities (current)		
Derivative financial instruments – at fair value (Note 52)		
– Interest rate swap contracts – cash flow hedges	**1.3**	–
– Forward foreign exchange contracts – cash flow hedges	**56.7**	0.8
– Energy derivatives – cash flow hedges	**123.2**	175.7
– Energy derivatives – economic hedges	**259.5**	405.5
	440.7	582.0

	2011 $m	2010 $m
Note 28 – Other liabilities (current)		
Unearned revenue	**15.1**	0.6

	2011 $m	2010 $m
Note 29 – Borrowings (non-current)		
At amortised cost		
USD senior notes – unsecured	**274.4**	–
Bank loans – unsecured	**–**	886.7
Finance lease liabilities – secured (Note 38)	**11.9**	10.6
Other loans – unsecured	**–**	3.5
Deferred borrowing costs	**(1.8)**	–
	284.5	900.8

Significant terms and conditions

In September 2010, the consolidated entity issued US$300.0 million of fixed rate unsecured senior notes in the US private placement market, comprising two tranches of 12 year and 15 year maturities for US$165.0 million and US$135.0 million, respectively. To manage the foreign exchange risk arising from the future principal and interest payments required on the US$300.0 million, the notes were converted back to A$337.8 million through cross currency interest rate swaps. The weighted average interest rate at the end of the reporting period was 7.67%.

Finance lease liabilities are secured over the assets leased.

	2011 $m	2010 $m
Note 30 – Provisions (non-current)		
Employee benefits	**7.4**	5.9
Environmental restoration	**49.6**	39.2
Onerous contracts	**104.6**	117.3
Other	**–**	0.1
	161.6	162.5

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

	Environmental restoration $m	Restructuring $m	Onerous contracts $m	Other $m	Total $m
Year ended 30 June 2011					
Balance at beginning of financial year	**39.2**	**–**	**138.2**	**2.5**	**179.9**
Additional provisions recognised	**10.8**	**12.9**	**–**	**0.5**	**24.2**
Acquisitions through business combinations	**5.5**	**–**	**2.3**	**–**	**7.8**
Provisions utilised	**(0.1)**	**–**	**(23.1)**	**(0.1)**	**(23.3)**
Provisions reversed	**–**	**–**	**(0.9)**	**(1.7)**	**(2.6)**
Unwinding of discount	**2.4**	**–**	**9.0**	**–**	**11.4**
Balance at end of financial year	**57.8**	**12.9**	**125.5**	**1.2**	**197.4**
Current	**8.2**	**12.9**	**20.9**	**1.2**	**43.2**
Non-current	**49.6**	**–**	**104.6**	**–**	**154.2**
	57.8	**12.9**	**125.5**	**1.2**	**197.4**

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.

Restructuring

A restructuring provision is recognised when the consolidated entity has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

Onerous contracts

A provision for onerous contracts is recognised 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.

	2011 $m	2010 $m
Note 31 – Other financial liabilities (non-current)		
Derivative financial instruments – at fair value (Note 52)		
– Cross currency swap contracts – cash flow and fair value hedges	**85.9**	–
– Interest rate swap contracts – cash flow hedges	**3.1**	6.4
– Forward foreign exchange contracts – cash flow hedges	**2.0**	–
– Energy derivatives – cash flow hedges	**3.1**	35.7
	94.1	42.1

Note 32 – Other liabilities (non-current)

	2011 $m	2010 $m
Defined benefit superannuation plan liability (Note 47)	**40.6**	53.4
Unearned revenue	**6.7**	1.1
Other	**6.9**	12.1
	54.2	66.6

Note 33 – Issued capital

	2011 $m	2010 $m
461,311,732 fully-paid ordinary shares (2010: 450,076,509)	**4,244.6**	4,066.7

	2011		2010	
	Number of shares	$m	Number of shares	$m
Movement in fully-paid ordinary shares				
Balance at beginning of financial year	**450,076,509**	**4,066.7**	447,536,000	4,030.3
Shares issued under AGL Dividend Reinvestment Plan (a)(b)	**4,251,051**	**61.9**	2,540,509	36.4
Shares issued for acquisition of subsidiary (c)	**6,984,172**	**116.0**	–	–
Balance at end of financial year	**461,311,732**	**4,244.6**	450,076,509	4,066.7

(a) On 30 September 2010, 1,162,779 ordinary shares were issued at $15.95 per share to participating shareholders under the AGL Dividend Reinvestment Plan.
(b) On 14 April 2011, 3,088,272 ordinary shares were issued at $14.04 per share to participating shareholders under the AGL Dividend Reinvestment Plan.
(c) On 20 October 2010, 6,984,172 ordinary shares were issued at $16.61 per share for the acquisition of Mosaic Oil. Refer Note 42.

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

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Parent Entity does not have a limited amount of authorised capital and issued shares do not have a par value.

Note 34 – Reserves

	2011 $m	2010 $m
Investments revaluation	**–**	–
Employee equity benefits	**0.6**	4.7
Hedging	**(97.3)**	(163.6)
Other	**(0.4)**	(0.5)
	(97.1)	(159.4)
Movement in reserves		
Investments revaluation reserve		
Balance at beginning of financial year	**–**	(1.1)
Loss on revaluation of available-for-sale financial assets	**–**	(0.9)
Loss reclassified to profit or loss on impairment of available-for-sale financial assets	**–**	2.0
Balance at end of financial year	**–**	–

The investments revaluation reserve represents accumulated gains and losses arising on the revaluation of available-for-sale financial assets that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those assets have been disposed of or are determined to be impaired.

	2011 $m	2010 $m
Employee equity benefits reserve		
Balance at beginning of financial year	**4.7**	2.0
Share-based payment plans expense	**2.0**	5.1
Purchase of shares on-market under AGL Share Reward Plan	**(1.6)**	(1.5)
Purchase of shares on-market under AGL Long-Term Incentive Plan	**(4.5)**	(0.9)
Balance at end of financial year	**0.6**	4.7

The employee equity benefits reserve is used to record the value of share-based payments to employees, including key management personnel, as part of their remuneration. Refer to Note 48 for further information on share-based payment plans.

	2011 $m	2010 $m
Hedging reserve		
Balance at beginning of financial year	**(163.6)**	12.2
Loss in fair value of cash flow hedges	**(118.4)**	(252.9)
Reclassified to profit or loss	**178.4**	30.6
Transferred to initial carrying amount of hedged item	**4.6**	1.0
Share of gain/(loss) in reserve attributable to an associate	**22.8**	(20.9)
Deferred income tax	**(21.1)**	66.4
Balance at end of financial year	**(97.3)**	(163.6)

The hedging reserve represents the cumulative portion of gains and losses on hedging instruments deemed effective in cash flow hedges that are recognised in other comprehensive income. The cumulative deferred gain or loss on the hedging instrument is reclassified to profit or loss when the hedged transaction affects the profit or loss, or is included as a basis adjustment to the non-financial hedged item.

	2011 $m	2010 $m
Other reserve		
Balance at beginning of financial year	**(0.5)**	(0.1)
Share of gain/(loss) in reserve attributable to an associate	**0.1**	(0.4)
Balance at end of financial year	**(0.4)**	(0.5)

The other reserve represents the consolidated entity's share of the reserves of associates and jointly controlled entities.

Note 35 – Retained earnings

	2011 $m	2010 $m
Balance at beginning of financial year	**1,892.6**	1,802.4
Profit for the year attributable to owners of AGL Energy Limited	**558.7**	356.1
Payment of dividends (Note 10)	**(268.4)**	(255.9)
Actuarial gain/(loss) on defined benefit plans, net of tax	**2.5**	(5.4)
Share of actuarial gain/(loss) on defined benefit plans attributable to associates	**8.6**	(4.6)
Balance at end of financial year	**2,194.0**	1,892.6

Note 36 – Earnings per share (EPS)

	2011 Cents	2010 Cents
Statutory earnings per share		
Basic earnings per share	**122.4**	79.3
Diluted earnings per share	**122.3**	79.2
Underlying earnings per share		
Basic earnings per share	**94.4**	95.6
Diluted earnings per share	**94.4**	95.4

	2011 $m	2010 $m
Earnings used in calculating basic and diluted earnings per share		
Profit for the year attributable to owners of AGL Energy Limited	**558.7**	356.1
Statutory earnings used to calculate basic and diluted EPS	**558.7**	356.1
Significant expense/(income) items after income tax	**27.3**	(49.9)
(Gain)/loss in fair value of financial instruments after income tax	**(154.9)**	122.7
Underlying earnings used to calculate basic and diluted EPS	**431.1**	428.9

	2011 No. millions	2010 No. millions
Weighted average number of ordinary shares		
Weighted average number of ordinary shares used in the calculation of basic EPS	**456.5**	448.8
Effect of dilution – LTIP share performance rights	**0.4**	0.6
Weighted average number of ordinary shares used in the calculation of diluted EPS	**456.9**	449.4

Note 37 – Capital and other expenditure commitments

	2011 $m	2010 $m
Capital expenditure commitments		
Property, plant and equipment		
No longer than one year	**89.3**	203.7
Longer than one year and not longer than five years	**5.4**	14.9
Longer than five years	**–**	–
	94.7	218.6
Consolidated entity's share of joint venture operations capital commitments		
No longer than one year	**343.8**	–
Longer than one year and not longer than five years	**88.2**	–
Longer than five years	**–**	–
	432.0	–
Consolidated entity's share of associates' and jointly controlled entities' capital commitments		
No longer than one year	**2.3**	–
Longer than one year and not longer than five years	**–**	–
Longer than five years	**–**	–
	2.3	–
Other expenditure commitments		
Exploration and evaluation expenditure		
No longer than one year	**6.8**	–
Longer than one year and not longer than five years	**–**	–
Longer than five years	**–**	–
	6.8	–
Consolidated entity's share of joint venture operations other expenditure commitments		
No longer than one year	**4.4**	14.9
Longer than one year and not longer than five years	**–**	–
Longer than five years	**–**	–
	4.4	14.9
Other – Information technology services		
No longer than one year	**37.3**	35.1
Longer than one year and not longer than five years	**70.7**	89.8
Longer than five years	**6.8**	16.4
	114.8	141.3

Note 38 – Lease commitments

Finance lease liabilities	Minimum future lease payments 2011 $m	Present value of payments 2011 $m	Minimum future lease payments 2010 $m	Present value of payments 2010 $m
No longer than one year	**–**	**–**	–	–
Longer than one year and not longer than five years	**0.3**	**–**	–	–
Longer than five years	**178.4**	**11.9**	178.4	10.6
Minimum future lease payments*	**178.7**	**11.9**	178.4	10.6
Less future finance charges	**(166.8)**	**–**	(167.8)	–
Present value of minimum lease payments	**11.9**	**11.9**	10.6	10.6
Included in the financial statements as:				
Current borrowings		**–**		–
Non-current borrowings (Note 29)		**11.9**		10.6
		11.9		10.6

* Minimum future lease payments includes the aggregate of all lease payments and any guaranteed residual.

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

	2011 $m	2010 $m
Operating leases		
Non-cancellable operating lease rentals are payable as follows:		
No longer than one year	**16.9**	16.4
Longer than one year and not longer than five years	**49.7**	45.2
Longer than five years	**23.7**	32.7
	90.3	94.3

The consolidated entity has entered into commercial non-cancellable operating leases on certain properties and other plant and equipment. Leases vary in contract period depending on the asset involved. Renewal terms are included in certain contracts, whereby renewal is at the option of the specific entity that holds the lease. There are no restrictions placed upon the lessee by entering into these leases.

Note 39 – Contingent liabilities and contingent assets

Details of contingent liabilities which Directors consider should be disclosed are set out below. The Directors are of the opinion that provisions are not required in respect of these matters, as it is either not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

(a) The consolidated entity has various contingent liabilities arising in connection with the sale of certain subsidiaries and a jointly controlled entity. Under the various sale agreements the consolidated entity has given warranties and indemnities in relation to tax related matters, environmental and other specific liabilities.

(b) Certain entities in the consolidated entity are party to various other legal actions and claims which have arisen in the ordinary course of business. Any liabilities arising from such legal actions and claims are not expected to have a material adverse effect on the consolidated entity.

Contingent assets

There are no contingent assets for the consolidated entity.

Note 40 – Remuneration of auditors

	2011 $000	2010 $000
Auditor of the Parent Entity		
Audit and review of financial reports	**1,253**	1,228
Other regulatory audit services	**38**	37
Other assurance services	**144**	111
NSW electricity privatisation due diligence and accounting advice	**1,494**	–
Other accounting advice and services	**380**	120
	3,309	1,496

The auditor of AGL Energy Limited is Deloitte Touche Tohmatsu.

Note 41 – Subsidiaries

Name of subsidiary	Note	Country of incorporation	Ownership interest and voting power held 2011 %	2010 %
AGL Limited		New Zealand	**100**	100
AGL ACT Retail Investments Pty Limited	(a)	Australia	**100**	100
AGL Cooper Basin Pty Ltd (formerly Continental Oil Pty Limited)	(a)(b)	Australia	**100**	–
AGL Corporate Services Pty Limited	(a)	Australia	**100**	100
AGL Electricity (VIC) Pty Limited	(a)	Australia	**100**	100
AGL Energy Limited		New Zealand	**100**	100
AGL Energy Sales & Marketing Limited	(a)	Australia	**100**	100
AGL Energy Services Pty Limited	(a)	Australia	**100**	100
AGL Gas Developments (Hunter) Pty Limited	(a)	Australia	**100**	100
AGL Gas Developments (PNG) Pty Limited	(a)	Australia	**100**	100
AGL Gas Developments (Sydney) Pty Limited	(a)	Australia	**100**	100
AGL Gas Storage Pty Ltd (formerly Mosaic Oil QLD Oil Pty Limited)	(a)(b)	Australia	**100**	–
AGL Gloucester MG Pty Ltd	(a)	Australia	**100**	100
AGL HP1 Pty Limited	(a)	Australia	**100**	100
AGL HP2 Pty Limited	(a)	Australia	**100**	100
AGL HP3 Pty Limited	(a)	Australia	**100**	100
AGL Hydro Partnership		Australia	**100**	100
AGL Pipelines Investments (QLD) Pty Limited	(e)	Australia	**–**	100
AGL Power Generation Pty Limited	(a)	Australia	**100**	100
AGL Power Generation (NSW) Pty Limited	(e)	Australia	**–**	100
AGL Power Generation (QLD) Pty Limited	(e)	Australia	**–**	100
AGL Power Generation (Wind) Pty Limited	(a)	Australia	**100**	100
AGL Retail Energy Limited	(a)	Australia	**100**	100
AGL SA Generation Pty Limited	(a)	Australia	**100**	100
AGL Sales Pty Limited	(a)	Australia	**100**	100
AGL Sales (Queensland) Pty Limited	(a)	Australia	**100**	100
AGL Sales (Queensland Electricity) Pty Limited	(a)	Australia	**100**	100
AGL Share Plan Pty Limited		Australia	**100**	100
AGL (SG) Pty Limited	(e)	Australia	**–**	100
AGL (SG) (Camden) Operations Pty Limited	(a)	Australia	**100**	100
AGL (SG) (Hunter) Operations Pty Limited	(a)	Australia	**100**	100
AGL (SG) (Wyong) Operations Pty Limited	(e)	Australia	**–**	100
AGL (SG) Operations Pty Limited	(a)	Australia	**100**	100
AGL (SHL) Pty Limited	(e)	Australia	**–**	100
AGL South Australia Pty Limited	(a)	Australia	**100**	100
AGL Southern Hydro Holdings Pty Limited	(e)	Australia	**–**	100

Note 41 – Subsidiaries (continued)

Name of subsidiary	Note	Country of incorporation	Ownership interest and voting power held 2011 %	2010 %
AGL Southern Hydro Investments Pty Ltd	(e)	Australia	–	100
AGL Southern Hydro Pty Limited	(e)	Australia	–	100
AGL Southern Hydro (NSW) Pty Limited	(a)	Australia	**100**	100
AGL Torrens Island Pty Limited	(a)	Australia	**100**	100
AGL Torrens Island Holdings Pty Limited	(a)	Australia	**100**	100
AGL Upstream Gas (Mos) Pty Limited (formerly Mosaic Oil NL)	(a)(b)	Australia	**100**	–
AGL Upstream Infrastructure Investments Pty Limited	(a)	Australia	**100**	100
AGL Upstream Investments Pty Limited	(a)	Australia	**100**	100
AGL Utility Services Pty Limited	(a)	Australia	**100**	100
AGL Wholesale Gas Limited	(a)	Australia	**100**	100
AGL Wholesale Gas (SA) Pty Limited	(a)	Australia	**100**	100
Australian Energy Ltd	(e)	Australia	–	100
Australia Plains Wind Farm Pty Ltd	(a)	Australia	**100**	100
Barn Hill Wind Farm Pty Ltd	(a)	Australia	**100**	100
Ben Lomond Wind Farm Pty Ltd	(a)	Australia	**100**	100
Box Hill Wind Farm Pty Limited	(a)	Australia	**100**	100
Coopers Gap Wind Farm Pty Ltd	(a)	Australia	**100**	100
Crows Nest Wind Farm Pty Ltd	(a)	Australia	**100**	100
Dual Fuel Systems Pty Limited	(a)	Australia	**100**	100
Geogen Australia Pty Ltd	(e)	Australia	–	100
Geogen Pty Limited	(e)	Australia	–	100
Geogen Victoria Pty Ltd	(a)	Australia	**100**	100
H C Extractions Pty Limited	(a)	Australia	**100**	100
Highfields Wind Farm Pty Limited	(a)	Australia	**100**	100
Macarthur Wind Farm Pty Ltd	(a)	Australia	**100**	100
Mosaic Oil NZ Limited	(b)	New Zealand	**100**	–
Oaklands Hill Pty Ltd	(c)(d)	Australia	–	–
Oaklands Hill Wind Farm Pty Ltd	(d)	Australia	–	100
Powerdirect Pty Ltd	(a)	Australia	**100**	100
The Australian Gas Light Company	(a)(c)	Australia	**100**	–
Victorian Energy Pty Limited	(a)	Australia	**100**	100
Worlds End Wind Farm Pty Ltd	(a)	Australia	**100**	100

(a) These wholly-owned subsidiaries are parties to a Deed of Cross Guarantee as detailed in Note 45.
(b) Acquired during the financial year.
(c) Incorporated during the financial year.
(d) Disposed during the financial year.
(e) Deregistered during the financial year.

Note 42 – Acquisition of subsidiaries and businesses

2011

Acquisition of Mosaic Oil NL

On 14 July 2010, AGL Energy Limited (AGL) and Mosaic Oil NL (Mosaic) entered into a Scheme Implementation Deed, under which AGL proposed to acquire all of the issued shares in Mosaic by way of a Scheme of Arrangement (Scheme). Under the Scheme, Mosaic shareholders could elect to receive either $0.15 cash per Mosaic share or 1.01 AGL shares for every 100 Mosaic shares.

The Scheme was implemented on 20 October 2010, on which date AGL acquired 100% of the voting shares in Mosaic and obtained control. The consideration paid was $142.6 million, and comprised an issue of equity instruments and cash. The fair value of shares issued was determined using the published price at the date of exchange. 6,984,172 ordinary shares in AGL were issued on 20 October 2010 at a closing price of $16.61.

Mosaic's principal activities are the production of, and development and exploration for, oil and gas. Mosaic's main producing assets are located in the Surat-Bowen Basin in south-east Queensland. Mosaic operates fields and discoveries in 10 petroleum leases, owns and operates the Silver Springs processing facility, and now owns 100% of the Wallumbilla LPG plant and associated pipeline. Mosaic holds varying interests in exploration permits in the Surat-Bowen Basin, Cooper-Eromanga Basin south-west Queensland and New Zealand's Taranaki Basin. Mosaic also has a 33.3% interest in an oil storage tank and unloading facility at Lytton in Brisbane.

AGL carried out a comprehensive review of Mosaic's businesses and assets to determine which are core and non-core to AGL's integrated energy strategy going forward. AGL has disposed of Mosaic's interest in the exploration permit in the Carnarvon Basin offshore Western Australia and is in the process of selling Mosaic's interests in the exploration permits in New Zealand's Taranaki Basin.

AGL is currently developing a gas storage facility at Mosaic's depleted Silver Springs/Renlim gas fields in the Surat Basin.

Acquisition-related costs amounting to $3.5 million have been excluded from the consideration paid and have been recognised as an expense in the period, within the 'other expenses' line item in the income statement.

From the date of acquisition, Mosaic has contributed $9.3 million to the revenue and a loss of $0.7 million to the profit before tax of the consolidated entity. It is considered impracticable to estimate what the revenue and profit before tax of the consolidated entity would have been if the Mosaic acquisition had been effected at 1 July 2010.

The fair value of the identifiable assets acquired and liabilities assumed at the date of acquisition were as follows:

Net assets acquired	Mosaic Oil 2011 $m
Assets	
Cash and cash equivalents	**21.5**
Trade and other receivables	**5.9**
Inventories	**2.9**
Other assets	**0.9**
Exploration and evaluation assets	**19.8**
Oil and gas assets	**104.5**
Property, plant and equipment	**8.4**
Deferred tax assets	**23.9**
Liabilities	
Trade and other payables	**(2.8)**
Borrowings	**(0.3)**
Provisions	**(10.3)**
Deferred tax liabilities	**(31.4)**
Other liabilities	**(0.4)**
Fair value of identifiable net assets	**142.6**
Goodwill arising on acquisition	**–**
	142.6
Consideration transferred	
Fair value of shares issued	**116.0**
Consideration paid in cash	**26.6**
	142.6

Note 42 – Acquisition of subsidiaries and businesses (continued)

The accounting for the Mosaic acquisition has only been provisionally determined at the reporting date. Subject to the finalisation of the provisional acquisition accounting, all identifiable intangible assets have been recognised separately from goodwill. In accordance with the requirements of AASB 3 *Business Combinations*, the consolidated entity has 12 months from the date of acquisition to finalise its acquisition accounting, and therefore the information presented should be considered provisional.

2010

Acquisition of wind farm development projects

On 17 June 2009, the consolidated entity entered into a sale and purchase agreement with Transfield Services Limited to acquire 100% of the issued capital of Barn Hill Wind Farm Pty Ltd and the business assets of the Crows Nest wind farm development. The acquisition was completed on 14 December 2009, on which date the consolidated entity obtained control of Barn Hill Wind Farm Pty Ltd. The consideration paid comprised cash of $9.0 million.

The assets acquired comprised the rights to the Barn Hill wind farm development project in South Australia and the Crows Nest wind farm development project in Queensland.

Acquisition-related costs amounting to $0.4 million were excluded from the consideration paid and were recognised as an expense in the 2010 year, within the 'other expenses' line item in the income statement.

Acquisition of Boilerland

On 6 April 2010, the consolidated entity acquired the Queensland based boiler and thermal service business, Boilerland, from the privately owned company, Boilerland Pty Ltd. The consideration paid comprised cash of $0.8 million.

Boilerland specialises in programmed maintenance and the manufacture of reconditioned and new steam boilers as well as commercial and industrial hot and warm water systems.

Acquisition-related costs amounting to $0.1 million were excluded from the consideration paid and were recognised as an expense in the 2010 year, within the 'other expenses' line item in the income statement.

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

Net assets acquired	Wind farm development projects 2010 $m	Boilerland 2010 $m	Total 2010 $m
Assets			
Inventories	–	0.2	0.2
Property, plant and equipment	0.1	0.3	0.4
Intangible assets	8.9	–	8.9
Deferred tax assets	–	0.1	0.1
Liabilities			
Provisions	–	(0.2)	(0.2)
Fair value of identifiable net assets	9.0	0.4	9.4
Goodwill arising on acquisition	–	0.4	0.4
	9.0	0.8	9.8
Consideration transferred			
Consideration paid in cash	7.0	0.8	7.8
Consideration paid in cash in prior year	2.0	–	2.0
	9.0	0.8	9.8

The goodwill arising on the acquisition of Boilerland was attributable to the benefit of expected synergies from integrating the business into the Merchant Energy segment, future market development opportunities and the technical skills of the Boilerland workforce. The goodwill was not expected to be deductible for tax purposes.

	2011 $m	2010 $m
Net cash outflow on acquisitions		
Consideration paid in cash	**26.6**	7.8
Cash and cash equivalent balances acquired	**(21.5)**	–
	5.1	7.8

Note 43 – Disposal of subsidiaries

2011

Disposal of Oaklands Hill Wind Farm Pty Ltd

On 24 June 2011, the consolidated entity disposed of its 100% interest in Oaklands Hill Pty Ltd and on 27 June 2011, the consolidated entity disposed of its 100% interest in Oaklands Hill Wind Farm Pty Ltd, the subsidiary that was constructing the 67.2 MW Oaklands Hill Wind Farm in Victoria. The total proceeds on these disposals of $163.9 million was received in cash.

2010

Disposal of Hallett 4 Pty Ltd and Brown Hill North Pty Ltd

On 30 September 2009, the consolidated entity disposed of its 100% interest in Hallett 4 Pty Ltd and on 1 October 2009, the consolidated entity disposed of its 100% interest in Brown Hill North Pty Ltd, the subsidiary that was constructing the 132.3 MW Hallett 4 Wind Farm in South Australia. The total proceeds on these disposals of $157.1 million was received in cash.

Disposal of AGL Pipelines Investments Pty Limited

On 22 April 2010, the consolidated entity disposed of its 100% interest in AGL Pipelines Investments Pty Limited, the subsidiary that owned the Berwyndale to Wallumbilla Pipeline in Queensland. The proceeds on disposal of $81.9 million were received in cash.

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

	2011 $m	2010 $m
Assets		
Inventories	–	0.1
Property, plant and equipment	**165.9**	236.7
Liabilities		
Deferred tax liabilities	**(2.0)**	(3.6)
Net assets disposed	**163.9**	233.2
Consideration received		
Consideration received in cash	**163.9**	239.7
Costs directly attributable to the disposal paid	–	(0.7)
	163.9	239.0
Gain on disposal of subsidiaries		
Consideration received	**163.9**	239.0
Net assets disposed	**(163.9)**	(233.2)
	–	5.8
Net cash inflow on disposal of subsidiaries		
Consideration received in cash	**163.9**	239.7
Costs directly attributable to the disposal paid	–	(0.7)
	163.9	239.0

Note 44 – Jointly controlled operations and assets

Joint venture/area	Principal activities	Output interest 2011 %	2010 %
Bowen Basin – Queensland			
Moranbah Gas Project – PL 191, PL 196, PLA 222, PL 223, PL 224 & ATP 1103P	Gas production and exploration	**50.0**	50.0
Spring Gully Project – ATP 592P, PL 195 & PL 203	Gas production and exploration	**0.8**	0.8
Spring Gully Project – PL 204	Gas production	**0.04**	0.04
Galilee Basin – Queensland			
Galilee Gas Project – ATP 529P	Gas exploration	**50.0**	50.0
Cooper/Eromanga Basin – South Australia			
PEL 101	Gas exploration	**35.0**	35.0
PEL 103, PEL 103A, PRL 14, PRL 17 & PRL 18	Gas exploration and oil production	**37.5**	37.5
Surat Basin – Queensland			
ATP 471P (Bainbilla Block)	Oil and gas exploration	**75.3**	–
ATP 471P (Spring Grove #2 sole risk)	Oil and gas exploration	**52.8**	–
ATP 471P (Weribone)	Oil and gas exploration	**28.7**	–
PL 1 (Cabawin)	Oil production	**15.0**	–
PL 30 (Riverslea)	Oil production	**10.0**	–
PL 74 (Major)	Oil production	**16.0**	–
PL 119 (Downlands)	Oil and gas production	**75.3**	–
Cooper/Eromanga Basin – Queensland			
ATP 934P (under application)	Oil and gas exploration	**20.0**	–
ATP 1056P	Oil exploration	**40.0**	–
Taranaki Basin – New Zealand			
PEP 51149	Oil and gas exploration	**18.6**	–
PEP 51151	Oil and gas exploration	**50.0**	–
PEP 52181	Oil and gas exploration	**15.0**	–
PEP 53247	Oil and gas exploration	**75.0**	–
Others			
North Queensland Energy Joint Venture	Sale of gas and electricity	**50.0**	50.0
Macarthur Wind Farm Joint Venture	Wind farm construction and operation	**50.0**	–
Lytton Joint Venture	Crude oil storage terminal	**33.3**	–

The consolidated entity's interest in assets employed in the above jointly controlled operations and assets is detailed below. The amounts are included in the consolidated financial statements under their respective asset categories:

	2011 $m	2010 $m
Current assets		
Cash and cash equivalents	**43.7**	3.3
Trade and other receivables	**10.0**	3.6
Inventories	**1.0**	2.0
Other assets	**3.8**	4.9
Total current assets	**58.5**	13.8
Non-current assets		
Exploration and evaluation assets	**26.6**	–
Oil and gas assets	**251.9**	227.5
Property, plant and equipment	**56.6**	–
Total non-current assets	**335.1**	227.5
Total assets	**393.6**	241.3

The consolidated entity's share of capital expenditure commitments and contingent liabilities of jointly controlled operations are disclosed in Notes 37 and 39 respectively.

Note 45 – Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418 (as amended), the wholly-owned subsidiaries identified in Note 41 are relieved from the *Corporations Act 2001* requirements to prepare and lodge an audited financial report, and a Directors' report.

As a condition of the Class Order, the Parent Entity and each of the identified subsidiaries (the Closed Group) have entered into a Deed of Cross Guarantee. The effect of the Deed is that the Parent Entity guarantees to each creditor, payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. The subsidiaries have also given a similar guarantee in the event that the Parent Entity is wound up.

The following wholly-owned subsidiaries became a party to the Deed of Cross Guarantee on 28 June 2011, by virtue of a Deed of Assumption.

AGL Cooper Basin Pty Ltd
AGL Gas Storage Pty Ltd
AGL Upstream Gas (Mos) Pty Limited
The Australian Gas Light Company

The following wholly-owned subsidiaries were released from their obligations under the Deed of Cross Guarantee by executing Revocation Deeds during the reporting period:

AGL Pipelines Investments (QLD) Pty Limited
AGL Power Generation (NSW) Pty Limited
AGL Power Generation (QLD) Pty Limited
AGL (SG) Pty Limited
AGL (SG) (Wyong) Operations Pty Limited
AGL (SHL) Pty Limited
AGL Southern Hydro Holdings Pty Limited
AGL Southern Hydro Investments Pty Ltd
AGL Southern Hydro Pty Limited
Australian Energy Ltd
Geogen Australia Pty Ltd
Geogen Pty Limited
Oaklands Hill Wind Farm Pty Ltd

Set out below is the consolidated income statement, statement of comprehensive income, statement of financial position and a summary of movements in retained earnings of the entities party to the Deed of Cross Guarantee.

	Closed Group	
	2011 $m	2010 $m
Income statement		
Revenue	**6,403.7**	5,908.0
Other income	**–**	6.4
Expenses	**(5,565.1)**	(5,639.0)
Share of profits of associates and jointly controlled entities accounted for using the equity method	**33.6**	70.7
Profit before net financing costs, depreciation and amortisation	**872.2**	346.1
Depreciation and amortisation	**(131.1)**	(123.5)
Profit before net financing costs	**741.1**	222.6
Finance income	**42.6**	34.2
Finance costs	**(53.4)**	(68.7)
Net financing costs	**(10.8)**	(34.5)
Profit before tax	**730.3**	188.1
Income tax expense	**(234.9)**	(21.5)
Profit for the year	**495.4**	166.6
Statement of comprehensive income		
Profit for the year	**495.4**	166.6
Other comprehensive income		
Cash flow hedges	**117.0**	(221.3)
Available-for-sale financial assets	**–**	1.1
Actuarial gain/(loss) on defined benefit plans	**3.6**	(7.8)
Share of other comprehensive income of an associate	**31.5**	(25.9)
Income tax relating to components of other comprehensive income	**(22.2)**	68.8
Other comprehensive income for the year, net of income tax	**129.9**	(185.1)
Total comprehensive income for the year	**625.3**	(18.5)

Note 45 – Deed of cross guarantee (continued)

	Closed Group 2011 $m	Closed Group 2010 $m
Statement of financial position		
Current assets		
Cash and cash equivalents	**752.9**	480.7
Trade and other receivables	**1,182.4**	1,159.5
Inventories	**112.7**	78.4
Other financial assets	**195.1**	159.3
Other assets	**25.9**	25.6
Total current assets	**2,269.0**	1,903.5
Non-current assets		
Trade and other receivables	**0.5**	0.6
Investments accounted for using the equity method	**240.7**	200.8
Exploration and evaluation assets	**655.1**	607.5
Oil and gas assets	**461.4**	333.4
Property, plant and equipment	**1,543.8**	1,315.5
Intangible assets	**2,300.0**	2,311.8
Other financial assets	**1,709.3**	1,630.4
Other assets	**0.4**	1.6
Total non-current assets	**6,911.2**	6,401.6
Total assets	**9,180.2**	8,305.1
Current liabilities		
Trade and other payables	**769.2**	769.2
Borrowings	**886.7**	–
Provisions	**94.3**	68.3
Current tax liabilities	**167.2**	42.5
Other financial liabilities	**466.5**	730.6
Other liabilities	**15.1**	0.6
Total current liabilities	**2,399.0**	1,611.2
Non-current liabilities		
Borrowings	**272.9**	890.2
Provisions	**161.6**	162.5
Deferred tax liabilities	**302.7**	165.6
Other financial liabilities	**92.2**	42.1
Other liabilities	**54.2**	66.6
Total non-current liabilities	**883.6**	1,327.0
Total liabilities	**3,282.6**	2,938.2
Net assets	**5,897.6**	5,366.9
Equity		
Issued capital	**4,244.6**	4,066.7
Reserves	**(37.4)**	(152.1)
Retained earnings	**1,690.4**	1,452.3
Total equity	**5,897.6**	5,366.9
Summary of movements in retained earnings		
Retained earnings at beginning of financial year	**1,452.3**	1,551.6
Profit for the year	**495.4**	166.6
Dividends paid or provided	**(268.4)**	(255.9)
Actuarial gain/(loss) on defined benefit plans, net of tax	**2.5**	(5.4)
Share of actuarial gain/(loss) on defined benefit plans attributable to associates	**8.6**	(4.6)
Retained earnings at end of financial year	**1,690.4**	1,452.3

Note 46 – Key management personnel disclosures

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the consolidated entity, directly or indirectly, including the Directors of the Parent Entity.

The following persons were key management personnel of the consolidated entity during the financial year. Unless otherwise indicated they were key management personnel for the entire period.

Name	Position	Date of change in position
Directors		
Jeremy Maycock	Chairman, Non-executive Director	Appointed Chairman 21 October 2010
Mark Johnson	Chairman, Non-executive Director	Retired 21 October 2010
Michael Fraser	Managing Director and Chief Executive Officer	
Les Hosking	Non-executive Director	
Belinda Hutchinson	Non-executive Director	Appointed 22 December 2010
Sandra McPhee	Non-executive Director	
Max Ould	Non-executive Director	
Bruce Phillips	Non-executive Director	
John Stanhope	Non-executive Director	
Executives		
Jeff Dimery	Group General Manager Merchant Energy	Resigned 27 September 2010
Anthony Fowler	Group General Manager Merchant Energy	Appointed 9 November 2010
Ken Hodgson	Group General Manager Retail Energy	
Paul McWilliams	Group Head of Corporate Support Services and Company Secretary	
Stephen Mikkelsen	Chief Financial Officer	
Michael Moraza	Group General Manager Upstream Gas	

The aggregate remuneration made to key management personnel of the consolidated entity is set out below:

	2011 $	2010 $
Remuneration by category		
Short-term employee benefits	**9,352,192**	10,168,411
Post-employment benefits	**814,553**	714,021
Share-based payments	**693,371**	2,985,802
	10,860,116	13,868,234

Further details are contained in the Remuneration Report, found in the Directors' Report.

Note 46 – Key management personnel disclosures (continued)

Share performance rights over equity instruments granted as remuneration

Details of movements during the financial year in the number of share performance rights (SPRs) over ordinary shares in the Parent Entity held directly, indirectly or beneficially, by each key management person, including their related parties, are set out below:

2011 Share performance rights	Balance at 1 July 2010	Adjustment to SPRs awarded	Notionally granted during the year	Vested during the year	Lapsed/ forfeited during the year	Balance at 30 June 2011	Vested but not exercisable at 30 June 2011
Directors							
Michael Fraser	**346,100**	**(20,855)**	**137,175**	**(149,391)**	**–**	**313,029**	**–**
Executives							
Jeff Dimery	**50,608**	**(3,157)**	**–**	**(19,071)**	**(28,380)**	**–**	**–**
Anthony Fowler	**10,184**	**(444)**	**16,461**	**(3,079)**	**–**	**23,122**	**–**
Ken Hodgson	**15,011**	**(2,327)**	**24,075**	**(5,074)**	**–**	**31,685**	**–**
Paul McWilliams	**12,651**	**(525)**	**7,545**	**(7,282)**	**–**	**12,389**	**–**
Stephen Mikkelsen	**48,746**	**(2,341)**	**24,692**	**(24,750)**	**–**	**46,347**	**–**
Michael Moraza	**29,661**	**(2,593)**	**20,577**	**(10,948)**	**–**	**36,697**	**–**
	512,961	**(32,242)**	**230,525**	**(219,595)**	**(28,380)**	**463,269**	**–**

Details of SPRs notionally granted to key management personnel during the 2011 financial year are as follows:

Date granted	Number of SPRs	Performance period	Vesting date	Weighted average fair value
20 June 2011	**230,525**	**1 July 2010 – 30 June 2011**	**1 September 2011**	**$7.08**

No SPRs have been granted since the end of the financial year. The SPRs have been provided at no cost to the recipients.

For further details, including the key terms and conditions, grant and vesting dates for SPRs granted to key management personnel, refer Note 48.

2010 Share performance rights	Balance at 1 July 2009	Adjustment to SPRs awarded	Notionally granted during the year	Vested during the year	Lapsed/ forfeited during the year	Balance at 30 June 2010	Vested but not exercisable at 30 June 2010
Directors							
Michael Fraser	218,158	–	134,546	(6,604)	–	346,100	–
Executives							
Jeff Dimery	33,703	–	20,364	(3,459)	–	50,608	–
Ken Hodgson	–	–	15,011	–	–	15,011	–
Paul McWilliams	10,983	–	3,379	(1,711)	–	12,651	–
Stephen Mikkelsen	49,932	–	15,099	(16,285)	–	48,746	–
Michael Moraza	14,362	–	16,728	(1,429)	–	29,661	–
	327,138	–	205,127	(29,488)	–	502,777	–

Details of SPRs notionally granted to key management personnel during the 2010 financial year are as follows:

Date granted	Number of SPRs	Performance period	Vesting date	Weighted average fair value
26 February 2010	205,127	1 July 2009 – 30 June 2010	1 September 2010	$12.09

Shareholdings of key management personnel

Details of movements during the financial year in the number of ordinary shares in the Parent Entity held directly, indirectly or beneficially, by each key management person, including their related parties, are set out below:

2011 Ordinary shares	Balance at 1 July 2010	AGL Share Purchase Plan (a)	Dividend Reinvestment Plan (b)	Received on vesting of SPRs	Net change other	Balance at 30 June 2011	Balance held nominally
Directors							
Jeremy Maycock	**45,620**	**303**	–	–	**9,702**	**55,625**	–
Mark Johnson (c)	**271,125**	–	**1,113**	–	–	–	–
Michael Fraser	**370,474**	–	–	**149,391**	–	**519,865**	–
Les Hosking	**2,000**	–	–	–	–	**2,000**	–
Belinda Hutchinson	–	–	–	–	**6,540**	**6,540**	–
Sandra McPhee	**10,200**	–	–	–	**2,550**	**12,750**	–
Max Ould	**27,755**	–	**907**	–	–	**28,662**	–
Bruce Phillips	**29,000**	–	–	–	–	**29,000**	–
John Stanhope	–	–	–	–	–	–	–
Executives							
Jeff Dimery (d)	**11,443**	**308**	–	**19,071**	–	–	–
Anthony Fowler	–	–	–	**3,079**	–	**3,079**	–
Ken Hodgson	–	–	**105**	**5,074**	–	**5,179**	–
Paul McWilliams	**3,751**	–	–	**7,282**	–	**11,033**	–
Stephen Mikkelsen	**18,240**	–	–	**24,750**	**(10,000)**	**32,990**	–
Michael Moraza	**12,972**	–	–	**10,948**	–	**23,920**	–

(a) Shares acquired under the AGL Share Purchase Plan in lieu of remuneration non-executive Directors and executives would have received. Beneficial interest held subject to the conditions of the Plan.
(b) Shares issued as a result of participation in the AGL Dividend Reinvestment Plan.
(c) Mr Johnson retired as a Director on 21 October 2010 and the number of shares represent those held at the date of leaving office.
(d) Mr Dimery resigned as an Executive on 27 September 2010 and the number of shares represent those held at the date of leaving office.

2010 Ordinary shares	Balance at 1 July 2009	AGL Share Purchase Plan (a)	Dividend Reinvestment Plan (b)	Received on vesting of SPRs	Net change other	Balance at 30 June 2010	Balance held nominally
Directors							
Mark Johnson	268,843	–	2,282	–	–	271,125	–
Michael Fraser (c)	335,155	28,715	–	6,604	–	370,474	–
Les Hosking	2,000	–	–	–	–	2,000	–
Jeremy Maycock	45,620	–	–	–	–	45,620	–
Sandra McPhee	10,200	–	–	–	–	10,200	–
Max Ould	26,877	–	878	–	–	27,755	–
Bruce Phillips	29,000	–	–	–	–	29,000	–
Graham Reaney (d)	101,311	–	–	–	–	–	–
John Stanhope	–	–	–	–	–	–	–
Executives							
Jeff Dimery	40,866	329	–	3,459	(33,211)	11,443	–
Ken Hodgson	–	–	–	–	–	–	–
Paul McWilliams	2,040	–	–	1,711	–	3,751	–
Stephen Mikkelsen	1,955	–	–	16,285	–	18,240	–
Michael Moraza	12,344	5,000	–	1,429	(5,801)	12,972	–

(a) Shares acquired under the AGL Share Purchase Plan in lieu of remuneration non-executive Directors and executives would have received. Beneficial interest held subject to the conditions of the Plan.
(b) Shares issued as a result of participation in the AGL Dividend Reinvestment Plan.
(c) Under Mr Fraser's prior service agreement, originally entered into in 1998, he was entitled to certain retention payments. In lieu of these prior retention arrangements, Mr Fraser has been allocated shares in three tranches. During the 2010 financial year, the third tranche of 28,715 shares with a face value of $400,000 was acquired under the AGL Share Purchase Plan.
(d) Mr Reaney retired as a Director on 29 October 2009 and the number of shares represent those held at the date of leaving office.

Loans to key management personnel

There are no loans between key management personnel and the consolidated entity.

Other transactions with key management personnel and their personally related entities

There are no other transactions between key management personnel and the consolidated entity other than the provision of gas and electricity, under normal commercial terms.

Note 47 – Defined benefit superannuation plans

The consolidated entity operates three superannuation plans that provide defined benefit amounts to employees or their dependants upon retirement, resignation or death. The plans provide, in the majority of cases, benefits in the form of a lump sum based on the employee's years of service and final average salary. Contributions to the plans are predominantly based on a percentage of employees' salaries and wages. These defined benefit plans are all closed to new members. All new members receive accumulation benefits only.

The three plans are the SuperSolution Master Trust – AGL Division (SSMT), Equipsuper Fund (EF) and Electricity Industry Superannuation Scheme (EISS).

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

	2011 $m	2010 $m
Amounts recognised in the statement of comprehensive income		
Actuarial gain/(loss) incurred during the year and recognised in the statement of comprehensive income		
Actuarial gain/(loss)	**3.6**	(7.8)
Tax effect	**(1.1)**	2.4
Actuarial gain/(loss), net of tax	**2.5**	(5.4)
Cumulative actuarial loss recognised in the statement of comprehensive income	**(50.8)**	(53.3)
Amounts recognised in the income statement		
Current service cost	**4.7**	4.8
Interest cost	**9.2**	9.1
Expected return on plan assets	**(10.8)**	(9.5)
Effect of curtailments and settlements	**(1.0)**	–
Expense recognised in the income statement as part of employee benefits expense (Note 8)	**2.1**	4.4
Actual return on plan assets	**12.5**	14.6
Amounts included in the statement of financial position		
Fair value of plan assets	**157.6**	155.7
Present value of defined benefit obligations	**(198.2)**	(209.1)
Net liability – non-current	**(40.6)**	(53.4)
Net liability at beginning of year	**(53.4)**	(53.3)
Expense recognised in the income statement	**(2.1)**	(4.4)
Amount recognised in retained earnings	**3.6**	(7.8)
Employer contributions	**11.3**	12.1
Net liability at end of year	**(40.6)**	(53.4)
Movements in the present value of defined benefit obligations		
Opening defined benefit obligations	**209.1**	188.8
Current service cost	**4.7**	4.8
Interest cost	**9.2**	9.1
Contributions by plan participants	**2.7**	2.9
Actuarial (gain)/loss	**(1.9)**	12.9
Benefits paid	**(12.0)**	(7.5)
Taxes and premiums paid	**(1.9)**	(1.9)
Net transfers in	**0.1**	–
Curtailments	**(1.0)**	–
Settlements	**(10.8)**	–
Closing defined benefit obligations	**198.2**	209.1
Movements in the fair value of plan assets		
Opening fair value of plan assets	**155.7**	135.5
Expected return on plan assets	**10.8**	9.5
Actuarial gain	**1.7**	5.1
Employer contributions	**11.3**	12.1
Contributions by plan participants	**2.7**	2.9
Benefits paid	**(12.0)**	(7.5)
Taxes and premiums paid	**(1.9)**	(1.9)
Net transfers in	**0.1**	–
Settlements	**(10.8)**	–
Closing fair value of plan assets	**157.6**	155.7

History of experience adjustments

	2011 $m	2010 $m	2009 $m	2008 $m	2007 $m
Present value of defined benefit obligations	**(198.2)**	(209.1)	(188.8)	(154.7)	(62.9)
Fair value of plan assets	**157.6**	155.7	135.5	158.5	83.0
(Deficit)/surplus	**(40.6)**	(53.4)	(53.3)	3.8	20.1
Experience adjustments on plan assets	**1.7**	5.1	(32.8)	(15.2)	6.0
Experience adjustments on plan liabilities	**(1.3)**	(1.8)	(7.0)	(4.2)	5.0

The consolidated entity expects to contribute $10.6 million (2010: $11.0 million) to the defined benefit plans during the next financial year.

The fair value of plan assets does not include any amounts relating to any property occupied by, or other assets used by, the consolidated entity. Less than 0.5% of the fair value of the plan assets in the SuperSolution Master Trust – AGL Division comprises ordinary shares in the Parent Entity.

The expected return on plan assets is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each class and allowing for correlations of the investment returns between asset classes. The returns used for each asset class are net of investment tax and investment fees. An allowance for administration expenses has been deducted from the expected return.

Categories of plan assets

The major categories of plan assets as a percentage of the fair value of total plan assets at the reporting date are as follows:

	SSMT		EF		EISS	
	2011 %	2010 %	2011 %	2010 %	2011 %	2010 %
Australian equities	**30.7**	31.0	**35.0**	37.0	**30.0**	29.0
International equities	**28.6**	26.0	**27.0**	25.0	**18.0**	19.0
Fixed interest securities	**25.8**	28.5	**12.0**	13.0	**15.0**	15.0
Property	**5.0**	5.4	**10.0**	10.0	**12.0**	12.0
Cash	**4.7**	6.9	**6.0**	6.0	**7.0**	7.0
Other	**5.2**	2.2	**10.0**	9.0	**18.0**	18.0

Principal actuarial assumptions

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

	SSMT		EF		EISS	
	2011 %	2010 %	2011 %	2010 %	2011 %	2010 %
Discount rate (after tax) active members	**4.8**	4.7	**4.7**	4.5	**4.8**	4.7
Discount rate (after tax) pensioners	**–**	–	**–**	–	**5.2**	5.1
Expected return on plan assets – active members	**7.0**	7.0	**7.0**	7.0	**6.7**	6.6
Expected return on plan assets – pensioners	**–**	–	**–**	–	**7.7**	7.6
Expected salary increase rate	**4.0**	4.0	**4.0**	4.0	**4.0**	4.0
Expected pension increase rate	**–**	–	**–**	–	**3.0**	3.0

Defined contribution superannuation plans

The consolidated entity makes contributions to a number of defined contribution superannuation plans. The amount recognised as an expense for the financial year ended 30 June 2011 was $14.4 million (2010: $12.3 million).

Note 48 – Share-based payment plans

The Parent Entity (AGL) has the following share-based payment plans:

- AGL Share Reward Plan;
- AGL Share Purchase Plan; and
- AGL Long-Term Incentive Plan.

AGL Share Reward Plan

The AGL Energy Limited Board of Directors approved the AGL Share Reward Plan (SRP) on 5 October 2006. Under the SRP, eligible employees may be invited on an annual basis to acquire up to $1,000 worth of fully-paid ordinary shares in AGL for no consideration. The Board determines whether to make an offer of shares based on the consolidated entity's performance measured against specific performance hurdles set by the Board each financial year.

Eligible employees include full-time or permanent part-time employees who have completed 12 months continuous service (or such lesser period as the Board determines) and who have attained the age of 18 years. Casual employees and employees who are resident overseas can only participate at the Board's discretion. Employees participating in the AGL Long-Term Incentive Plan and the Directors of AGL are not eligible to participate.

The trustee of the SRP applies amounts contributed by entities in the consolidated entity in purchasing shares on behalf of participating employees in the ordinary course of trading on the ASX; or subscribing for shares on behalf of the participating employees. All shares acquired by the trustee are acquired at the market value of the shares.

Market value means in relation to a subscription for shares, the weighted average of the prices at which AGL's ordinary shares are traded on the ASX during the five business days up to and including the day on which the subscription occurs. Market value in relation to a purchase of shares means the price at which the shares are actually acquired in the ordinary course of trading on the ASX.

SRP shares may not be disposed before the earlier of three years after the date of acquisition or the date on which the participating employee ceases to be employed by the consolidated entity. During this period, the trustee is entitled to retain custody of share certificates or holding statements in respect of the SRP shares and to implement procedures to prevent any dealing with those shares.

SRP shares rank pari passu in all respects with all other shares and carry the same rights and entitlements, including dividend and voting rights, as those conferred by other shares.

Details of share movements in the AGL Share Reward Plan are set out below:

Grant date	Balance at beginning of the year Number	Granted during the year Number	Fair value per share $	Distributed during the year Number	Balance at end of the year Number
2011					
22 September 2010	**–**	**96,319**	**$16.21**	**(12,566)**	**83,753**
22 September 2009	**97,309**	**–**	**–**	**(18,177)**	**79,132**
22 September 2008	**66,360**	**–**	**–**	**(12,460)**	**53,900**
20 September 2007	**48,195**	**–**	**–**	**(48,195)**	**–**
	211,864	**96,319**		**(91,398)**	**216,785**
2010					
22 September 2009	–	111,909	$13.57	(14,600)	97,309
22 September 2008	76,860	–	–	(10,500)	66,360
20 September 2007	57,519	–	–	(9,324)	48,195
	134,379	111,909		(34,424)	211,864

During the year, there were 1,579 eligible employees (2010: 1,533) who were each granted 61 ordinary shares in AGL (2010: 73). All shares granted were purchased on-market and the fair value per share is market value (as defined above).

The total expense recognised in the income statement as part of employee benefits expense during the year in relation to the AGL Share Reward Plan was:

	2011 $m	2010 $m
Employee benefits expense	**1.5**	1.5

AGL Share Purchase Plan

The AGL Energy Limited Board of Directors approved the AGL Share Purchase Plan (SPP) on 5 October 2006. Under the SPP, the Board may in its discretion, from time to time invite any eligible employees to acquire fully-paid ordinary shares in AGL with funds provided in lieu of remuneration they would have received. The Directors of AGL may also participate in the SPP. The total amount that can be allocated to the purchase of shares under the SPP in any financial year commencing on or after 1 July 2009 is $5,000. Eligible employees include full-time or permanent part-time employees of entities in the consolidated entity who have attained the age of 18 years. Employees who are resident overseas can only participate at the Board's discretion.

The trustee of the SPP applies amounts contributed by entities in the consolidated entity in lieu of remuneration entitlements which eligible employees or Directors would otherwise have received in purchasing shares on behalf of participating employees or Directors in the ordinary course of trading on the ASX; or subscribing for shares on behalf of the participating employees or Directors. All shares acquired by the trustee are acquired at the market value of the shares.

Market value means in relation to a subscription for shares, the weighted average of the prices at which AGL's ordinary shares are traded on the ASX during the five business days up to and including the day on which the subscription occurs. Market value in relation to a purchase of shares means the price at which the shares are actually acquired in the ordinary course of trading on the ASX.

SPP shares may not be disposed before the earlier of seven years after the date of acquisition (or, in the case of SPP shares acquired on or before 31 May 2010, 10 years), the date on which the participating employee ceases to be employed by the consolidated entity, and the Board or the trustee determines that the shares should be freed from this restriction following the written request of the participating employee. During this period, the trustee is entitled to retain custody of share certificates or holding statements in respect of the SPP shares and to implement procedures to prevent any dealing with those shares.

SPP shares rank pari passu in all respects with all other shares and carry the same rights and entitlements, including dividend and voting rights, as those conferred by other shares.

Details of share movements in the AGL Share Purchase Plan are set out below:

Share movements	Balance at beginning of the year Number	Purchased during the year Number	Fair value per share $	Distributed during the year Number	Balance at end of the year Number
2011					
Non-executive Directors	**82,675**	**303**	**$14.81**	**(56,269)**	**26,709**
Managing Director and Chief Executive Officer (a)	**131,078**	**–**	**–**	**–**	**131,078**
Managing Director and Chief Executive Officer (b)	**38,222**	**–**	**–**	**–**	**38,222**
Employees	**105,549**	**100,948**	**$15.33**	**(88,112)**	**118,385**
	357,524	**101,251**		**(144,381)**	**314,394**
2010					
Non-executive Directors	82,675	–	–	–	82,675
Managing Director and Chief Executive Officer (a)	102,363	28,715	$13.93	–	131,078
Managing Director and Chief Executive Officer (b)	38,222	–	–	–	38,222
Employees	52,392	77,526	$13.87	(24,369)	105,549
	275,652	106,241		(24,369)	357,524

(a) Under Mr Fraser's prior service agreement, originally entered into in 1998, he was entitled to certain retention payments. In lieu of these prior retention arrangements, Mr Fraser has been allocated shares in three tranches. Upon appointment as Managing Director and Chief Executive Officer, the first tranche of 74,740 shares with a face value of $1,023,639 was acquired under the SPP. During the 2009 financial year, the second tranche of 27,623 shares with a face value of $400,000 was acquired under the SPP. During the 2010 financial year, the third tranche of 28,715 shares with a face value of $400,000 was acquired under the SPP.

(b) Mr Fraser earned a short-term incentive for the 2008 financial year which was payable in September 2008. One half of the short-term incentive was paid in cash and the balance of $525,000 was deferred for 12 months, by providing an allocation of 38,222 shares under the SPP at that date.

At the reporting date, there were 2 non-executive Directors (2010: 4) and 190 employees including the Managing Director (2010: 139) participating in the SPP. All shares were purchased on-market and the fair value per share is market value (as defined above).

No expense is recognised in the income statement in relation to shares purchased under the SPP as they are acquired out of salary sacrificed remuneration.

Note 48 – Share-based payment plans (continued)

AGL Long-Term Incentive Plan

The AGL Energy Limited Board of Directors approved the AGL Long-Term Incentive Plan (LTIP) on 5 October 2006 and was amended by the Board on 19 August 2009. The LTIP is designed to closely align the interests of shareholders and AGL executives, with the achievement of AGL's strategic goals and the generation of sustained shareholder value over the long term. The LTIP forms an integral component of AGL's remuneration strategy.

Under the LTIP, executives are granted Share Performance Rights (SPRs), which vest over time if specific applicable hurdles are met. A SPR is an entitlement to one fully-paid ordinary share in AGL. On vesting, SPRs are exercised and converted to fully-paid ordinary shares in AGL. SPRs do not carry dividend or voting rights. SPRs participate in bonus issues, rights issues and reconstructions and reorganisations of the capital of AGL in the same manner as AGL ordinary shares.

The LTIP performance hurdles were selected on the basis that rewards correspond with returns that shareholders receive.

For all grants, the SPRs will vest to the extent to which the performance condition is either satisfied or waived by the Board.

LTIP allocations are determined based on market practice, so that AGL remains competitive in remuneration against its comparator group.

Participants in the LTIP are restricted from entering into any derivative or other financial product in relation to the SPRs to protect against an economic exposure to price movements in AGL shares.

If a participant ceases employment before the expiry of the vesting period as a result of total and permanent disablement, redundancy, retirement, death or any other exceptional circumstances determined by the Board from time to time, any positive balance of SPRs in a participant's bank account will vest or any negative balance is eliminated.

If a participant ceases employment before the expiry of the vesting period in other circumstances any positive balance is forfeited or any negative balance is eliminated.

All SPRs will vest in the event that a change in control of AGL occurs, subject to the performance conditions applicable to those SPRs being satisfied at that time unless the Board, in its absolute discretion, determines that it is appropriate to waive the satisfaction of the performance conditions.

AGL may issue shares or purchase shares in the ordinary course of trading on the ASX to satisfy SPRs which have vested.

Executives

Grants of SPRs to eligible executives are made on an annual basis or such other times as the Board in its discretion may determine. Eligible executives are employees of any entity in the consolidated entity who are determined by the Board in its discretion to be eligible to participate in the LTIP.

The Board has an absolute discretion to determine the number of SPRs issued to an LTIP participant, and the performance conditions which must be satisfied before SPRs can vest and the period over which SPRs vest.

On 20 June 2011, 161,090 SPRs were notionally granted to eligible executives in relation to the year ended 30 June 2011. The number of SPRs notionally granted was determined by taking the participant's Total Fixed Remuneration (TFR) as at 1 September 2010 multiplied by their pre-agreed percentage LTI component, and divided by $14.58 (being the volume weighted average price (VWAP) at which AGL's shares traded on the ASX during the 30 calendar days up to and including 30 June 2010).

The SPRs notionally granted are subject to two performance hurdles based on annual:

- Total Shareholder Return (TSR); and
- Growth in Earnings before interest and tax (EBIT)/Funds Employed

TSR measures the total change in the value of AGL shares over the measurement period including dividends and other distributions. TSR calculates what a dollar investment in AGL would return in percentage terms at the end of a specified period.

EBIT/Funds Employed measures the return AGL is getting from its funds invested. Rewarding growth in EBIT/Funds Employed will assist in ensuring that capital is used wisely.

Participants will be awarded a number of SPRs in respect of each performance condition, determined by multiplying 50% of the number of their initial grant of SPRs by the multiplier indicated in the tables below which corresponds with the TSR outcome and the growth in EBIT/Funds Employed outcome for the financial year ending 30 June 2011.

Annual TSR	Number of SPRs awarded
Equal to or greater than 14%	2 times SPRs notionally granted
Greater than 4% and less than 14%	Progressive on a straight-line basis from zero times to 2 times SPRs notionally granted
Between 4% and minus 4%	Zero times SPRs notionally granted
Less than minus 4% and greater than minus 14%	Progressive deduction on a straight-line basis from zero times to minus 2 times SPRs notionally granted
Equal to or less than minus 14%	Minus 2 times SPRs notionally granted

In the event the TSR outcome is greater than 14%, the opening share price for measuring the following year's TSR is set at a level that would have achieved 14%. In the event the TSR outcome is less than minus 14%, the opening share price for measuring the following year's TSR is set at a level that would have achieved minus 14%.

Annual growth in EBIT/Funds Employed	Number of SPRs awarded
Equal to or greater than 13%	2 times SPRs notionally granted
Greater than 2% and less than 13%	Progressive on a straight-line basis from zero times to 2 times SPRs notionally granted
Between 2% and minus 4%	Zero times SPRs notionally granted
Less than minus 4% and greater than minus 15%	Progressive deduction on a straight-line basis from zero times to minus 2 times SPRs notionally granted
Equal to or less than minus 15%	Minus 2 times SPRs notionally granted

In the event the growth in EBIT/Funds Employed outcome is greater than 13%, the EBIT/Funds Employed for measuring the following year's EBIT/Funds Employed is set at a level that would have achieved 13%. In the event the growth in EBIT/Funds Employed outcome is less than minus 13%, the opening EBIT/Funds Employed for measuring the following year's EBIT/Funds Employed is set at a level that would have achieved minus 13%.

SPRs awarded can be positive and negative. This means shares can only be awarded if there is a predetermined improvement on the prior year. Importantly however, if performance falls below a predetermined level in any year, then previously awarded SPRs will be clawed back to the extent calculated under the performance hurdles.

Each participant has two notional share bank accounts (one for TSR, the other for EBIT/Funds Employed) and these operate independently of the other in determining whether a distribution is made.

The SPRs awarded are deposited into a notional share bank account. An annual calculation is made as soon as practicable for the year ended 30 June to determine the number of SPRs to be added or deducted from the notional share bank accounts.

If there is a positive notional share bank balance in a bank account following the calculation, 40% of that balance is distributed to participants during the next AGL share trading window.

There is no distribution from a bank account if there is a negative notional share bank balance in that account following the calculation and any negative balance is carried forward to the following year.

SPRs granted on 27 October 2008 are subject to a performance condition based on TSR with the level of vesting being dependent upon AGL's TSR performance measured against a comparable group of the ASX100 listed companies as at 1 October 2008.

The performance condition will be tested initially on 1 October 2011 and the number of SPRs that vest at that time will be determined in accordance with the table below. To the extent that full vesting does not occur at this point, the performance condition will be retested on 1 October 2012.

AGL's TSR ranking relative to ASX100	Percentage of SPRs that vest
TSR below 40th percentile	0%
TSR between 40th and 50th percentile	Progressive vesting on a straight-line basis from 40% to 50%
TSR between 51st and 84th percentile	Progressive vesting on a straight-line basis from >50% and <100%
TSR equal to or greater than 85th percentile	100%

The following table sets out details of SPRs that have been granted to executives and remain outstanding under the LTIP at the end of the reporting period:

SPRs grant	Number of SPRs	Performance period	Vesting date	Weighted average fair value
20 June 2011	161,090	1 July 2010 – 30 June 2011	1 September 2011	$7.08
26 February 2010	48,904	1 July 2010 – 30 June 2011	1 September 2011	$12.09
27 October 2008	93,001	1 October 2008 – 1 October 2011	1 October 2011	$10.30

Note 48 – Share-based payment plans (continued)

Details of movements in SPRs in the AGL Long-Term Incentive Plan for executives are set out below:

SPRs grant	Balance at beginning of the year	Adjustment to SPRs awarded	Notionally granted during the year	Vested during the year	Lapsed/ forfeited during the year	Balance at end of the year	Vested but not exercisable at end of the year
2011							
20 June 2011	**–**	**–**	**161,090**	**–**	**–**	**161,090**	**–**
26 February 2010	**128,109**	**(19,867)**	**–**	**(44,180)**	**(15,158)**	**48,904**	**–**
27 October 2008	**133,094**	**–**	**–**	**(2,667)**	**(37,426)**	**93,001**	**–**
11 January 2008	**99,521**	**–**	**–**	**(99,521)**	**–**	**–**	**–**
	360,724	**(19,867)**	**161,090**	**(146,368)**	**(52,584)**	**302,995**	**–**
2010							
26 February 2010	–	–	128,109	–	–	128,109	–
27 October 2008	146,774	–	–	(9,925)	(3,755)	133,094	–
11 January 2008	115,923	–	–	(13,029)	(3,373)	99,521	–
1 April 2007 – tranche 2	25,029	–	–	(24,493)	(536)	–	–
8 November 2006	16,285	–	–	(16,285)	–	–	–
	304,011	–	128,109	(63,732)	(7,664)	360,724	–

The fair value of services received in return for SPRs granted are measured by reference to the fair value of SPRs granted. The estimate of the fair value of services received is measured based on the Black-Scholes and Monte Carlo simulation methods. The contractual life of the SPRs is used as an input into this model. Expectations of early vesting are incorporated into the Monte Carlo simulation method. Expected volatility is based on the historical share price volatility over the past two years.

SPRs grant	2011 20 Jun 11	2010 26 Feb 10
Weighted average fair value at grant date	**$7.08**	$12.09
Share price at grant date	**$14.24**	$14.37
Expected volatility	**15.0%**	20.0%
SPR life	**0.2 – 4.2 years**	0.5 – 4.5 years
Expected dividend yield	**4.1%**	3.9%
Risk free interest rate (based on government bonds)	**4.7%**	3.8% – 5.0%

The total expense recognised in the income statement as part of employee benefits expense during the year in relation to SPRs granted to executives in the AGL Long-Term Incentive Plan was:

	2011 $m	2010 $m
Employee benefits expense	**0.1**	1.9

Managing Director

Mr Fraser was appointed Managing Director and Chief Executive Officer on 22 October 2007. On appointment, Mr Fraser was granted 80,584 SPRs with a face value of $1,050,000, subject to the LTIP. This grant was made on 25 February 2008 after receiving a waiver from the Australian Securities Exchange requirements under the applicable ASX Listing Rules to grant SPRs without shareholder approval. On 1 September 2010, 80,584 SPRs vested and were exercised and converted to fully-paid ordinary shares in AGL.

Mr Fraser was Group General Manager Merchant Energy prior to being appointed Managing Director and Chief Executive Officer and was then eligible for an allocation of SPRs. Mr Fraser was granted 23,331 SPRs on 25 February 2008 after receiving a waiver from the Australian Securities Exchange requirements under the applicable ASX Listing Rules to grant SPRs without shareholder approval. On 1 September 2010, 23,331 SPRs vested and were exercised and converted to fully-paid ordinary shares in AGL.

At the 2008 Annual General Meeting, shareholder approval was obtained for the grant of SPRs under the LTIP to Mr Fraser in respect of the financial years ending 30 June 2009, 30 June 2010 and 30 June 2011.

On 20 June 2011, Mr Fraser was notionally granted 137,175 SPRs in relation to the year ended 30 June 2011. The number of SPRs notionally granted was determined by dividing Mr Fraser's TFR as at 1 September 2010 of $2,000,000 by $14.58 (being the volume weighted average price (VWAP) at which AGL's shares traded on the ASX during the 30 calendar days up to and including 30 June 2010).

Under the LTIP the Board has an absolute discretion to determine the performance conditions which must be satisfied before SPRs can vest and the period over which SPRs vest.

The SPRs notionally granted to Mr Fraser are subject to two performance hurdles based on annual:

- Total Shareholder Return (TSR); and
- Growth in Earnings before interest and tax (EBIT)/Funds Employed

Mr Fraser will be awarded a number of SPRs in respect of each performance condition, determined by multiplying 50% of the number of his initial grant of SPRs by the multiplier indicated in the tables below which corresponds with the TSR outcome and the growth in EBIT/Funds Employed outcome for the financial year ending 30 June 2011.

Annual TSR	Number of SPRs awarded
Equal to or greater than 14%	2 times SPRs notionally granted
Greater than 4% and less than 14%	Progressive on a straight-line basis from zero times to 2 times SPRs notionally granted
Between 4% and minus 4%	Zero times SPRs notionally granted
Less than minus 4% and greater than minus 14%	Progressive deduction on a straight-line basis from zero times to minus 2 times SPRs notionally granted
Equal to or less than minus 14%	Minus 2 times SPRs notionally granted

In the event the TSR outcome is greater than 14%, the opening share price for measuring the following year's TSR is set at a level that would have achieved 14%. In the event the TSR outcome is less than minus 14%, the opening share price for measuring the following year's TSR is set at a level that would have achieved minus 14%.

Annual growth in EBIT/Funds Employed	Number of SPRs awarded
Equal to or greater than 13%	2 times SPRs notionally granted
Greater than 2% and less than 13%	Progressive on a straight-line basis from zero times to 2 times SPRs notionally granted
Between 2% and minus 4%	Zero times SPRs notionally granted
Less than minus 4% and greater than minus 15%	Progressive deduction on a straight-line basis from zero times to minus 2 times SPRs notionally granted
Equal to or less than minus 15%	Minus 2 times SPRs notionally granted

In the event the growth in EBIT/Funds Employed outcome is greater than 13%, the EBIT/Funds Employed for measuring the following year's EBIT/Funds Employed is set at a level that would have achieved 13%. In the event the growth in EBIT/Funds Employed outcome is less than minus 13%, the opening EBIT/Funds Employed for measuring the following year's EBIT/Funds Employed is set at a level that would have achieved minus 13%.

SPRs awarded can be positive and negative. This means shares can only be awarded if there is a predetermined improvement on the prior year. Importantly however, if performance falls below a predetermined level in any year, then previously awarded SPRs will be clawed back to the extent calculated under the performance hurdles.

Mr Fraser has two notional share bank accounts (one for TSR, the other for EBIT/Funds Employed) and these operate independently of the other in determining whether a distribution is made.

The SPRs awarded are deposited into a notional share bank account. An annual calculation is made as soon as practicable for the year ended 30 June to determine the number of SPRs to be added or deducted from the notional share bank accounts.

If there is a positive notional share bank balance in a bank account following the calculation, 40% of that balance is distributed to Mr Fraser during the next AGL share trading window.

There is no distribution from a bank account if there is a negative notional share bank balance in that account following the calculation and any negative balance is carried forwarded to the following year.

SPRs granted on 27 October 2008 are subject to a performance condition based on TSR with the level of vesting being dependent upon AGL's TSR performance measured against a comparable group of the ASX100 listed companies as at 1 October 2008.

The performance condition will be tested initially on 1 October 2011 and the number of SPRs that vest at that time will be determined in accordance with the table below. To the extent that full vesting does not occur at this point, the performance condition will be retested on 1 October 2012.

Note 48 – Share-based payment plans (continued)

AGL's TSR ranking relative to ASX100	Percentage of SPRs that vest
TSR below 40th percentile	0%
TSR between 40th and 50th percentile	Progressive vesting on a straight-line basis from 40% to 50%
TSR between 51st and 84th percentile	Progressive vesting on a straight-line basis from >50% and <100%
TSR equal to or greater than 85th percentile	100%

The following table sets out details of SPRs that have been granted to the Managing Director and remain outstanding under the LTIP at the end of the reporting period:

SPRs grant	Number of SPRs	Performance period	Vesting date	Weighted average fair value
20 June 2011	137,175	1 July 2010 – 30 June 2011	1 September 2011	$7.08
26 February 2010	68,215	1 July 2010 – 30 June 2011	1 September 2011	$12.09
27 October 2008	107,639	1 October 2008 – 1 October 2011	1 October 2011	$10.30

Details of movements in SPRs in the AGL Long-Term Incentive Plan for the Managing Director are set out below:

SPRs grant	Balance at beginning of the year	Adjustment to SPRs awarded	Notionally granted during the year	Vested during the year	Lapsed/ forfeited during the year	Balance at end of the year	Vested but not exercisable at end of the year
2011							
20 June 2011	**–**	**–**	**137,175**	**–**	**–**	**137,175**	**–**
26 February 2010	**134,546**	**(20,855)**	**–**	**(45,476)**	**–**	**68,215**	**–**
27 October 2008	**107,639**	**–**	**–**	**–**	**–**	**107,639**	**–**
25 February 2008	**80,584**	**–**	**–**	**(80,584)**	**–**	**–**	**–**
25 February 2008	**23,331**	**–**	**–**	**(23,331)**	**–**	**–**	**–**
	346,100	**(20,855)**	**137,175**	**(149,391)**	**–**	**313,029**	**–**
2010							
26 February 2010	–	–	134,546	–	–	134,546	–
27 October 2008	107,639	–	–	–	–	107,639	–
25 February 2008	80,584	–	–	–	–	80,584	–
25 February 2008	23,331	–	–	–	–	23,331	–
	211,554	–	134,546	–	–	346,100	–

The fair value of services received in return for SPRs granted are measured by reference to the fair value of SPRs granted. The estimate of the fair value of services received is measured based on the Black-Scholes and Monte Carlo simulation methods. The contractual life of the SPRs is used as an input into this model. Expectations of early vesting are incorporated into the Monte Carlo simulation method. Expected volatility is based on the historical share price volatility over the past two years.

SPRs grant	2011 20 Jun 11	2010 26 Feb 10
Weighted average fair value at grant date	**$7.08**	$12.09
Share price at grant date	**$14.24**	$14.37
Expected volatility	**15.0%**	20.0%
SPR life	**0.2 – 4.2 years**	0.5 – 4.5 years
Expected dividend yield	**4.1%**	3.9%
Risk free interest rate (based on government bonds)	**4.7%**	3.8% – 5.0%

The total expense arising from share-based payment transactions recognised in the income statement as part of employee benefits expense during the financial year in relation to the Managing Director's SPRs was:

	2011 $m	2010 $m
Employee benefits expense	**0.4**	1.7

Note 49 – Related party disclosures

Parent entity

AGL Energy Limited is the parent entity of the consolidated entity.

Balances and transactions between the Parent Entity and its subsidiaries, which are related parties of the Parent Entity, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the consolidated entity and other related parties are disclosed below.

Equity interests in subsidiaries

Details of interests in subsidiaries are disclosed in Note 41.

Equity interests in associates and jointly controlled entities

Details of interests in associates and jointly controlled entities are disclosed in Note 17.

Key management personnel

Disclosures relating to key management personnel are set out in Note 46 and in the Directors' Report.

Loans to associates

The Parent Entity has provided a loan of $110.6 million (2010: $100.4 million) to Greater Energy Alliance Corporation Pty Limited (GEAC). Interest is charged at 10% per annum and payments are due in August and February. Interest of $10.7 million (2010: $10.1 million) was accrued during the year of which $10.2 million (2010: $nil) was capitalised as loan principal. Interest and principal repayments of $nil (2010: $20.2 million) were received from GEAC during the year. At the end of the reporting period, interest accrued but not yet receivable totals $4.1 million (2010: $3.7 million). The outstanding loan principal including any capitalised interest must be repaid on or before 7 April 2024.

Loans to jointly controlled entities

The Parent Entity has provided loans to jointly controlled entities amounting to $1.9 million (2010: $2.0 million). Of these loans, $1.5 million (2010: $1.4 million) was to Central Queensland Pipeline Pty Ltd and $0.4 million (2010: $0.6 million) was to Energy Infrastructure Management Pty Ltd. Loans are unsecured, interest-free and have no fixed repayment terms.

	2011 $m	2010 $m
Trading transactions with associates and jointly controlled entities		
ActewAGL Retail Partnership		
The consolidated entity provided management and retail services to the ActewAGL Retail Partnership on normal commercial terms and conditions	**8.6**	8.4
The consolidated entity sold gas and electricity to the ActewAGL Retail Partnership on normal commercial terms and conditions	**284.3**	253.9
Greater Energy Alliance Corporation Pty Limited		
The consolidated entity paid difference receipts from the settlement of electricity hedges on normal commercial terms and conditions	**(89.2)**	(59.3)
Amounts owing by associates and jointly controlled entities		
ActewAGL Retail Partnership	**54.8**	44.9
Greater Energy Alliance Corporation Pty Limited	**4.1**	3.7
	58.9	48.6

The amounts outstanding are unsecured and will be settled in cash. No expense has been recognised in the current or the prior period for bad or doubtful debts in respect of the amounts owed by associates and jointly controlled entities.

	2011 $m	2010 $m
Amounts owing to jointly controlled entities		
ActewAGL Retail Partnership	**–**	2.0

	2011 $m	2010 $m

Note 50 – Cash flow information

(a) Reconciliation of profit for the period to net cash flows from operating activities

Profit for the year	**558.7**	356.1
Share of profits of associates and jointly controlled entities	**(33.6)**	(70.7)
Dividends received from jointly controlled entities	**24.3**	26.6
Depreciation and amortisation	**148.0**	137.5
Impairment of non-current assets	**–**	22.3
Impairment of available-for-sale equity investments	**0.2**	2.0
Share-based payments expense	**2.0**	5.1
Net (gain)/loss in fair value of derivatives	**(218.8)**	177.4
Gain on disposal of businesses and subsidiaries	**–**	(5.8)
Net loss on disposal of property, plant and equipment	**3.5**	2.1
Net foreign exchange gains	**–**	(0.4)
Non-cash finance costs	**9.6**	14.2
Capitalised finance costs	**(15.4)**	(18.3)
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	**(41.8)**	(25.7)
(Increase)/decrease in inventories	**(30.4)**	(42.9)
(Increase)/decrease in derivative financial instruments	**(23.4)**	11.7
(Increase)/decrease in other financial assets	**30.0**	(5.9)
(Increase)/decrease in other assets	**(100.4)**	(4.8)
Increase/(decrease) in trade and other payables	**25.2**	0.1
Increase/(decrease) in provisions	**(7.8)**	(17.6)
Increase/(decrease) in other liabilities	**5.3**	(5.5)
Increase/(decrease) in tax assets and liabilities	**234.1**	(167.5)
Net cash provided by operating activities	**569.3**	390.0

(b) Subsidiaries and businesses acquired

Net cash outflow on acquisition of subsidiaries and businesses (Note 42)	**5.1**	7.8

(c) Subsidiaries disposed

Net cash inflow on disposal of subsidiaries (Note 43)	**163.9**	239.0

(d) Reconciliation of cash and cash equivalents

Cash and cash equivalents at the end of the end of the reporting period as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

Cash at bank and on hand	**201.4**	41.8
Short-term deposits	**551.7**	438.6
	753.1	480.4

(e) Non-cash financing and investing activities

Dividends satisfied by the issue of shares under the AGL Dividend Reinvestment Plan (Note 33)	**61.9**	36.4
Shares issued as consideration for acquisition of subsidiary (Note 33)	**116.0**	–
	177.9	36.4

(f) Financing facilities

The consolidated entity has access to the following committed bank facilities:

Total facilities		
USD senior notes – unsecured	**274.4**	–
Bank loans – unsecured	**1,371.7**	2,061.7
	1,646.1	2,061.7
Amounts used		
USD senior notes – unsecured	**274.4**	–
Bank loans – unsecured	**886.7**	886.7
Bank guarantees	**446.3**	459.4
	1,607.4	1,346.1
Amounts unused	**38.7**	715.6

Details of major financing facilities

Guaranteed Senior Notes – US$300.0 million (2010: US$nil) of senior notes were issued by AGL Energy Limited in the US private placement market in September 2010. The issues comprised US$165.0 million and US$135.0 million of fixed rate notes maturing in September 2022 and September 2025 respectively. The notes were converted back to A$337.8 million through cross currency interest rate swaps. The carrying value of the notes as at 30 June 2011 was $274.4 million.

Syndicated Subscription Facility – $886.7 million (2010: $886.7 million) fully underwritten facility provided by a syndicate of international banks. The borrower under this facility is AGL Energy Limited. The facility matures in October 2011. As at 30 June 2011 the facility was fully utilised.

Revolving Syndicated Facility – $nil (2010: $600.0 million) facility provided by a syndicate of international banks. This facility was cancelled by AGL Energy Limited in September 2010.

Bilateral Facility Agreements – $485.0 million (2010: $575.0 million) fully underwritten facilities provided by three (2010: four) Australian banks. The borrower under these facilities is AGL Energy Limited. These facilities are used for the issuance of bank guarantees. Of these facilities, $385.0 million matures in October 2011 and $100.0 million matures in December 2011. As at 30 June 2011, $nil (2010: $nil) was utilised as borrowings and $446.3 million (2010: $459.4 million) of bank guarantees were issued.

Subsequent to the year end, AGL Energy Limited entered into a $1.0 billion syndicated loan facility, comprising of a $600.0 million 3 year term loan tranche and a $400.0 million 5 year revolving tranche. The funds will be partially used to refinance $886.7 million of existing debt, due for repayment in October 2011, and provide additional funding for the consolidated entity's capital expenditure program. Refer Note 53 for further details.

Subsequent to the year end, AGL Energy Limited also entered into a $200.0 million loan agreement with EKF, the Danish export credit agency. The funds will be used to partially fund the consolidated entity's 50% interest in the construction of the Macarthur Wind Farm. Refer Note 53 for further details.

Note 51 – Economic dependency

(a) The consolidated entity is dependent to a significant extent upon various consortia of producers for the supply of natural gas from the Cooper Basin in South Australia, the Gippsland Field in Bass Strait and the Surat/Bowen Basin in Queensland. Long-term contracts protect the continuity of supply from these producers.

The consolidated entity has an obligation to pay the consortia of producers for a specified minimum quantity of gas each contract year, irrespective of the quantity actually supplied by the producers. The consolidated entity has the right to receive, without additional payment to the producers, a future delivery of gas equivalent to the quantity paid for but not taken in any contract year.

(b) The consolidated entity is dependent to a significant extent on the acquisition of electricity from generating entities and the use of transmission systems. Ongoing contracts are in place both for the purchase of electricity and the use of the transmission systems.

Note 52 – Financial instruments

(a) Capital risk management

The consolidated entity's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an appropriate capital structure of debt and equity.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The consolidated entity's overall capital management strategy remains unchanged from 2010.

The capital structure of the consolidated entity consists of net debt (borrowings as detailed in Notes 25 and 29 offset by cash and cash equivalents as detailed in Note 11) and total equity of the consolidated entity (comprising issued capital, reserves and retained earnings as detailed in Notes 33, 34 and 35).

The consolidated entity monitors capital on the basis of the gearing ratio and funds from operations (FFO) to interest expense cover.

The gearing ratio is calculated as net debt divided by adjusted total capital. Net debt is calculated as total borrowings, adjusted for cross currency swap hedges and deferred borrowing costs, less cash and cash equivalents. Adjusted total capital is calculated as total equity less the hedging reserve plus net debt. The gearing ratio at the reporting date was as follows:

	2011 $m	2010 $m
Current borrowings	**886.7**	–
Non-current borrowings	**284.5**	900.8
Total borrowings	**1,171.2**	900.8
Adjustment for cross currency swap hedges and deferred borrowing costs	**65.2**	–
Adjusted total borrowings	**1,236.4**	900.8
Cash and cash equivalents	**(753.1)**	(480.4)
Net debt	**483.3**	420.4
Total equity	**6,341.5**	5,799.9
Less: hedging reserve	**(97.3)**	(163.6)
Adjusted equity	**6,438.8**	5,963.5
Net debt	**483.3**	420.4
Adjusted total capital	**6,922.1**	6,383.9
Gearing ratio	**7.0%**	6.6%

FFO to interest expense cover is calculated as FFO divided by net interest expense. FFO is calculated as earnings before interest, tax, depreciation and amortisation (EBITDA), less significant items, changes in fair value of derivative financial instruments, share of profits of associates and jointly controlled entities using the equity method, plus dividends received and less income tax paid. Net interest expense includes finance costs capitalised and excludes unwinding of discount on provisions. FFO to net interest expense cover at the reporting date was as follows:

	2011 $m	2010 $m
Profit before net financing costs	**819.1**	413.4
Depreciation and amortisation	**148.0**	137.5
Finance income included in EBITDA	**11.9**	11.7
EBITDA	**979.0**	562.6
Significant expense items	**44.3**	49.6
Changes in fair value of financial instruments	**(218.8)**	177.4
Operating EBITDA	**804.5**	789.6
Share of profits of associates and jointly controlled entities	**(30.3)**	(65.6)
Dividends from equity accounted investments	**24.3**	26.6
Income tax paid	**(0.7)**	(189.0)
Funds from operations (FFO)	**797.8**	561.6
Net financing costs	**25.5**	35.8
Finance income included in EBITDA	**11.9**	11.7
Finance costs capitalised	**15.4**	18.3
Unwinding of discounts on provisions	**(11.4)**	(11.9)
Net interest expense	**41.4**	53.9
FFO to interest expense cover (times)	**19.3**	10.4

(b) Categories of financial assets and financial liabilities

The following table details the carrying amounts and fair values of the consolidated entity's financial assets and financial liabilities:

	2011		2010	
	Carrying amount $m	Fair value $m	Carrying amount $m	Fair value $m
Financial assets – current				
Cash and cash equivalents	**753.1**	**753.1**	480.4	480.4
Trade and other receivables	**1,272.1**	**1,272.1**	1,234.5	1,234.5
Futures deposits and margin calls	**56.3**	**56.3**	86.3	86.3
Derivative financial instruments – at fair value				
– Forward foreign exchange contracts – cash flow hedges	**–**	**–**	0.1	0.1
– Energy derivatives – cash flow hedges	**22.7**	**22.7**	2.3	2.3
– Energy derivatives – economic hedges	**222.2**	**222.2**	136.6	136.6
	2,326.4	**2,326.4**	1,940.2	1,940.2
Financial assets – non-current				
Trade and other receivables	**0.5**	**0.5**	0.6	0.6
Available-for-sale financial assets – at fair value	**0.3**	**0.3**	0.5	0.5
Loans to associates	**112.5**	**112.5**	102.4	102.4
Derivative financial instruments – at fair value				
– Interest rate swap contracts – cash flow hedges	**0.5**	**0.5**	–	–
– Energy derivatives – cash flow hedges	**51.2**	**51.2**	3.6	3.6
	165.0	**165.0**	107.1	107.1
Total financial assets	**2,491.4**	**2,491.4**	2,047.3	2,047.3
Financial liabilities – current				
Trade and other payables	**853.1**	**853.1**	859.6	859.6
Bank loans	**886.7**	**886.7**	–	–
Derivative financial instruments – at fair value				
– Interest rate swap contracts – cash flow hedges	**1.3**	**1.3**	–	–
– Forward foreign exchange contracts – cash flow hedges	**56.7**	**56.7**	0.8	0.8
– Energy derivatives – cash flow hedges	**123.2**	**123.2**	175.7	175.7
– Energy derivatives – economic hedges	**259.5**	**259.5**	405.5	405.5
	2,180.5	**2,180.5**	1,441.6	1,441.6
Financial liabilities – non-current				
USD senior notes	**274.4**	**274.4**	–	–
Bank loans	**–**	**–**	886.7	886.7
Finance lease liabilities	**11.9**	**11.9**	10.6	10.6
Other loans	**–**	**–**	3.5	3.5
Derivative financial instruments – at fair value				
– Cross currency swap contracts – cash flow and fair value hedges	**85.9**	**85.9**	–	–
– Interest rate swap contracts – cash flow hedges	**3.1**	**3.1**	6.4	6.4
– Forward foreign exchange contracts – cash flow hedges	**2.0**	**2.0**	–	–
– Energy derivatives – cash flow hedges	**3.1**	**3.1**	35.7	35.7
	380.4	**380.4**	942.9	942.9
Total financial liabilities	**2,560.9**	**2,560.9**	2,384.5	2,384.5

Note 52 – Financial instruments (continued)

(c) Financial risk management

The consolidated entity's activities expose it to a variety of financial risks, including market risk (interest rate risk, foreign currency risk and energy price risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of markets and seeks to manage the impact of these risks on the consolidated entity's financial performance. The consolidated entity uses a range of derivative financial instruments to hedge these risk exposures.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management policy and framework. The Board has established the Audit and Risk Management Committee, which is responsible for approving the consolidated entity's risk management policy and framework for identifying, assessing and managing risk. The Committee is also responsible for reviewing and updating the risk profile, monitoring the effectiveness of the risk management framework and reviewing at least annually the implementation of the risk management policy and framework. The Committee reports regularly to the Board of Directors on its activities.

Financial risk management is carried out by Corporate Treasury for interest rate risk, foreign currency risk and liquidity risk in accordance with the Board-approved Treasury Policy. Risk management activities in respect of energy price risk associated with the purchase and/or sale of electricity, gas and environmental products are undertaken by Merchant Energy in accordance with the Board-approved Wholesale Energy Risk Management Policy. Finance, Corporate Treasury and Merchant Energy identify, evaluate and hedge the financial risks in close cooperation with the consolidated entity's business units.

The consolidated entity has written policies covering specific areas, such as interest rate risk, foreign currency risk, energy price risk, credit risk, liquidity risk, and the use of derivative and non-derivative financial instruments. Compliance with policies and exposure limits is reviewed on a continuous basis.

(d) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in Note 1 to the financial statements.

(e) Interest rate risk management

The consolidated entity is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swap contracts or other hedging instruments.

The consolidated entity regularly analyses its interest rate exposure, by taking into consideration forecast debt positions, refinancing, renewals of existing positions, alternative financing, hedging positions and the mix of fixed and floating interest rates.

At the end of the reporting period, the consolidated entity had the following financial assets and liabilities exposed to floating interest rate risk:

Floating rate instruments	2011 $m	2010 $m
Financial assets		
Cash and cash equivalents	**753.1**	480.4
	753.1	480.4
Financial liabilities		
Bank loans	**886.7**	886.7
USD senior notes (after effect of cross currency swaps)	**337.8**	–
Other loans	**–**	3.5
Interest rate swap contracts	**(510.0)**	(370.0)
	714.5	520.2

Interest rate swap contracts – cash flow hedges

Under interest rate swap contracts, the consolidated entity agrees with other parties to exchange, at specified intervals, the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the consolidated entity to mitigate the risk of changing interest rates on the cash flow exposures on the variable rate debt held.

The fair value of interest rate swaps at the end of the reporting period is determined by discounting the future cash flows using the yield curves at the end of the reporting period and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the reporting period.

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding at the end of the reporting period:

	Average contracted fixed interest rate		Notional principal amount		Fair value	
Outstanding receive floating pay fixed contracts	2011 %	2010 %	2011 $m	2010 $m	2011 $m	2010 $m
Less than 1 year	**6.32**	4.93	**325.0**	45.0	**(1.3)**	–
1 to 2 years	**5.50**	6.32	**30.0**	325.0	**(0.2)**	(6.4)
2 to 3 years	**5.51**	–	**130.0**	–	**(1.3)**	–
3 to 4 years	**5.46**	–	**260.0**	–	**(1.6)**	–
4 to 5 years	**5.47**	–	**55.0**	–	**–**	–
5 years or more	**5.63**	–	**80.0**	–	**0.5**	–
			880.0	370.0	**(3.9)**	(6.4)

The aggregate notional principal amount of the outstanding interest rate swap contracts at 30 June 2011 was $880.0 million (2010: $370.0 million). Included in this amount are $370.0 million (2010: $nil) of forward interest rate swap contracts, of which $335.0 million commences in the 2012 financial year and $35.0 million commences in the 2015 financial year.

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is the Australian BBSW. The consolidated entity will settle the difference between the fixed and floating interest rate on a net basis.

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the consolidated entity's cash flow exposure resulting from variable interest rates on borrowings. Interest rate swap settlement dates coincide with the dates on which interest is payable on the underlying borrowings.

The gain or loss from remeasuring the hedging instruments at fair value is recognised in other comprehensive income, to the extent that the hedge is effective. The gain or loss relating to the ineffective portion of the hedge is recognised immediately in profit or loss as part of finance costs. Amounts previously recognised in other comprehensive income and accumulated in equity in the hedging reserve are reclassified to profit or loss and included in finance costs when the hedged interest expense is recognised.

When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately to profit or loss. During the year, no hedges were de-designated and all underlying forecast transactions remain highly probable to occur as per original forecast.

The following table details the movements in the hedging reserve from interest rate swap contracts:

Hedging reserve	2011 $m	2010 $m
Balance at beginning of financial year	**(4.5)**	(15.2)
Loss in fair value of cash flow hedges	**(2.7)**	(6.8)
Reclassified to finance costs	**5.2**	22.1
Income tax on items taken directly to or reclassified from equity	**(0.7)**	(4.6)
Balance at end of financial year	**(2.7)**	(4.5)
Cash flow ineffectiveness recognised immediately in profit or loss	**–**	–

Interest rate sensitivity

The following sensitivity analysis has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the end of the reporting period and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period.

At the end of the reporting period, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the consolidated entity's profit after tax and other comprehensive income would have been affected as follows:

	Profit after tax Increase/(decrease)		Other comprehensive income Increase/(decrease)	
	2011 $m	2010 $m	2011 $m	2010 $m
Interest rates +0.5% (50 basis points)	**0.1**	(0.1)	**5.6**	1.5
Interest rates – 0.5% (50 basis points)	**(0.1)**	0.1	**(5.7)**	(1.5)

Note 52 – Financial instruments (continued)

The sensitivity to a 50 basis point increase or decrease in interest rates is considered reasonable, given the market forecasts available at the reporting date and under the current economic environment in which the consolidated entity operates.

The movements in profit after tax are mainly attributable to an increase/decrease in interest expense from floating rate borrowings and an increase/decrease in interest income from cash and cash equivalents. The movement in other comprehensive income is due to an increase/decrease in the fair value of interest rate swaps designated as cash flow hedges.

(f) Foreign currency risk management

The consolidated entity undertakes certain transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Foreign currency risk arises primarily from overseas term borrowings and firm commitments for the purchase of plant and equipment which are denominated in foreign currencies. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts and cross currency swap contracts.

Forward foreign exchange contracts – cash flow hedges

The consolidated entity's Corporate Treasury policy requires the hedging of foreign currency risk using forward foreign exchange contracts. The Corporate Treasury's policy is to hedge currency exposures of anticipated cash flows in excess of $0.5 million and to not enter into forward foreign exchange contracts until a firm commitment is in place.

The consolidated entity has entered into contracts to purchase plant and equipment denominated in United States dollars and Euros. The consolidated entity has entered into forward foreign exchange contracts to hedge the exchange rate risk arising from these anticipated future purchases, which are designated as cash flow hedges.

These anticipated purchases are expected to occur at various dates between one month and two years from the reporting date. The contracts are timed to mature when payments for the purchases are scheduled to be made. When necessary, forward foreign exchange contracts are rolled over at maturity.

The gain or loss from remeasuring the hedging instruments at fair value is recognised in other comprehensive income, to the extent that the hedge is effective. The gain or loss relating to the ineffective portion of the hedge is recognised immediately in profit or loss as part of other income or other expenses. When the anticipated purchase occurs, amounts previously recognised in other comprehensive income and accumulated in equity in the hedging reserve are transferred and included in the initial measurement of the cost of plant and equipment.

When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately to profit or loss. During the year, no hedges were de-designated and all underlying forecast transactions remain highly probable to occur as per original forecast.

The following table details the forward foreign exchange contracts outstanding at the end of the reporting period:

	Average exchange rate		Foreign currency		Contract value		Fair value	
Outstanding contracts	2011	2010	2011 FCm	2010 FCm	2011 $m	2010 $m	2011 $m	2010 $m
Cash flow hedges								
Buy US dollars								
Less than 6 months	**1.034**	0.741	**21.0**	1.6	**20.4**	2.2	**(0.3)**	(0.2)
6 to 12 months	**0.874**	0.636	**51.2**	0.1	**58.5**	0.2	**(8.6)**	(0.1)
1 to 2 years	**0.960**	–	**28.9**	–	**30.1**	–	**(1.3)**	–
Buy Euro								
Less than 6 months	**0.654**	0.661	**153.0**	1.8	**234.0**	2.7	**(23.8)**	(0.1)
6 to 12 months	**0.643**	0.493	**147.9**	0.3	**230.0**	0.6	**(24.0)**	(0.1)
1 to 2 years	**0.635**	–	**4.0**	–	**6.4**	–	**(0.7)**	–
Buy British pounds								
Less than 6 months	**–**	0.415	**–**	0.2	**–**	0.5	**–**	(0.1)
6 to 12 months	**–**	0.412	**–**	0.2	**–**	0.5	**–**	(0.1)
							(58.7)	(0.7)

Cross currency swap contracts

Under cross currency swap contracts, the consolidated entity has agreed to exchange specified foreign currency loan principal and interest amounts at agreed future dates at fixed exchange rates. Such contracts enable the consolidated entity to eliminate the risk of movements in foreign exchange rates related to foreign currency denominated borrowings.

The fair value of cross currency swaps at 30 June 2011 was a liability of $85.9 million (2010: $nil), of which $22.4 million is in a cash flow hedge relationship and $63.5 million is in a fair value hedge relationship.

The following table details the cross currency swap contracts outstanding at the end of the reporting period:

	Average interest rate		Average exchange rate		Contract value		Fair value	
Outstanding contracts	2011 %	2010 %	2011	2010	2011 $m	2010 $m	2011 $m	2010 $m
Buy US dollars								
5 years or more	**7.67**	–	**0.888**	–	**337.8**	–	**(85.9)**	–

The following table details the movements in the hedging reserve from forward foreign exchange contracts and cross currency swap contracts:

Hedging reserve	2011 $m	2010 $m
Balance at beginning of financial year	**(0.5)**	(0.7)
Loss in fair value of cash flow hedges	**(88.3)**	(0.7)
Reclassified to finance costs	**3.3**	–
Transferred to plant and equipment	**4.6**	1.0
Income tax on items taken directly to or transferred from equity	**24.1**	(0.1)
Balance at end of financial year	**(56.8)**	(0.5)
Cash flow ineffectiveness recognised immediately in profit or loss	**–**	–

Foreign currency sensitivity

The following table details the sensitivity to a 10% increase or decrease in the Australian dollar against the relevant foreign currencies. A sensitivity of 10% has been used as this is considered reasonable given the current level of exchange rates and the volatility observed both on a historical basis and market expectations for future movements.

The sensitivity analysis includes only outstanding foreign currency denominated financial instruments and adjusts their translation at the end of the reporting period for a 10% change in foreign currency rates.

At the end of the reporting period, if the Australian dollar had been 10% higher or lower and all other variables were held constant, the consolidated entity's profit after tax and other comprehensive income would have been affected as follows:

	Profit after tax Increase/(decrease)		Other comprehensive income Increase/(decrease)	
	2011 $m	2010 $m	2011 $m	2010 $m
US dollar +10%	**–**	–	**(6.0)**	(0.1)
US dollar –10%	**–**	–	**7.4**	0.1
Euro +10%	**–**	–	**(25.8)**	(0.2)
Euro –10%	**–**	–	**31.5**	0.2
British pound +10%	**–**	–	**–**	(0.1)
British pound –10%	**–**	–	**–**	0.1

The movement in other comprehensive income is due to an increase/decrease in the fair value of forward foreign exchange contracts designated as cash flow hedges.

Note 52 – Financial instruments (continued)

(g) Energy price risk management

The consolidated entity is exposed to energy price risk associated with the purchase and/or sale of electricity, gas and environmental products.

The consolidated entity's risk management policy for electricity price risk is to hedge forecast future transactions for up to five years into the future.

The consolidated entity manages energy risk through an established risk management framework consisting of policies to place appropriate risk limits on overall energy market exposures and transaction limits for approved energy commodities, requirements for delegations of authority on trading, regular reporting of exposures and segregation of duties.

Exposures to fluctuations in the wholesale market electricity prices are managed through the use of various types of derivative financial instruments.

It is the policy of the consolidated entity to actively manage the electricity price exposure arising from both forecast electricity generation and retail customer electricity load. The consolidated entity enters into contracts on both the Sydney Futures Exchange and with individual market participants achieving a fixed price for specific volumes of electricity. This hedging portfolio consists predominantly of swaps and caps. Any unhedged position exposes the consolidated entity to the potential volatility of the regional spot prices in the Australian National Electricity Market.

The following table details the fair value of electricity derivatives outstanding at the end of the reporting period:

	2011 $m	2010 $m
Energy derivative financial assets – current		
Electricity derivatives – cash flow hedges	**22.7**	2.3
Electricity derivatives – economic hedges	**222.2**	136.6
	244.9	138.9
Energy derivative financial assets – non-current		
Electricity derivatives – cash flow hedges	**51.2**	3.6
	51.2	3.6
Energy derivative financial liabilities – current		
Electricity derivatives – cash flow hedges	**123.2**	175.7
Electricity derivatives – economic hedges	**259.5**	405.5
	382.7	581.2
Energy derivative financial liabilities – non-current		
Electricity derivatives – cash flow hedges	**3.1**	35.7
	3.1	35.7

Electricity derivatives – cash flow hedges

Derivative financial instruments are used by the consolidated entity in the normal course of business in order to hedge exposure to fluctuations in electricity prices. The aggregate notional volumes of the outstanding electricity derivatives at 30 June 2011 were 101.3 million MWh (2010: 73.6 million MWh). Electricity derivatives are either designated in cash flow hedge relationships or remain non-designated.

The hedged anticipated electricity purchase and sale transactions are expected to occur continuously over the next five years from the end of the reporting period consistent with the forecast demand from customers over this period.

The effective portion of changes in the fair value of electricity derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion of the hedge is recognised immediately in profit or loss as part of gain/(loss) in fair value of electricity derivatives. Amounts previously recognised in other comprehensive income and accumulated in equity in the hedging reserve are reclassified to profit or loss and included in cost of sales in each period in which the underlying purchase or sale transactions are recognised.

When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately to profit or loss. During the year, no hedges were de-designated and all underlying forecast transactions remain highly probable to occur as originally forecast.

Electricity derivatives – economic hedges

The consolidated entity has entered into certain derivative instruments for economic hedging purposes under the Board-approved risk management policies, which do not satisfy the requirements for hedge accounting under AASB 139 *Financial Instruments: Recognition and Measurement*. These derivatives are therefore required to be categorised as held for trading and are classified in the statement of financial position as economic hedges. Changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognised immediately in profit or loss as part of gain/(loss) in fair value of electricity derivatives.

During the year a net fair value gain of $219.1 million (2010: loss of $154.4 million) was recognised in profit or loss by the consolidated entity.

The following table details the movements in the hedging reserve from electricity derivatives:

Hedging reserve	2011 $m	2010 $m
Balance at beginning of financial year	**(138.3)**	27.5
Loss in fair value of cash flow hedges	**(27.4)**	(245.4)
Reclassified to cost of sales	**169.9**	8.5
Income tax on items taken directly to or transferred from equity	**(44.5)**	71.1
Balance at end of financial year	**(40.3)**	(138.3)
Cash flow ineffectiveness loss recognised immediately in profit or loss	**0.3**	23.0

Energy price sensitivity

The following table details the sensitivity to a 10% increase or decrease in the forward prices for electricity. A sensitivity of 10% has been used as this is considered reasonably possible, based on historical data relating to the level of volatility in electricity prices.

At the end of the reporting period, if the forward prices for electricity had been 10% higher or lower and all other variables were held constant, the consolidated entity's profit after tax and other comprehensive income equity would have been affected as follows:

	Profit after tax Increase/(decrease)		Other comprehensive income Increase/(decrease)	
	2011 $m	2010 $m	2011 $m	2010 $m
Electricity forward price +10%	**100.9**	77.7	**73.2**	67.2
Electricity forward price – 10%	**(100.8)**	(73.5)	**(73.2)**	(67.7)

The movement in profit after tax is mainly attributable to an increase/decrease in the fair value of certain energy derivative instruments which are economic hedges but do not satisfy the requirements for hedge accounting. The movement in other comprehensive income is due to an increase/decrease in the fair value of energy hedging instruments designated as cash flow hedges.

(h) Other price risks

The consolidated entity's exposure to equity price risk is minimal. Equity price risk arises from an equity investment in an ASX listed entity and which is classified in the statement of financial position as available-for-sale financial assets. The investment is held for strategic rather than trading purposes.

The price risk for the listed investment is immaterial in terms of the possible impact on profit or loss or other comprehensive income and as such a sensitivity analysis has not been completed.

(i) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. Credit risk arises from the consolidated entity's financial assets, which comprise cash and cash equivalents, trade and other receivables, loans to associates and derivative financial instruments.

The consolidated entity manages its exposure to credit risk using credit risk management policies which provide credit exposure limits and contract maturity limits based on the credit worthiness of counterparties. The consolidated entity's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread among approved counterparties.

Trade and other receivables consist of 3.3 million residential, small business and large commercial and industrial customers, in New South Wales, Victoria, South Australia and Queensland. Ongoing credit evaluation is performed on the financial condition of customers and, where appropriate, an allowance for doubtful debts is raised. The consolidated entity does not have any significant credit risk exposure to any single customer or any group of customers. For further details regarding trade and other receivables, refer to Note 12.

Credit risk arising from transactions in money market instruments, foreign exchange derivative contracts and interest rate derivatives contracts with financial institutions is managed by Corporate Treasury in accordance with the Board-approved Treasury Policy. The consolidated entity limits its exposure to credit risk by investing surplus funds and entering into derivative financial instruments only with approved financial institutions that have a credit rating of at least A from Standard & Poor's and within credit limits assigned to each financial institution.

Credit risk arising from the use of derivative financial instruments to manage energy price risk is managed by Merchant Energy in accordance with the Board-approved Wholesale Energy Risk Management Policy. Derivative counterparties are limited to high creditworthy financial institutions and other organisations in the energy industry. Derivative counterparties are assigned approved credit limits and contract maturity limits based on independent credit ratings from Standard & Poor's, Fitch or Moody's where available, or otherwise by internal assessment and credit scoring based on published financial statements and market information for each counterparty.

Note 52 – Financial instruments (continued)

As there are a limited number of energy organisations to enable management of energy price risk, there is limited scope for managing credit risk through diversification of counterparties. Any request for credit exposure limits or contract maturity limits above those assigned for a counterparty must be referred to the Board for approval. The credit worthiness of counterparties is closely monitored over the life of the transaction. Credit exposure and maturity exposure by individual counterparty are continuously monitored and reported on regularly.

The consolidated entity also utilises International Swaps and Derivative Association (ISDA) agreements with derivative counterparties in order to limit exposure to credit risk through the netting of amounts receivable from and amounts payable to individual counterparties.

At the end of the reporting period, there was a significant concentration of credit risk with certain counterparties in relation to electricity derivatives undertaken in accordance with the consolidated entity's hedging and risk management activities.

The carrying amount of the financial assets recognised in the financial statements, which is net of impairment losses, represents the maximum exposure to credit risk.

The consolidated entity does not hold any collateral or other credit enhancements to cover this credit risk.

(j) Liquidity risk management

Liquidity risk is the risk that the consolidated entity will not be able to meet its financial obligations as they fall due. Ultimate responsibility for liquidity risk management rests with the Board of Directors, who have established an appropriate liquidity risk management framework for the management of the consolidated entity's short-, medium- and long-term funding and liquidity management requirements.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Note 50(f) sets out details of undrawn financing facilities that the consolidated entity has access to at the end of the reporting period.

Subsequent to the year end, the consolidated entity entered into a $1.0 billion syndicated loan facility, comprising of a $600.0 million 3 year term loan tranche and a $400.0 million 5 year revolving tranche. The funds will be partially used to refinance $886.7 million of existing debt, due for repayment in October 2011, and provide additional funding for the consolidated entity's capital expenditure program. Refer Note 53 for further details.

Subsequent to the year end, the consolidated entity also entered into a $200.0 million loan agreement with EKF, the Danish export credit agency. The funds will be used to partially fund the consolidated entity's 50% interest in the construction of the Macarthur Wind Farm. Refer Note 53 for further details.

The following table details the consolidated entity's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the consolidated entity can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are at floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the consolidated entity may be required to pay.

	Less than 6 months $m	6–12 months $m	1–2 years $m	2–5 years $m	More than 5 years $m	Total $m
2011						
Non-derivative financial liabilities						
Trade and other payables	**853.1**	**–**	**–**	**–**	**–**	**853.1**
USD senior notes	**7.2**	**7.2**	**14.5**	**43.4**	**447.5**	**519.8**
Bank loans	**910.7**	**–**	**–**	**–**	**–**	**910.7**
Finance lease liabilities	**–**	**–**	**0.1**	**0.2**	**178.4**	**178.7**
	1,771.0	**7.2**	**14.6**	**43.6**	**625.9**	**2,462.3**
2010						
Non-derivative financial liabilities						
Trade and other payables	859.6	–	–	–	–	859.6
Bank loans	23.2	24.1	910.6	–	–	957.9
Finance lease liabilities	–	–	–	–	178.4	178.4
Other loans	–	3.6	–	–	–	3.6
	882.8	27.7	910.6	–	178.4	1,999.5

The following table details the consolidated entity's expected maturity for its non-derivative financial assets. The table has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary in order to understand the consolidated entity's liquidity risk management, as the liquidity is managed on a net asset and liability basis.

	Less than 6 months $m	6–12 months $m	1–2 years $m	2–5 years $m	More than 5 years $m	Total $m
2011						
Non-derivative financial assets						
Cash and cash equivalents	**758.1**	**–**	**–**	**–**	**–**	**758.1**
Trade and other receivables	**1,272.1**	**–**	**0.5**	**–**	**–**	**1,272.6**
Futures deposits and margin calls	**56.3**	**–**	**–**	**–**	**–**	**56.3**
Loans to associates	**5.5**	**5.6**	**11.1**	**33.2**	**196.4**	**251.8**
	2,092.0	**5.6**	**11.6**	**33.2**	**196.4**	**2,338.8**
2010						
Non-derivative financial assets						
Cash and cash equivalents	485.1	–	–	–	–	485.1
Trade and other receivables	1,234.5	–	0.6	–	–	1,235.1
Futures deposits and margin calls	86.3	–	–	–	–	86.3
Loans to associates	5.0	5.0	10.0	30.0	188.2	238.2
	1,810.9	5.0	10.6	30.0	188.2	2,044.7

The following table details the consolidated entity's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted net cash inflows and outflows on those derivatives instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. For interest rate swaps, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves at the end of the reporting period.

	Less than 6 months $m	6–12 months $m	1–2 years $m	2–5 years $m	More than 5 years $m	Total $m
2011						
Derivative financial instruments						
Gross settled						
– Cross currency swap contracts – pay leg	**(13.0)**	**(12.8)**	**(26.5)**	**(85.5)**	**(568.0)**	**(705.8)**
– Cross currency swap contracts – receive leg	**7.2**	**7.2**	**14.5**	**43.4**	**447.5**	**519.8**
Net pay	**(5.8)**	**(5.6)**	**(12.0)**	**(42.1)**	**(120.5)**	**(186.0)**
Net settled						
– Interest rate swap contracts	**(2.9)**	**(1.5)**	**(1.9)**	**1.5**	**1.3**	**(3.5)**
– Forward foreign exchange contracts	**(24.1)**	**(32.6)**	**(2.0)**	**–**	**–**	**(58.7)**
– Electricity derivatives	**(217.9)**	**(58.6)**	**(103.5)**	**(16.9)**	**–**	**(396.9)**
	(250.7)	**(98.3)**	**(119.4)**	**(57.5)**	**(119.2)**	**(645.1)**
2010						
Derivative financial instruments						
Net settled						
– Interest rate swap contracts	(2.0)	(1.1)	(2.4)	–	–	(5.5)
– Forward foreign exchange contracts	(0.4)	(0.3)	–	–	–	(0.7)
– Electricity derivatives	(326.9)	(105.0)	(108.6)	(93.7)	–	(634.2)
	(329.3)	(106.4)	(111.0)	(93.7)	–	(640.4)

Note 52 – Financial instruments (continued)

(k) Fair value measurements

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
2011				
Financial assets				
Available-for-sale financial assets				
– Shares in listed entities	**0.3**	**–**	**–**	**0.3**
Derivative financial instruments				
– Interest rate swap contracts – cash flow hedges	**–**	**0.5**	**–**	**0.5**
– Energy derivatives – cash flow hedges	**–**	**67.9**	**6.0**	**73.9**
– Energy derivatives – economic hedges	**9.1**	**106.0**	**107.1**	**222.2**
	9.4	**174.4**	**113.1**	**296.9**
Financial liabilities				
Derivative financial instruments				
– Cross currency swap contracts – cash flow and fair value hedges	**–**	**(85.9)**	**–**	**(85.9)**
– Interest rate swap contracts – cash flow hedges	**–**	**(4.4)**	**–**	**(4.4)**
– Forward foreign exchange contracts – cash flow hedges	**–**	**(58.7)**	**–**	**(58.7)**
– Energy derivatives – cash flow hedges	**–**	**(124.6)**	**(1.7)**	**(126.3)**
– Energy derivatives – economic hedges	**(29.4)**	**(136.9)**	**(93.2)**	**(259.5)**
	(29.4)	**(410.5)**	**(94.9)**	**(534.8)**
2010				
Financial assets				
Available-for-sale financial assets				
– Shares in listed entities	0.5	–	–	0.5
Derivative financial instruments				
– Forward foreign exchange contracts – cash flow hedges	–	0.1	–	0.1
– Energy derivatives – cash flow hedges	1.9	4.0	–	5.9
– Energy derivatives – economic hedges	–	73.8	62.8	136.6
	2.4	77.9	62.8	143.1
Financial liabilities				
Derivative financial instruments				
– Interest rate swap contracts – cash flow hedges	–	(6.4)	–	(6.4)
– Forward foreign exchange contracts – cash flow hedges	–	(0.8)	–	(0.8)
– Energy derivatives – cash flow hedges	(62.5)	(148.9)	–	(211.4)
– Energy derivatives – economic hedges	–	(381.5)	(24.0)	(405.5)
	(62.5)	(537.6)	(24.0)	(624.1)

There were no material transfers between Level 1 and Level 2 during the year.

The fair value of financial instruments with standard terms and conditions and traded in active liquid markets (such as publicly traded derivatives and listed equity investments) is determined with reference to quoted market prices at the end of the reporting period. These instruments are included in Level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using appropriate valuation techniques and making assumptions that are based on market conditions existing at the end of each reporting period. The fair value of forward foreign exchange contracts is calculated as the present value of expected future cash flows relating to the difference between the contract rates and the market forward rates at the end of the reporting period. Interest rate and cross currency swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates. These derivative financial instruments are included in Level 2.

In the circumstances where a valuation technique for derivative financial instruments is based on significant unobservable inputs, such instruments are included in Level 3.

The following table provides a reconciliation of fair value movements in Level 3 financial instruments.

	Energy derivatives	
	2011 $m	2010 $m
Opening balance	**38.8**	39.5
Total gains and losses recognised in profit or loss	**(10.5)**	(3.6)
Purchases	**2.7**	16.5
Settlements	**(11.0)**	(13.6)
Transfers in from level 2	**(1.8)**	–
Closing balance	**18.2**	38.8

The total gains or losses for the year included a loss of $37.8 million relating to electricity derivative contracts held at the end of the reporting period (2010: a loss of $13.3 million). Fair value gains or losses on electricity derivatives are included in the line item 'cost of sales – (gain)/loss in fair value of electricity derivatives' in Note 6.

Note 53 – Subsequent events

There has not been any other matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial periods other than:

Financing transactions totalling $1.2 billion

On 20 July 2011, AGL Energy Limited (AGL) announced that it had signed two financing transactions totalling $1.2 billion. The funds will be used to refinance $886.7 million of existing debt, due for repayment in October 2011, and provide additional funding for the group's capital expenditure program.

AGL has signed a $1.0 billion Syndicated Loan Facility, comprising of a $600.0 million 3 year term loan tranche and a $400.0 million 5 year revolving tranche. This new facility was strongly supported by domestic and foreign lenders.

To partially fund its 50% interest in the Macarthur Wind Farm, including the purchase of Vestas turbines, AGL has also signed a $200.0 million loan agreement with EKF, the Danish export credit agency. Amortising over 18-years, the loan matures in 2031.

Final dividend

On 25 August 2011, the Directors of AGL resolved to pay a fully franked final dividend of 31.0 cents per share, amounting to $143.0 million. The record date for the final dividend is 8 September 2011 with payment to be made on 29 September 2011. Shares will commence trading ex-dividend on 2 September 2011.

The AGL Dividend Reinvestment Plan (DRP) will be in operation and shares will be allotted at a 1.5% discount to the simple average of the daily weighted average market price at which AGL's ordinary shares are traded on ASX during each of the 10 trading days commencing on 12 September 2011.

Note 54 – Parent Entity information

The accounting policies of the Parent Entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements. Refer to Note 1 for a summary of the significant accounting policies relating to the consolidated entity.

	2011 $m	2010 $m
Financial position		
Assets		
Current assets	**738.7**	514.3
Non-current assets	**8,305.7**	7,831.0
Total assets	**9,044.4**	8,345.3
Liabilities		
Current liabilities	**1,278.6**	257.9
Non-current liabilities	**2,429.0**	2,542.2
Total liabilities	**3,707.6**	2,800.1
Equity		
Issued capital	**4,244.6**	4,066.7
Reserves		
Employee equity benefits	**0.6**	4.7
Hedging	**(18.6)**	(5.0)
Retained earnings	**1,110.2**	1,478.8
Total equity	**5,336.8**	5,545.2
Financial performance		
(Loss)/profit for the year	**(101.8)**	120.4
Other comprehensive income	**(12.0)**	11.9
Total comprehensive income	**(113.8)**	132.3

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The Parent Entity has entered into a Deed of Cross Guarantee with the effect that it guarantees the debts in respect of its wholly-owned subsidiaries.

Further details of the Deed of Cross Guarantee and the subsidiaries subject to the deed, are disclosed in Notes 45 and 41 respectively.

Contingent liabilities

The Directors are of the opinion that provisions are not required in respect of the following matters, as it is either not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

The Parent Entity has various contingent liabilities arising in connection with the sale of certain subsidiaries and a jointly controlled entity. Under the various sale agreements the Parent Entity has given warranties and indemnities in relation to tax related matters, environmental and other specific liabilities.

The Parent Entity is a party to various other legal actions and claims which have arisen in the ordinary course of business. Any liabilities arising from such legal actions and claims are not expected to have a material adverse effect on the Parent Entity.

The Parent Entity has provided warranties and indemnities to certain third parties in relation to the performance of contracts by various wholly-owned subsidiaries.

Capital expenditure commitments

	2011 $m	2010 $m
Plant and equipment		
No longer than one year	**–**	9.8
Longer than one year and not longer than five years	**–**	–
Longer than five years	**–**	–
	–	9.8

	2011 $	2010 $
Note 55 – Net tangible asset backing		
Net tangible asset backing per ordinary share	**6.95**	5.89

Net tangible assets are defined as net assets of the consolidated entity less intangible assets. The number of AGL shares on issue at the end of the reporting period was 461.3 million (2010: 450.1 million)

Directors' Declaration

For the year ended 30 June 2011

The Directors of AGL Energy Limited declare that:

(a) in their opinion, there are reasonable grounds to believe that the Parent Entity will be able to pay its debts as and when they become due and payable;

(b) in their opinion, the financial statements and notes thereto are in compliance with International Financial Reporting Standards, as stated in Note 1(a) to the financial statements;

(c) in their opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity;

(d) in their opinion, there are reasonable grounds to believe that the Parent Entity and the subsidiaries identified in Note 41 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee between the Parent Entity and those subsidiaries pursuant to ASIC Class Order 98/1418; and

(e) the Directors have been given the declarations required by s.295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of the Directors

Jeremy Maycock
Chairman

Sydney, 25 August 2011

Independent Auditor's Report

to the Members of AGL Energy Limited

Deloitte.

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060
Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia
DX 10307SSE
Tel: +61 (0) 2 9322 7000
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Report on the Financial Report

We have audited the accompanying financial report of AGL Energy Limited which comprises the Statement of Financial Position as at 30 June 2011 and the Income Statement, the Statement of Comprehensive Income, the Statement of Cash Flows and the Statement of Changes in Equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 60 to 133.

Directors' Responsibility 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 is free from material misstatement, whether due to fraud or error. In Note 1, the Directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the Directors of AGL Energy Limited would be in the same terms if given to the Directors as at the time of this auditor's review report.

Opinion

In our opinion:

(a) the financial report of AGL Energy Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001;* and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 48 to 59 of the Directors' Report for the year ended 30 June 2011. 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.

Opinion

In our opinion the Remuneration Report of AGL Energy Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

J A Leotta
Partner
Chartered Accountants
Sydney, 25 August 2011

Auditor's Independence Declaration

to the Directors of AGL Energy Limited

Deloitte.

Deloitte Touche Tohmatsu
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The Board of Directors
AGL Energy Limited
101 Miller Street
North Sydney NSW 2060

25 August 2011

Dear Board Members

AGL Energy Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the Directors of AGL Energy Limited.

As lead audit partner for the audit of the financial statements of AGL Energy Limited for the financial year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

J A Leotta
Partner
Chartered Accountants
Sydney, 25 August 2011

Shareholding Information

The following information is provided regarding the Issued Capital of AGL as at 10 August 2011:

1 The Issued Capital consisted of 461,311,732 fully-paid ordinary shares.

2 There were 117,456 holders of these ordinary shares.

3 There were 2,588 holders of less than a marketable parcel of 37 shares.

4 The distribution of holders was:

DISTRIBUTION	NO. OF HOLDERS	%
1 – 1,000 shares	60,780	51.75
1,001 – 5,000 shares	48,032	40.89
5,001 – 10,000 shares	5,765	4.91
10,001 – 100,000 shares	2,775	2.36
100,001 shares and over	104	0.09
	117,456	**100**

5 The location of holders was:

LOCATION	NO. OF HOLDERS	%	NO. OF SHARES	%
Australia	113,588	96.71	452,191,199	98.03
USA and Canada	483	0.41	369,951	0.08
United Kingdom	343	0.29	372,501	0.08
New Zealand	2,806	2.39	7,991,018	1.73
Others	236	0.20	387,063	0.08
	117,456	**100**	**461,311,732**	**100**

6 The class of holders was:

CLASS OF HOLDER	NO. OF HOLDERS	%	NO. OF SHARES	%
Individuals	89,153	75.90	151,849,239	32.92
Companies and other	28,303	24.10	309,462,493	67.08
	117,456	**100**	**461,311,732**	**100**

7 The twenty largest holders held 47.53% of the Issued Capital:

TWENTY LARGEST HOLDERS AS AT 10 AUGUST 2011	FULLY-PAID ORDINARY SHARES	% OF TOTAL ISSUED SHARES
HSBC Custody Nominees (Australia) Limited	61,829,083	13.40
J P Morgan Nominees Australia Limited	51,548,644	11.17
National Nominees Limited	43,104,612	9.34
Citicorp Nominees Pty Limited	19,279,265	4.18
Cogent Nominees Pty Limited	5,446,972	1.18
Bond Street Custodians Limited	4,588,319	0.99
Australian Foundation Investment Company Limited	4,286,991	0.93
RBC Dexia Investor Services Australia Nominees Pty Limited	3,809,965	0.83
AMP Life Limited	3,342,784	0.72
Argo Investments Limited	2,653,787	0.58
UBS Wealth Management Australia Nominees Pty Ltd	2,531,851	0.55
Questor Financial Services Limited	2,439,028	0.53
BT Portfolio Services Limited (WA)	2,363,293	0.51
Custodial Services Limited	2,339,389	0.51
Milton Corporation Limited	1,888,320	0.41
Queensland Investment Corporation	1,718,097	0.37
Avanteos Investments Limited	1,702,250	0.37
Perpetual Trustee Company Limited	1,585,230	0.34
Australian Reward Investment Alliance	1,580,490	0.34
Invia Custodian Pty Limited	1,309,872	0.28
	219,348,242	**47.53**

Shareholder Information

Website access

By visiting www.agl.com.au and selecting 'Investor Centre' from the 'About AGL' menu you can access AGL's online Investor Centre.

The Investor Centre provides you with easy access to important information about Company Performance, including Annual Reports, Investor Presentations, Share price graphs and general shareholder information.

The Shareholder Services section within the Investor Centre also enables you to access and update your shareholding information online including:

> Checking your holding balance;

> Viewing, saving or printing transaction summaries and dividend statements;

> Updating or amending your bank account or DRP Instructions;

> Electing to receive communications electronically; and

> Downloading a variety of forms.

Our Share Registry, Link Market Services, also offers shareholders the ability to register and create a portfolio view of their holdings. Registration is free and enables shareholders to view and update multiple holdings in AGL (or other clients Link act as registry for) using a single login. To create a portfolio, please go to https://investorcentre.linkmarketservices.com.au

Share Registry

Shareholders with enquiries about their shareholdings can also contact AGL's Share Registry as follows:

AGL Share Registry
Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000

(Postal Address: Locked Bag A14, Sydney South NSW 1235)

Telephone:	1800 824 513 (within Australia) +61 2 8280 7115 (International)
Facsimile:	02 9287 0303 (within Australia) +61 2 9287 0303 (International)
Email:	aglenergy@linkmarketservices.com.au
Website:	www.linkmarketservices.com.au

When communicating with the Share Registry, it will assist if you can quote your current address together with your Security Reference Number (SRN) or Holder Identification Number (HIN) as shown on your Issuer Sponsored/CHESS statements.

Final Dividend

The final dividend of 31.0 cents per share 100% franked, will be paid on 29 September 2011. As the final dividend will only be paid by direct credit, Australian and New Zealand shareholders need to nominate a bank, building society or credit union account within these jurisdictions. Payments are electronically credited on the dividend payment date and confirmed by a mailed or electronic payment advice. Payment instructions can either be lodged online or an appropriate form can be downloaded from the Share Registry's website.

Dividend Reinvestment Plan

AGL offers shareholders the opportunity to participate in the Dividend Reinvestment Plan. Shares are allotted under the Plan at a discount of up to 5% of a weighted average market price, free of transaction costs. The actual rate of discount, if any, will be determined by the Directors at the time each dividend is declared. A discount of 1.5% was applied to the 2011 interim dividend and to the 2011 final dividend.

Reporting to shareholders

Changes to the Corporations Act mean that AGL need only provide shareholders with access to this Annual Report on AGL's website, unless they have specifically requested to be sent a printed or electronic copy. Shareholders seeking a copy of the Annual Report should subscribe online or contact the Share Registry. The Annual Report is also available on the AGL website.

Change of name, address or banking details

Shareholders who are Issuer Sponsored should advise the Share Registry immediately of a change of name, address or banking details for dividends electronically credited to a bank account. All such changes must be advised online or in writing and cannot be accepted by telephone. For a change of name, supporting documentation must accompany your written advice. Appropriate forms can also be downloaded from the Share Registry's website.

Shareholders who are CHESS Sponsored should instruct their sponsoring broker in writing to notify the Share Registry of any change.

Tax File Number (TFN)/Australian Business Number (ABN)

It is not compulsory to provide a TFN or ABN. However AGL will be required to deduct tax at the top marginal rate from the unfranked portion of any dividend paid to shareholders who have not provided either a TFN/ABN or details of a relevant TFN exemption. TFN/ABN notification forms can be obtained by contacting the Share Registry, by lodging your details online or by downloading the appropriate form from the Share Registry's website.

Consolidation of shareholdings

Shareholders who wish to consolidate multiple shareholdings into a single shareholding should advise the Share Registry or their sponsoring broker, whichever is applicable, in writing.

Registered Office

AGL Energy Limited
Level 22, 101 Miller Street
North Sydney NSW 2060 Australia

Telephone:	02 9921 2999 (within Australia) +61 2 9921 2999 (international)

Company Secretary

Paul McWilliams BA (Accounting), MApFin, GradDipACG, ACA, ACIS

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Directory

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About this report
The cover and editorial pages (pages 1–32) of this report are printed on Impress Satin, which is an FSC accredited paper, and carbon neutral. The FSC Mix certification ensures that all virgin pulp is derived from well-managed forests and controlled sources. The financial section (pages 33–141) of this report is printed on Pacesetter Offset stock. The pulp used in the manufacture of this paper is Elemental Chlorine Free.

All inks and varnishes used to print the report have a vegetable oil base (such as linseed oil and soy oil) obtained from non-genetically modified plants and trees.

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AGL